Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Public Utility District No. 1 of Cowlitz County

For the period January 1, 2014 through December 31, 2014

Published April 13, 2015

Report No. 1013956

Washington State Auditor
Troy Kelley

April 13, 2015

Board of Commissioners
Public Utility District No. 1 of Cowlitz County
Longview, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Cowlitz County's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

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 Cowlitz County
January 1, 2014 through December 31, 2014

Board of Commissioners
Public Utility District No. 1 of Cowlitz County
Longview, 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 each major fund of Public Utility District No. 1 of Cowlitz County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 3, 2015. The prior year comparative information has been derived from the District's 2013 basic financial statements, on which we issued our report dated April 25, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit 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
OLYMPIA, WA

April 3, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Cowlitz County
January 1, 2014 through December 31, 2014

Board of Commissioners
Public Utility District No. 1 of Cowlitz County
Longview, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund of Public Utility District No. 1 of Cowlitz County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Public Utility District No. 1 of Cowlitz County, as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative information has been derived from the District's 2013 financial statements and, in our report dated April 25, 2014, we expressed unmodified opinions on the respective financial statements of each major fund. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2013, from which such partial information was derived.

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 10 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2015 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
OLYMPIA, WA

April 3, 2015

FINANCIAL SECTION

Public Utility District No. 1 of Cowlitz County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

This discussion and analysis is designed to provide an overview of the financial activities of Public Utility District No. 1 of Cowlitz County, Washington (the District) for the year ended December 31, 2014 with comparable information for 2013 and 2012. This supplementary information is to be read in conjunction with the District's financial statements.

The District is a municipal corporation incorporated in 1936 to serve the citizens of Cowlitz County, Washington. The District is governed by a three-member board of locally elected commissioners, independent of county government. The District manages and operates two systems: Electric and Production (Swift No. 2 Hydroelectric).

Financial Policies and Controls

The District's financial management system consists of financial policies, financial management strategies and its internal control structure, including annual budgets and external audits of its financial statements. These policies set standards for rate sufficiency, rate stability, reserve funds, capital investment and debt management that guide the development of budgets, rates and debt issuance. Taken as a whole, the financial policies are intended to provide financial performance indicators, including debt service coverage and reserve requirements.

The District's Board has the exclusive right to determine rates and charges for services provided. Planning is guided by forecasts of balance sheet, operating and capital items. These tools are used to identify the impacts of anticipated initiatives and to develop strategies to meet the Board's financial objectives.

ELECTRIC SYSTEM

The Electric System provides electric service throughout Cowlitz County which encompasses 1,144 square miles and approximately 48,500 customers. The District is among the largest PUDs in the state of Washington with total 2014 and 2013 retail power sales of 5,076,899 MWHs and 5,195,417 MWHs, respectively. Approximately 70% of the District's power and 50% of revenues are sold to two industrial customers. Extreme weather and economic conditions are the primary influences on electricity sales.

The Electric System power supply is provided through contracts with BPA and Grant County PUD, as well as the purchase of the output from the District's Swift No. 2 Hydroelectric Production System on the Lewis River and the power associated with a 2 MW share of Energy Northwest's Nine Canyon Wind Project. The District also receives and sells energy from interests in two wind projects; 46% of the 204.7 MW White Creek Project (contractual interest) and 30% of the 98.9 MW Harvest Wind Project (tenant in common). Both projects are located in Klickitat County, WA. Approximately 90% of the District's power supply is purchased from BPA.

Since the majority of the District's power supply comes from hydroelectric generation, financial performance of the Electric System is largely influenced by the availability of water for generation and by prices obtainable for excess generation in the wholesale markets. Wholesale sales activity can complement sales to retail customers and provides a stabilizing portfolio effect in years when wholesale sales are at or higher than budget. Conversely, when wholesale sales are below budget, this activity will not provide the expected support for retail rates and may cause upward rate pressures. The District also uses forward physical power contracts and financial instruments that set a "floor" to protect the District from commodity price risk. When the amount of water available for generation is at or greater than budget and prices are sufficient, funds can be added to reserves for future uses or used to supplement revenues required for current year operations.

Overall the Electric System's net position increased approximately $5.2 million or 3% for 2014 and approximately $5 million or 3% for 2013. The Electric System continued investing in plant infrastructure with no new debt since 2010. Cash reserves continue to improve, with a portion funding a rate stabilization fund, primarily due to conservative power cost budgeting.

Selected Financial Data – Electric System

	2014	2013	2012
Current Assets	$ 108,916,909	$ 96,007,597	$ 72,587,164
Net Utility Plant	171,152,727	168,760,942	167,300,173
Other Assets and Deferred Outflows	131,818,279	149,216,565	169,452,120
Total Assets and Deferred Outflows	411,887,915	413,985,104	409,339,457
Current Liabilities	41,000,998	43,180,130	39,302,884
Long-Term Debt	168,858,382	178,331,925	187,452,157
Other Liabilities and Deferred Inflows	33,904,281	29,579,399	24,701,701
Total Liabilities and Deferred Infows	243,763,661	251,091,454	251,456,742
Net investment in capital assets	29,163,896	27,762,653	31,828,050
Restricted	1,195,345	1,232,803	1,286,857
Unrestricted	137,765,013	133,898,194	124,767,808
Total Net Position	168,124,254	162,893,650	157,882,715
Operating Revenues	252,397,828	255,210,338	248,591,573
Operating Expenses	241,241,413	246,145,937	240,418,315
Net Operating Revenues	11,156,415	9,064,401	8,173,258
Other Income (Expense)	(5,925,811)	(4,053,466)	(6,837,810)
Loan Forgiveness	-	-	12,390,200
Change in Net Position	5,230,604	5,010,935	13,725,648

Results of operations are primarily impacted by changes in rates, retail load, power supply costs, particularly generation levels and wholesale prices, and rate stabilization decisions. Other changes include taxes and conservation costs. For 2012, the main driver of the increase in change in net position was due to a $12,000,000 loan forgiveness from the Production System to the Electric System. In September 2013 and 2014 residential rates were increased 5% and 4.6% with either no change or decreases ranging from 2% to 15% and 3.5% to 8% among the commercial and industrial classes, respectively.

Capital Asset and Long-Term Debt Activity

As of year-end, the Electric System had $292 million invested in electric system plant in service, an increase of 1.0%. Additions are primarily related to an enhanced construction program in an effort to improve the reliability of the Electric System for all customers, Advanced Automated Metering project, ERP computer system and substation upgrades. Capital construction is funded by a combination of rates, aid-to-construction paid by customers and long-term revenue bonds.

Total Electric System utility plant in service as of December 31, 2014, 2013, and 2012 consisted of the following:

	2014	2013	2012
Intangible	$ 239,963	$ 239,963	$ 239,963
Land and Land Rights	3,082,142	3,518,364	3,515,814
Transmission & Distribution	236,389,683	237,450,237	228,397,149
General Plant	52,370,855	49,550,207	48,192,160
Total Plant In Service	$ 292,082,643	$ 290,758,771	$ 280,345,086

At December 31, 2014 the Electric System had outstanding revenue bonds totaling $163 million compared to $171 million and $179 million at December 31, 2013 and 2012, respectively.

PRODUCTION SYSTEM

The Production System operates the 66.8 MW Swift No. 2 Hydroelectric Project on the Lewis River. All of the output is sold to the District's Electric System at cost. The 50-year FERC license expires in June 2058. Overall the Production System's net position decreased approximately $2 million or 2% for both 2014 and 2013.

Selected Financial Data – Production System

	2014	2013	2012
Current Assets	$ 27,985,758	$ 26,661,070	$ 26,068,311
Net Utility Plant	119,568,067	122,792,683	125,611,661
Other Assets and Deferred Outflows	21,654,803	19,308,364	19,974,703
Total Assets and Deferred Outflows	169,208,628	168,762,117	171,654,675
Current Liabilities	2,102,940	2,348,151	2,102,339
Long-Term Debt	64,403,872	62,860,707	63,881,481
Other Liabilities and Deferred Inflows	7,433,402	7,433,402	7,433,402
Total Liabilities and Deferred Infows	73,940,214	72,642,260	73,417,222
Net investment in capital assets	56,872,798	58,683,041	60,526,245
Restricted	-	-	-
Unrestricted	37,640,391	37,436,816	37,711,208
Total Net Position	94,513,189	96,119,857	98,237,453
Operating Revenues	7,411,680	7,225,776	8,079,384
Operating Expenses	6,101,966	6,759,512	4,975,665
Net Operating Revenues	1,309,714	466,264	3,103,719
Other Income (Expense)	(2,916,382)	(2,583,860)	(2,476,589)
Loan Forgiveness	-	-	(12,889,123)
Change in Net Position	(1,606,668)	(2,117,596)	(12,261,993)

Operating revenues are set to cover operating and capital costs, debt service and to fund reserves over time. Fluctuations in operations from year to year are largely impacted by non-recurring or infrequent projects. For 2013, operations were impacted by embankment and turbine repairs. As indicated above, for 2012, the main impact on the change in net position is the $12,000,000 loan forgiveness.

Capital Asset and Long-Term Debt Activity

No substantial capital activity in 2014 or 2013 and new debt in 2014. The District did refund the 2004 Production System bonds in 2014 resulting in a net present value savings of approximately $3.5 million. Total Production System plant in service as of December 31, 2014, 2013 and 2012 consisted of the following:

	2014	2013	2012
Intangible	$ 5,109,470	$ 5,109,470	$ 5,109,470
Land and Land Rights	1,224,229	1,224,229	1,224,229
Production Plant	144,047,698	144,047,698	143,853,231
Transmission Plant	4,624,838	4,624,838	4,624,838
Total Plant In Service	$ 155,006,235	$ 155,006,235	$ 154,811,768

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND 2013

			2014	2013
	Electric	Production	Total	Total
CURRENT ASSETS				
Cash and cash equivalents	$ 83,602,870	$ 26,958,609	$ 110,561,479	$ 92,537,798
Customer accounts receivable and unbilled revenues	16,281,419	-	16,281,419	20,038,088
Other accounts receivable	4,371,822	-	4,371,822	3,955,713
Allowance for uncollectible accounts	(765,729)	-	(765,729)	(580,421)
Accounts receivable from assoc. companies	5,970	-	5,970	3,467
Current portion of advances to others	111,544	657,785	769,329	735,538
Materials and supplies	4,553,966	-	4,553,966	4,705,707
Prepayments	332,447	369,364	701,811	757,476
Interest receivable	386,551	-	386,551	378,738
Other current assets	36,049	-	36,049	136,563
Total current assets	108,916,909	27,985,758	136,902,667	122,668,667
RESTRICTED ASSETS				
Cash and cash equivalents	19,797,779	10,222,005	30,019,784	35,253,199
Investments	5,960,000	-	5,960,000	7,192,803
Total restricted assets	25,757,779	10,222,005	35,979,784	42,446,002
UTILITY PLANT				
Plant in service	292,082,643	155,006,235	447,088,878	445,765,006
Construction in progress	6,574,977	146,537	6,721,514	4,793,815
Total utility plant	298,657,620	155,152,772	453,810,392	450,558,821
Less accumulated depreciation and amortization	127,504,893	35,584,705	163,089,598	159,005,196
Net utility plant	171,152,727	119,568,067	290,720,794	291,553,625
OTHER PROPERTY AND INVESTMENTS				
White Creek Wind Project Energy Purchase Agreement	54,988,353	-	54,988,353	59,306,078
Investment in associated organizations	44,950,942	-	44,950,942	46,721,575
BPA transmission credit receivable	1,016,890	-	1,016,890	2,148,209
Note receivable	639,455	-	639,455	750,999
Advances to other funds	-	10,697,117	10,697,117	11,354,904
Other charges	4,462,936	735,681	5,198,617	3,746,127
Total other property and investments	106,058,576	11,432,798	117,491,374	124,027,892
DEFERRED OUTFLOWS OF RESOURCES				
Accum. decrease in fair value of hedging derivatives	1,924	-	1,924	2,051,035
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 411,887,915	$ 169,208,628	$ 581,096,543	$ 582,747,221

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND 2013

	Electric	Production	2014 Total	2013 Total
CURRENT LIABILITIES				
Current portion of long-term debt	$ 9,047,785	$ 1,080,000	$ 10,127,785	$ 9,678,894
Accounts payable	19,630,399	28,918	19,659,317	22,098,212
Accounts payable to assoc. companies	-	5,970	5,970	3,467
Accrued wages and benefits	2,315,721	-	2,315,721	2,170,845
Customer deposits	2,143,613	-	2,143,613	2,475,405
Taxes payable	4,902,034	8,000	4,910,034	4,971,422
Interest payable	2,879,296	980,052	3,859,348	4,032,341
Other current liabilities	82,150	-	82,150	97,695
Total current liabilities	41,000,998	2,102,940	43,103,938	45,528,281
LONG-TERM LIABILITIES				
Bonds payable	154,465,000	60,020,000	214,485,000	224,780,000
Premium on bonds payable	3,065,562	4,383,872	7,449,434	4,383,688
Advances from other funds	10,697,117	-	10,697,117	11,354,904
Loan payable	630,703	-	630,703	674,040
Total long-term liabilities	168,858,382	64,403,872	233,262,254	241,192,632
OTHER LIABILITIES AND CREDITS				
Lewis River Cost-Share Agreement	-	7,433,402	7,433,402	7,433,402
Compensation and retirement reserves	370,659	-	370,659	436,075
Other credits	889,403	-	889,403	2,979,807
Post-retirement benefit obligation	723,020	-	723,020	577,010
Total other liabilities and credits	1,983,082	7,433,402	9,416,484	11,426,294
TOTAL LIABILITIES	211,842,462	73,940,214	285,782,676	298,147,207
COMMITMENTS AND CONTINGENCIES				
DEFERRED INFLOWS OF RESOURCES				
Rate stabilization fund	29,700,000	-	29,700,000	24,700,000
Accum. increase in fair value of hedging derivatives	2,221,199	-	2,221,199	886,507
Gain on refunding of debt	-	755,225	755,225	-
Total deferred inflows of resources	31,921,199	755,225	32,676,424	25,586,507
NET POSITION				
Net investment in capital assets	29,163,896	56,872,798	86,036,694	86,445,694
Restricted	1,195,345	-	1,195,345	1,232,803
Unrestricted	137,765,013	37,640,391	175,405,404	171,335,010
TOTAL NET POSITION	168,124,254	94,513,189	262,637,443	259,013,507
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 411,887,915	$ 169,208,628	$ 581,096,543	$ 582,747,221

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Electric	Production	2014 Total	2013 Total
OPERATING REVENUES				
Retail sales	$ 241,606,252	$ 7,411,680	$ 249,017,932	$ 250,908,739
Wholesale sales	9,188,574	-	9,188,574	9,610,784
Other operating revenues	1,603,002	-	1,603,002	1,916,591
Total operating revenues	252,397,828	7,411,680	259,809,508	262,436,114
OPERATING EXPENSES				
Power costs	192,915,727	-	192,915,727	197,652,743
Operations expense	22,113,969	1,759,556	23,873,525	24,748,830
Maintenance expense	5,186,084	1,214,409	6,400,493	6,356,664
Depreciation and amortization	10,841,102	3,119,824	13,960,926	14,018,858
Taxes	10,184,531	8,177	10,192,708	10,128,354
Total operating expenses	241,241,413	6,101,966	247,343,379	252,905,449
OPERATING INCOME	11,156,415	1,309,714	12,466,129	9,530,665
OTHER INCOME (EXPENSE)				
Interest and dividend income	114,884	549,560	664,444	751,885
Interest on long-term debt	(9,032,630)	(2,973,399)	(12,006,029)	(12,525,101)
Amortization of regulatory asset	(116,429)	(33,312)	(149,741)	(149,741)
Debt issuance costs	-	(459,236)	(459,236)	-
Income from Harvest Wind Project	547,965	-	547,965	3,096,679
Miscellaneous nonoperating income (expense)	24,043	5	24,048	140,482
Total other income (expense)	(8,462,167)	(2,916,382)	(11,378,549)	(8,685,796)
CHANGE IN NET POSITION BEFORE CONTRIBUTIONS AND SUBSIDY	2,694,248	(1,606,668)	1,087,580	844,869
Contributions in aid of construction	1,555,316	-	1,555,316	1,080,702
BAB subsidy	981,040	-	981,040	967,768
CHANGE IN NET POSITION	5,230,604	(1,606,668)	3,623,936	2,893,339
TOTAL NET POSITION, beginning of year	162,893,650	96,119,857	259,013,507	256,120,168
TOTAL NET POSITION, end of year	$ 168,124,254	$ 94,513,189	$ 262,637,443	$ 259,013,507

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Electric	Production	2014 Total	2013 Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	$ 255,589,401	$ 7,411,680	$ 263,001,081	$ 262,491,840
Cash payments to suppliers	(199,398,811)	(3,250,802)	(202,649,613)	(201,443,219)
Cash payments to employees	(12,324,269)	-	(12,324,269)	(12,487,349)
Cash payments for taxes	(10,246,113)	(7,983)	(10,254,096)	(10,136,167)
Net cash from operating activities	33,620,208	4,152,895	37,773,103	38,425,105
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Inter-System Advances	(628,896)	628,896	-	-
Net cash from non-capital financing activities	(628,896)	628,896	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction and acquisition of utility plant	(13,232,887)	104,792	(13,128,095)	(12,660,649)
Net proceeds from issuance of long-term debt	-	4,569,512	4,569,512	-
Principal paid on long-term debt	(8,050,000)	(1,825,000)	(9,875,000)	(8,690,000)
Debt issuance costs	-	(459,236)	(459,236)	-
Principal paid on notes payable	(43,337)	-	(43,337)	(42,655)
Interest paid on long-term debt and notes	(9,535,230)	(3,392,504)	(12,927,734)	(13,044,646)
Harvest Wind Project, net	2,682,077	-	2,682,077	2,877,077
Contributions in aid of construction	1,555,316	-	1,555,316	1,080,702
BAB subsidy	981,040	-	981,040	967,768
Materials and supplies	151,741	-	151,741	(127,208)
Other charges, net	(145,767)	-	(145,767)	71,425
Miscellaneous nonoperating	24,043	5	24,048	140,482
Net cash from capital and related financing activities	(25,613,004)	(1,002,431)	(26,615,435)	(29,427,704)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net investment activity	1,232,803	-	1,232,803	54,054
Net Beacon Hill	106,644	-	106,644	101,960
Interest and dividends on investments	107,071	549,560	656,631	774,012
Investment in associated organizations	(363,479)	-	(363,479)	272,885
Net cash from investing activities	1,083,039	549,560	1,632,599	1,202,911
NET CHANGE IN CASH	8,461,346	4,328,920	12,790,266	10,200,312
CASH AND CASH EQUVALENTS, beginning	94,939,303	32,851,694	127,790,997	117,590,685
CASH AND CASH EQUVALENTS, end of year	$ 103,400,649	$ 37,180,614	$ 140,581,263	$ 127,790,997

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Reconciliation of operating income to net cash from operating activities:	Electric	Production	2014 Total	2013 Total
Operating income	$ 11,156,415	$ 1,309,714	$ 12,466,129	$ 9,530,665
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization	10,841,102	3,119,824	13,960,926	14,018,858
Amortization of energy purchase agreement	4,317,725	-	4,317,725	4,317,725
Changes in assets and liabilities:				
Customer accounts receivable and unbilled	3,941,977	-	3,941,977	(111,227)
Other accounts receivable	(416,109)	-	(416,109)	220,574
Accounts receivable from assoc. companies	(2,503)	-	(2,503)	11,385
Prepayments	60,080	(4,415)	55,665	(132,958)
Other current assets	100,514	-	100,514	39,237
BPA transmission credit receivable	1,131,319	-	1,131,319	1,049,720
Option premiums	(121,600)	-	(121,600)	237,480
Accounts payable	(2,163,970)	(274,925)	(2,438,895)	4,058,108
Accounts payable to assoc. companies	-	2,503	2,503	(11,385)
Accrued wages and benefits	144,876	-	144,876	(140,304)
Customer deposits	(331,792)	-	(331,792)	(65,006)
Taxes payable	(61,582)	194	(61,388)	(7,813)
Other current liabilities	(15,545)	-	(15,545)	1,924
Rate stabilization fund	5,000,000	-	5,000,000	6,000,000
Deferred compensation and retirement	(65,416)	-	(65,416)	(217,779)
Other credits	(41,293)	-	(41,293)	(475,965)
Post-retirement benefit obligation	146,010	-	146,010	101,866
	$ 33,620,208	$ 4,152,895	$ 37,773,103	$ 38,425,105

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Public Utility District No. 1 of Cowlitz County, Washington (the District) was founded on November 3, 1936 and is a municipal corporation of the State of Washington. The District is governed by an elected three-member board of commissioners that have the responsibility to set rates and charges for services provided.

The District's reporting entity is comprised of the combined Electric System and Production System (66.8 MW Lewis River Swift Plant No. 2 Hydroelectric System). Inter-company balances and transactions have not been eliminated from the combined amounts reported. The District has no component units.

The District's wholesale activity is generated from the sale of the output from interests in two wind projects; 46% of the 204.7 MW White Creek Project (contractual interest) and 30% of the 98.9 MW Harvest Wind Project (tenant in common). Both projects are located in Klickitat County, WA.

B. Basis of Accounting and Presentation

The District's accounting policies are in accordance with accounting principles generally accepted in the United States of America. The District applies accounting and reporting standards of the Governmental Accounting Standards Board (GASB), exclusively. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

C. Use of Estimates

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

D. Cash Equivalents

The District considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents. Balances in the Local Government Investment Pool (LGIP) are considered cash equivalents as they can be converted to cash within one day.

E. Investments

The District records investments at fair value based on quoted market rates, with changes in unrealized gains and losses reported as investment income (See Note 2).

F. Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable are recorded when invoices are issued and are written-off when they are determined to be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available information, of customers that may be unable to meet their financial obligations, and a reserve based on historical experience. Actual losses between twelve and fifteen months old are then charged against the provision for uncollectible accounts quarterly.

G. Other Accounts Receivable

Other accounts receivable consists of certain wholesale transactions, conservation reimbursements, aid to construction billings and other miscellaneous customer and non-customer items that may require invoicing that would not normally be entered into the customer service billing system.

H. Interfund Balances and Transactions

The District's Electric System makes payments for goods, services and taxes on behalf of the Production System. This is reflected in the statement of net position as "accounts receivable from associated companies." Alternatively, the amounts due by the Production System to the Electric System are reflected in the statement of net position as "accounts payable to associated companies." These accounts include only short-term obligations which are paid monthly and are not interfund loans. A description of loans and long-term advances between funds is contained in Note 5.

I. Materials and Supplies

Materials and supplies consist of items for plant maintenance and construction and are stated at average cost.

J. Restricted Assets

In accordance with bond resolutions and certain related agreements, separate restricted funds are required to be established. Cash and investments held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements.

K. Utility Plant and Depreciation

Utility plant is stated at original cost or, if donated, fair value (See Note 3). Cost includes labor, materials and related indirect costs. Additions, renewals and betterments with a minimum cost of $1,000 per item are capitalized. Repairs and minor replacements are charged to operating expenses. When an asset is removed from service and retired, unless it's a major retirement or a general plant asset, the cost of property plus removal cost less salvage is charged to accumulated depreciation. No material utility plant impairments were noted for the years ended December 31, 2014 or 2013.

Contributions by developers and customers are recorded at contract price or cost as contributions in aid-of-construction and recorded in the statement of revenues, expenses and changes in net position.

Depreciation is computed on the straight-line method over estimated useful lives as follows: Distribution Plant - 20 to 33 years; Transmission Plant - 33 years; General Plant - 4 to 50 years; Production Plant - 10 to 50 years; FERC License - 50 years.

L. White Creek Wind Project Energy Purchase Agreement

In November 2007 the White Creek Wind Project began energy production and the District paid $85,572,237 under the Amended and Restated White Creek Wind Project Energy Purchase Agreement to receive a 46% share of the energy for 20 years. With certain exceptions, the Agreement stipulates a minimum Annual Energy Quantity (225,917 MWh). The payment was made with unrestricted funds ($70,354,497) and a loan from the Production System to the Electric System ($15,217,740 – See Note 5). The prepayment is being amortized on a straight-line basis over the life of the contract. In addition, the District is responsible for its share of annual operating costs.

M. BPA Transmission Credit Receivable

In October 2007 the White Creek Wind Project assigned 46% of its Bonneville Power Administration (BPA) transmission credit to the District. For the term of the agreement beginning January 1, 2008 and ending the sooner of the exhaustion of the assigned credit or January 1, 2021, the District will receive amounts for use of the facilities from BPA. During 2014 and 2013 the District received $1,131,319 and $1,049,720, respectively under this agreement.

N. Regulatory Assets

The District has deferred costs to be charged to future periods matching the time periods when the expenses are included in rates.

O. Unamortized Bond Premium

Bond premium is amortized to interest expense using the effective interest method over the term of the bonds.

P. Debt Refundings

For current and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt (gain or loss) is deferred and amortized as a component of interest expense over the remaining life of the old debt or the new debt, whichever is shorter. These amounts are reported as deferred inflows or outflows of resources on the statement of net position.

Q. Fair Value of Financial Instruments

The carrying amounts of current assets, including restricted cash and investments, and current liabilities approximate fair value due to the short-term maturity of those instruments. The fair value of the District's investments and debt are estimated based on the quoted market prices for the same or similar issues.

R. Derivative Instruments

The District enters into derivative energy transactions to hedge its known or expected positions within its approved Risk Management policy. Decisions are made to enter into forward transactions to protect its financial position, specifically to deal with expected long and short positions as determined by projected load and resource balance positions, with the objective of providing stable rates and meeting budget.

Subject to certain exceptions GASB requires that every derivative instrument be recorded on the statement of net position as an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred. These are recorded on the statement of net position as deferred inflows/outflows of resources as accumulated increase/decrease in fair value of hedging derivatives.

It is the District's policy to document and apply as appropriate the normal purchase and normal sales exception under GASB. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded under GASB and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity are considered to be derivatives under GASB, but do not generally meet the "normal purchases and normal sales" criteria.

As of December 31, 2014 and 2013, the District had the following derivative instruments outstanding. Options are amortized to power costs over the exercise period of the option. Fair value of derivative assets are recorded under deferred charges and fair value of derivative liabilities are recorded under deferred credits on the statement of net position.

Options and Swaps Hedging Derivatives

	2014		2013	
Notional value	$	8,046,586	$	15,671,760
Volumes (MWH)		266,720		511,880
Fair value - asset	$	2,221,199	$	886,507
Fair value - liability	$	1,924	$	2,051,035
Reference rates	Mid-C index		Mid-C index	
Dates entered into	3/4/13 - 12/22/14		6/5/12 - 12/11/13	
Dates of maturity	1/15 - 12/16		2/14 - 12/16	
Cash paid	$	121,600	$	-

The fair values used for the mark-to-market amounts are based on the futures price curve for the Mid-Columbia Intercontinental Exchange.

The District has developed a credit policy that establishes guidelines for setting credit limits and monitoring credit exposure on a continuous basis. The policy addresses frequency of counterparty credit evaluations, credit limits per specific counterparty and counterparty credit concentration limits. Commodity transactions, both physical and financial, are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness. The District has entered into master enabling agreements with various counterparties, such as International Swaps and Derivatives Association Agreements (ISDA) for financial transactions. All of the enabling agreements have provisions addressing credit exposure and provide for various remedies to assure financial performance, including the ability to call on additional collateral as conditions warrant, generally as determined by the exposed party. The District also uses netting provisions in the agreements to diffuse a portion of the risk.

The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. There are no derivative transactions outstanding that carry basis risk as of December 31, 2014. As of December 31, 2014, no termination events have occurred, and there are no outstanding transactions with material termination risk. There is no rollover, interest rate or market access risk for these derivative products at December 31, 2014.

S. Compensated Absences

The District accrues personal leave benefits as the obligation is incurred. Personal leave is limited to sixty days at the end of any calendar year.

T. Rate Stabilization Fund

The District's Board of Commissioners deferred amounts as allowed for under regulatory accounting and bond covenants. Such amounts will be amortized to revenue or a reduction in power costs consistent with ratemaking decisions. For the years ended December 31, 2014 and 2013 the District deferred $5,000,000 and $6,000,000, respectively, related to power costs.

U. Compensation and Retirement Reserves

Personal leave accruals may be transferred, according to the District's Banked Personal Leave Plan, into the Banked Personal Leave Fund. Employee amounts in the Banked Personal Leave Fund are no longer tied to the employee's wage rate, but accrue interest according to the earnings of the Banked Personal Leave Fund investments. At December 31, 2014 and 2013 the value of the accrued liabilities, which reflect a calculation for Social Security and Medicare taxes, are $323,343 and $316,246, respectively.

Effective August 1, 1984, the District established a Retirement Reserve Fund in response to the Washington State Legislature's SHB 843 which was signed into law on March 15, 1984. SHB 843 reduced the maximum days of accrued vacation applied to retirement payable by the State to 30 days, with the balance of the maximum accrued vacation and floating holidays applied to retirement payable by the employer under the average compensation formula for Plan 1 employees. The District has elected to fund the financial liability for Plan 1 employees for those days in excess of the 30 days funded by the State. When the District pays the lump sum due for days in excess of 30, the District has no future liability for that retiree's payments. As of December 31, 2014 and 2013 the amount in the Retirement Reserve Fund was $47,316 and $119,829, respectively.

V. Net Position

Net position consists of:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, less outstanding balances of any bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted – This component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

- Unrestricted – This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets," including the White Creek Wind Project Energy Purchase Agreement and joint venture in the Harvest Wind Project (net of inter-system advances).

W. Operating Revenues and Expenses

Operating revenues and expenses result from providing services in connection with the District's principal ongoing operations. Operating revenues are recognized when billed and expenses are recognized when incurred. In addition, the District recognizes unbilled revenue, revenues from services provided, but not yet billed. The principal operating revenues of the District are charges to customers for electric service. Operating expenses for the District include the cost of power, operations, maintenance, administrative expenses, depreciation on capital assets and taxes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Approximately 50% of Electric System retail sales were from two industrial customers.

The credit practices of the District require an evaluation of each new customer's credit worthiness on a case-by-case basis. Based on policy, a deposit may be obtained from the customer. Except for the two large industrial customers, concentrations of credit risk with respect to receivables for retail customers are limited due to the number of customers comprising the District's customer base. Credit losses have been within management's expectations. Similar to its evaluation of residential, commercial and industrial customers' credit reviews, the District continually evaluates its wholesale power customers by reviewing credit ratings and financial credit worthiness of existing and new customers.

X. Significant Risks and Uncertainties

The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster related disruptions; collective bargaining labor disputes (current contract expires March 31, 2018); fish and other Endangered Species Act issues; Environmental Protection Agency regulations; federal and state government regulations or orders; deregulation of the electric industry; and market risks inherent in buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

The District maintains insurance coverage for property, casualty and liability claims and is self-insured for employee health benefits up to certain stop-loss limits. Health benefit claims paid for the years ended December 31, 2014 and 2013 totaled approximately $3 million each year. The District participates in a State of Washington plan for workers compensation and is self-insured for unemployment benefits.

2. DEPOSITS AND INVESTMENTS

The District's deposits are entirely secured by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Deposits and investments as of December 31, 2014 and 2013 consist of the following:

	Electric System	Production System	2014 Total	2013 Total
Cash in banks	$ 46,452,979	$ 15,425,594	$ 61,878,573	$ 49,061,328
Investment in Local Government Investment Pool	56,947,670	21,755,020	78,702,690	78,624,177
Certificates of deposit with banks	-	-	-	105,492
Securities	5,960,000	-	5,960,000	7,192,803
Total deposits and investments	$ 109,360,649	$ 37,180,614	$ 146,541,263	$ 134,983,800
Unrestricted:				
Cash and cash equivalents, includes ES rate stabilization fund of $29.7 million and $24.7 million, respectively	$ 83,602,870	$ 26,958,609	$ 110,561,479	$ 92,537,798
Total unrestricted	$ 83,602,870	$ 26,958,609	$ 110,561,479	$ 92,537,798
Restricted:				
Cash and cash equivalents:				
Construction funds	$ 5,501,853	$ 4,225,493	$ 9,727,346	$ 19,193,644
Debt service and reserve accounts	13,100,581	5,996,512	19,097,093	16,059,555
Escrow funds	1,195,345	-	1,195,345	-
Total cash and cash equivalents	19,797,779	10,222,005	30,019,784	35,253,199
Investments:				
Debt service and reserve accounts	5,960,000	-	5,960,000	5,960,000
Escrow funds	-	-	-	1,232,803
Total investments	5,960,000	-	5,960,000	7,192,803
Total restricted	$ 25,757,779	$ 10,222,005	$ 35,979,784	$ 42,446,002
Total deposits and investments	$ 109,360,649	$ 37,180,614	$ 146,541,263	$ 134,983,800

Investments as of December 31, 2014 consist of the following:

Investment Type	Fair Value	Investment Maturities: Less Than 1 Year	Investment Maturities: 1 to 4 Years
Federal National Mortgage Association	$ 2,100,000	$ 1,000,000	$ 1,100,000
Federal Farm Credit Bank	1,000,000	-	1,000,000
Federal Home Loan Bank	860,000	-	860,000
Federal Home Loan Mortgage Corp.	2,000,000	500,000	1,500,000
Totals	$ 5,960,000	$ 1,500,000	$ 4,460,000

Investments as of December 31, 2013 consist of the following:

Investment Type	Fair Value	Investment Maturities: Less Than 1 Year	Investment Maturities: 1 to 4 Years
US Treasury	$ 1,232,803	$ 1,232,803	$ -
Federal National Mortgage Association	2,000,000	-	2,000,000
Federal Farm Credit Bank	1,600,000	600,000	1,000,000
Federal Home Loan Bank	860,000	500,000	360,000
Federal Home Loan Mortgage Corp.	1,500,000	500,000	1,000,000
Totals	$ 7,192,803	$ 2,832,803	$ 4,360,000

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All the aforementioned investments are held in the District's name by a third-party custodian. As required by state law and District policy, all investments of the District's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions. The District does not have a formal investment policy that requires diversification of investments by security type and institution or that limits its exposure to fair value losses resulting from rising interest rates.

3. UTILITY PLANT AND DEPRECIATION

A schedule of changes in utility plant and depreciation for the year ended December 31, 2014:

Electric System Utility Plant	Balance Jan. 1, 2014	Increases	Decreases	Balance Dec. 31, 2014
Intangible [(1)]	$ 239,963	$ -	$ -	$ 239,963
Land and Land Rights [(1)]	3,518,364	5,181	441,403	3,082,142
Transmission	25,487,400	1,916,568	714,560	26,689,408
Distribution	211,962,837	6,290,176	8,552,738	209,700,275
General Plant	49,550,207	3,392,961	572,313	52,370,855
Plant in Service	290,758,771	11,604,886	10,281,014	292,082,643
Construction in Progress	4,542,486	13,637,377	11,604,886	6,574,977
Total Utility Plant	295,301,257	25,242,263	21,885,900	298,657,620
Less Accumulated Depreciation	126,540,315	10,841,102	9,876,524	127,504,893
Net Electric System Utility Plant	$ 168,760,942	$ 14,401,161	$ 12,009,376	$ 171,152,727

Production System Utility Plant	Balance Jan. 1, 2014	Increases	Decreases	Balance Dec. 31, 2014
Intangible	$ 5,109,470	$ -	$ -	$ 5,109,470
Land and Land Rights [(1)]	1,224,229	-	-	1,224,229
Production	144,047,698	-	-	144,047,698
Transmission	4,624,838	-	-	4,624,838
Plant in Service	155,006,235	-	-	155,006,235
Construction in Progress	251,329	-	104,792	146,537
Total Utility Plant	155,257,564	-	104,792	155,152,772
Less Accumulated Depreciation and Amortization	32,464,881	3,119,824	-	35,584,705
Net Production System Utility Plant	$ 122,792,683	$ (3,119,824)	$ 104,792	$ 119,568,067

(1) Plant not being depreciated.

A schedule of changes in utility plant and depreciation for the year ended December 31, 2013:

Electric System Utility Plant	Balance Jan. 1, 2013	Increases	Decreases	Balance Dec. 31, 2013
Intangible (1)	$ 239,963	$ -	$ -	$ 239,963
Land and Land Rights (1)	3,515,814	2,550	-	3,518,364
Transmission	24,568,167	1,636,818	717,585	25,487,400
Distribution	203,828,982	11,955,793	3,821,938	211,962,837
General Plant	48,192,160	1,996,054	638,007	49,550,207
Plant in Service	280,345,086	15,591,215	5,177,530	290,758,771
Construction in Progress	7,314,669	12,819,032	15,591,215	4,542,486
Total Utility Plant	287,659,755	28,410,247	20,768,745	295,301,257
Less Accumulated Depreciation	120,359,582	10,905,288	4,724,555	126,540,315
Net Electric System Utility Plant	$ 167,300,173	$ 17,504,959	$ 16,044,190	$ 168,760,942

Production System Utility Plant	Balance Jan. 1, 2013	Increases	Decreases	Balance Dec. 31, 2013
Intangible	$ 5,109,470	$ -	$ -	$ 5,109,470
Land and Land Rights (1)	1,224,229	-	-	1,224,229
Production	143,853,231	194,467	-	144,047,698
Transmission	4,624,838	-	-	4,624,838
Plant in Service	154,811,768	194,467	-	155,006,235
Construction in Progress	151,204	294,592	194,467	251,329
Total Utility Plant	154,962,972	489,059	194,467	155,257,564
Less Accumulated Depreciation and Amortization	29,351,311	3,113,570	-	32,464,881
Net Production System Utility Plant	$ 125,611,661	$ (2,624,511)	$ 194,467	$ 122,792,683

(1) Plant not being depreciated.

4. INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations at December 31, 2014 and 2013 consist of the following:

	Electric System	
	2014	2013
Harvest Wind Project	$ 42,126,534	$ 44,260,646
White Creek Project, LLC	143,164	179,464
The Energy Authority and TEA Solutions	2,681,244	2,281,465
Totals	$ 44,950,942	$ 46,721,575

Harvest Wind Project

The District is party to a Joint Ownership Agreement whereby the District made an equity investment in the Harvest Wind Project, a 98.9 MW wind generating facility located in Klickitat County, WA. The District's share of the Project is 30%. During 2009, the joint owners of Harvest Wind elected to classify the Project as a taxable corporation. At the time of the election all project assets were treated as contributed to the corporation and the joint owners received shares in proportion to their ownership. Owners share in power output, income and expenses according to their ownership shares. Commercial operations began on December 15, 2009.

The District is committed, through an energy purchase agreement, to purchase its share of the output from the Project and pay its share of Project expenses through the year 2029. Additionally, the District is committed, through a transmission service agreement and a transmission payment agreement, to subsidize the initial construction of transmission lines, deposit funds to ensure contract performance and purchase transmission from the owner of the transmission lines through the year 2029.

The investment in Harvest Wind consists of the District's share of the costs to develop the Project, 30% of the Project's net income and losses and any distributions. During 2014 and 2013, the District received $2,490,000 and $2,685,000, respectively in distributions. Also included is $2,913,165 and $3,105,242, respectively, in prepaid transmission system and related costs which are being amortized on a straight-line basis over 20 years.

White Creek Project, LLC

The District has a 46% contractual interest in the 204.7 MW White Creek Wind Project located in Klickitat County, WA. The investment in White Creek Project, LLC (WCP, LLC) is being carried as an equity investment. Assets of WCP, LLC consist of cash and other assets related to the White Creek Wind Project Phases I and II. Commercial operations began in November 2007 (See Note 1).

The Energy Authority and TEA Solutions

On March 30, 2010 the District became a member of The Energy Authority (TEA), a nonprofit corporation that provides power energy trading, RTO market services, natural gas procurement and management services, risk management and hedging services and power management services to over 45 public utilities across the nation.

The Membership Agreement required: (a) payment of a $1 million Membership Fee; (b) payment of a $2.8 million Capital Contribution, representing the District's ownership interest in TEA; and (c) the Advance Agreement of $9,642,857, consisting of a $1 million Bank Guarantee and a Trade Guarantee of $8,642,857. The Bank Guarantee makes certain credit representations and guarantees to Bank of America, which will then be able to issue a letter of credit to any counterparty requiring a letter of credit as a condition of any particular transaction. Like the Bank Guarantee, the Trade Guarantee makes certain credit assurances allowing TEA this amount of unsecured credit to trade on behalf of its members.

The membership fee has been amortized to expense over twenty-four months. Under TEA Bylaws, at any time upon separation the District will receive all of its then existing interest in the corporation, which would include its Capital Contribution.

In 2013 the District became an 8% member of TEA Solutions. TEA Solutions is a publicly supported non-profit corporation. TEA Solutions was formed mainly to (1) coordinate the operation of electric generation resources and the purchase and sale of electric power on behalf of the corporation's clients; (2) coordinate the purchase and sale of natural gas relating to fuel for clients' generation of electric energy or relating to clients' operation of a retail gas distribution system; and (3) provide consulting and software services to clients.

The District funded its initial share of TEA Solutions with a $50,000 capital contribution. This contribution was to cover legal, consulting and other start-up costs pertaining to TEA Solutions. The District's exposure relating to TEA Solutions is limited to the capital investment, any accounts receivable and trade guarantees. The balance of the District's investment at December 31, 2014 and 2013 was $50,000.

5. LONG-TERM DEBT

Electric System

Revenue Bonds

In August 2006 the District issued $61.465 million in Revenue and Refunding Bonds to fund capital improvements, repay $8 million on a line of credit, pay for bond issuance costs, including bond insurance, fund the bond reserve account ($2,373,256) and to refund $11.635 million of outstanding 2001 Electric Distribution System Revenue Bonds (Series 2001 Bonds). Principal payments on the 2006 Revenue and Refunding Bonds began in September 2012, maturing annually in varying amounts through September 2026. The bonds have annual interest rates ranging from 4.50% to 5.00%. With the maturity of the 2001 bonds, the reserve requirement increased by $4,867,500.

In November 2007 the District issued $64.755 million in Electric System Revenue Bonds to fund capital improvements, pay for bond issuance costs (including bond insurance) and fund bond debt service and reserve accounts ($5,421,325). Principal payments on these bonds began in September 2010, maturing annually in varying amounts through September 2027. The bonds have annual interest rates ranging from 4.375% to 5.00%.

In February 2010 the District issued Electric System Revenue Bonds consisting of $17.805 million in tax-exempt bonds (2010A) and $46.18 million in taxable "Build America Bonds" (2010B) to fund capital improvements, pay for bond issuance costs and fund bond debt service and reserve accounts ($6,398,500). Principal payments on these bonds began in September 2013, maturing annually in varying amounts through September 2032. The 2010A bonds are not subject to redemption prior to maturity and carry a coupon rate of 5.00% with an all-in true interest cost of 3.59%. The 2010B bonds are subject to redemption by the District prior to their stated maturities and carry coupon rates of 2.52% – 6.884% before a thirty-five percent subsidy payment from the United States Treasury, subject to certain conditions. The all-in true interest cost for the 2010A and 2010B bonds is 4.26%.

Scheduled principal maturities and interest requirements on the Revenue Bonds are as follows:

	Principal	Interest	Total
2015	$ 8,390,000	$ 8,637,841	$ 17,027,841
2016	8,805,000	8,218,341	17,023,341
2017	9,245,000	7,778,091	17,023,091
2018	9,710,000	7,315,841	17,025,841
2019	10,195,000	6,830,341	17,025,341
2020 - 2024	58,645,000	26,286,343	84,931,343
2025 - 2029	44,415,000	10,790,952	55,205,952
2030 - 2032	13,450,000	1,878,643	15,328,643
Total	$ 162,855,000	$ 77,736,393	$ 240,591,393

Loan Payable

In 2007 the District entered into a contract for a general obligation loan in the amount of $800,000 and a $200,000 grant from the State of Washington Community Economic Revitalization Board. The loan is to be repaid at the rate of 1.60% per annum over a twenty-year term. The District is using these funds to provide power to a new business at the Port of Kalama. Scheduled principal maturities and interest requirements on the loan are as follows:

	Principal	Interest	Total
2015	$ -	$ -	$ -
2016	44,031	10,091	54,122
2017	44,735	9,387	54,122
2018	45,451	8,671	54,122
2019	46,178	7,944	54,122
2020 - 2024	242,212	28,397	270,609
2025 - 2028	208,096	8,391	216,487
Total	$ 630,703	$ 72,881	$ 703,584

<u>Production System</u>

In September 2004 the District issued Production System (Lewis River Swift No. 2) Bonds for $42.2 million to cover the costs of the embankment rehabilitation. These bonds matured serially over a 30-year period and had interest rates varying from 3.00% to 5.00%. Principal payments on these bonds began in 2006. In May 2014 these 2004 Production System Bonds were refunded with the issuance of the 2014 Production System Revenue Refunding Bonds for $33.6 million. Additionally the proceeds of the 2014 Bonds were used to fund the reserve account requirement ($2,990,021) and pay costs of issuing the bonds. The bonds mature serially over a 20-year period beginning in 2015 and have interest rates varying from 2.00% to 5.00%. The refunding resulted in a net difference in aggregate debt service between refunding and refunded debt of $5.5 million, and a net economic gain of $3.5 million.

In August 2006 the District issued Production System Bonds for $27.5 million. The bonds mature serially over a 30-year period and have interest rates varying from 3.00% to 5.00%. These bonds are to finance continuing expenditures for project reconstruction and to provide for capital expenditures associated with FERC licensing.

Scheduled principal maturities and interest requirements on the 2006 and 2014 Production System Revenue and Refunding Bonds are as follows:

	Principal	Interest	Total
2015	$ 1,080,000	$ 2,940,157	$ 4,020,157
2016	1,105,000	2,918,556	4,023,556
2017	1,135,000	2,885,406	4,020,406
2018	1,185,000	2,840,006	4,025,006
2019	1,230,000	2,792,607	4,022,607
2020 - 2024	7,135,000	12,976,281	20,111,281
2025 - 2029	16,685,000	10,548,280	27,233,280
2030 - 2034	25,165,000	5,325,351	30,490,351
2035 - 2036	6,380,000	458,213	6,838,213
Total	$ 61,100,000	$ 43,684,857	$ 104,784,857

Interfund Advances

In 2007 the District's Board of Commissioners approved a loan from the Production System to the Electric System for up to $16 million. Proceeds from this loan were used to partially fund the White Creek Wind Project Energy Purchase Agreement (See Note 1). The interest rate is 4.50% and the obligation is to be repaid over a period not to exceed twenty years. Scheduled principal maturities and interest requirements on this loan follow:

	Principal	Interest	Total
2015	$ 657,785	$ 497,514	$ 1,155,299
2016	688,004	467,295	1,155,299
2017	719,611	435,688	1,155,299
2018	752,670	402,629	1,155,299
2019	787,247	368,052	1,155,299
2020-2024	4,512,921	1,263,574	5,776,495
2025-2027	3,236,664	229,433	3,466,097
Total	$ 11,354,902	$ 3,664,185	$ 15,019,087

Electric System long-term debt activity for the year ended December 31, 2014 follows:

Electric System	Date of Original Issue	Date of Maturity	Outstanding Debt as of Jan. 1, 2014	Amount Issued	Amount Redeemed	Outstanding Debt as of Dec. 31, 2014
Electric Revenue Bonds, 4.375% to 5.00%	Nov-07	Sep-27	$ 54,715,000	$ -	$ 2,830,000	$ 51,885,000
Electric Revenue & Refunding Bonds, 4.50% to 5.00%	Aug-06	Sep-26	54,315,000	-	3,075,000	51,240,000
Electric Revenue Bonds, 2.52% to 6.884%	Feb-10	Sep-32	61,875,000	-	2,145,000	59,730,000
Loan Payable - State of Washington, 1.60%	Jun-07	Jun-28	674,040	-	43,337	630,703
Loan Payable - Production System, 4.50%	Dec-07	Dec-27	11,983,798	-	628,896	11,354,902
Total Electric System Long-Term Debt			$ 183,562,838	$ -	$ 8,722,233	$ 174,840,605

Production System long-term debt activity for the year ended December 31, 2014 follows:

Production System	Date of Original Issue	Date of Maturity	Outstanding Debt as of Jan. 1, 2014	Amount Issued	Amount Redeemed	Outstanding Debt as of Dec. 31, 2014
Production System Revenue Bonds, 3.00% to 5.00%	Aug-06	Aug-36	$ 27,540,000	$ -	$ -	$ 27,540,000
Production System Revenue Bonds, 3.00% to 5.00%	Sep-04	Sep-34	35,385,000	-	35,385,000	-
Production System Revenue Refunding Bonds, 2.00% to 5.00%	May-14	Sep-34	-	33,560,000	-	33,560,000
Total Production System Long-Term Debt			$ 62,925,000	$ 33,560,000	$ 35,385,000	$ 61,100,000

Electric System long-term debt activity for the year ended December 31, 2013 follows:

Electric System	Date of Original Issue	Date of Maturity	Outstanding Debt as of Jan. 1, 2013	Amount Issued	Amount Redeemed	Outstanding Debt as of Dec. 31, 2013
Electric Revenue Bonds, 4.375% to 5.00%	Nov-07	Sep-27	$ 57,410,000	$ -	$ 2,695,000	$ 54,715,000
Electric Revenue & Refunding Bonds, 4.50% to 5.00%	Aug-06	Sep-26	57,245,000	-	2,930,000	54,315,000
Electric Revenue Bonds, 2.52% to 6.884%	Feb-10	Sep-32	63,985,000	-	2,110,000	61,875,000
Loan Payable - State of Washington, 1.60%	Jun-07	Jun-28	716,695	-	42,655	674,040
Loan Payable - Production System, 4.50%	Dec-07	Dec-27	12,585,070	-	601,272	11,983,798
Total Electric System Long-Term Debt			$ 191,941,765	$ -	$ 8,378,927	$ 183,562,838

Production System long-term debt activity for the year ended December 31, 2013 follows:

Production System	Date of Original Issue	Date of Maturity	Outstanding Debt as of Jan. 1, 2013	Amount Issued	Amount Redeemed	Outstanding Debt as of Dec. 31, 2013
Production System Revenue Bonds, 3.00% to 5.00%	Aug-06	Aug-36	$ 27,540,000	$ -	$ -	$ 27,540,000
Production System Revenue Bonds, 3.00% to 5.00%	Sep-04	Sep-34	36,340,000	-	955,000	35,385,000
Total Production System Long-Term Debt			$ 63,880,000	$ -	$ 955,000	$ 62,925,000

6. LEWIS RIVER COST-SHARE AGREEMENT

The District reached a cost-sharing agreement with PacifiCorp, assigning the operational and capital expenditure payments to be made by the District for fish passage and other aquatic measures which are required under the Lewis River Settlement Agreement and under the FERC License for Swift No. 2. Operational payments are made annually for each year of the 50-year license and range from $197,000 to $291,000 (2003 dollars) indexed for inflation. During 2014 and 2013 the District paid $285,146 and $281,076, respectively on this obligation. The Agreement requires capital payments to be made according to the following schedule which has been indexed for inflation using 2003 dollars. Actual payments using a 3% escalator are estimated to be $11.4 million:

2017	$	225,255
2022		2,252,546
2023		2,252,546
2024		2,252,546
2037		450,509
Total	$	7,433,402

7. OTHER CHARGES AND CREDITS

Other charges consist of the following:

Electric System		2014		2013
Regulatory asset	$	1,656,296	$	1,772,553
Option premiums		121,600		-
Derivatives at fair value		2,221,199		886,507
Miscellaneous charges		463,841		318,074
Total Other Charges	$	4,462,936	$	2,977,134

Production System		2014		2013
Regulatory asset	$	735,681	$	768,993
Total Other Charges	$	735,681	$	768,993

Other credits consist of the following:

Electric System		2014		2013
Property insurance reserve	$	278,165	$	274,565
Derivatives at fair value		1,924		2,051,035
Other credits		609,314		654,207
Total Other Credits	$	889,403	$	2,979,807

8. POST-RETIREMENT BENEFIT OBLIGATION

Plan Description

In addition to pension benefits, the District provides post-retirement health care benefits, in accordance with the District's Collective Bargaining Agreement, to its retirees from the age of 55 until the age of 65. Currently, twenty-four retirees meet those eligibility requirements. The District covers the medical insurance premium for those eligible retirees. The District does not pay for a Medicare supplement for any retiree eligible for Medicare.

Funding Policy

The District pays, on a pay-as-you-go basis, medical insurance premiums for employees that voluntarily retire under the Washington State Retirement System after the employee reaches age 55, limited to premiums for coverage not in excess of coverage made available for active employees and limited to payments for a number of months not to exceed the number of months the employee has actually worked for the District; provided, however, such employee may pay their own premiums for the balance of time up to age 65 or when they become eligible for Medicare, whichever occurs first.

Annual PRBO Cost and Net PRBO Obligation

The District's annual post-retirement benefit obligation (PRBO) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and amortize any unfunded liabilities (or funding excess) over a 15-year period. The following table shows the components of the District's annual PRBO cost for the years ended December 31, 2014 and 2013, the amount actually contributed to the plan and the changes in the District's net PRBO:

	2014	2013
Annual Required Contribution (ARC)	$ 425,167	$ 425,167
Interest on PRBO	17,310	14,254
Adjustments to ARC	(46,927)	(38,642)
Annual PRBO cost	395,550	400,779
Benefit payments	249,540	298,913
Net increase in PRBO	146,010	101,866
Post-Retirement Benefit Obligation - January 1	577,010	475,144
Post-Retirement Benefit Obligation - December 31	$ 723,020	$ 577,010

The District's annual PRBO cost, contributions, the percentage of annual PRBO cost contributed and the net PRBO for 2014 and the two preceding years are as follows:

Fiscal Year Ended December 31,	Annual PRBO Cost	Contribution	Percentage of Annual PRBO Cost Contributed	Net PRBO
2014	$ 395,550	$ 249,540	63%	$ 723,020
2013	$ 400,779	$ 298,913	75%	$ 577,010
2012	$ 403,131	$ 357,303	89%	$ 475,144

Funding Status and Funding Progress

As of December 31, 2012, the unfunded actuarial accrued liability (UAAL) was $3,248,250. The 2014, 2013 and 2012 annual payroll of active employees covered by the plan was $14,030,128, $14,161,039 and $14,062,787, respectively. The ratio of UAAL to covered payroll remains 23%.

Actuarial valuations of an ongoing plan 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 contributions of the employer are subject to continual revision as actual results are compared to 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 and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the actuarial valuation conducted December 31, 2012, the Entry Age Normal (Level Dollar) Method was used. Actuarial assumptions include a discount rate of 3% and the medical trend rate is estimated to increase by 8% in 2014 then decrease by .5% each subsequent year until increasing at 5% per year.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2012	$ -	$ 3,248,250	$ 3,248,250	0%	$ 14,062,787	23%
12/31/2009	$ -	$ 3,870,091	$ 3,870,091	0%	$ 12,846,150	30%

In the actuarial valuation conducted December 31, 2009, the projected unit credit actuarial cost method was used. Actuarial assumptions included a discount rate of 4.5%. The medical trend rate was estimated to gradually decrease from 11% in 2009 to 5% in 2021 and remain level thereafter.

9. RETIREMENT PLANS

Public Employees Retirement System – Plans 1, 2 and 3

Substantially all District full-time and qualifying part-time employees participate in one of three statewide retirement plans administered by the Washington State Department of Retirement Systems (DRS). The 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*.

Plan Descriptions

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 combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals and Superior Courts (other than judges in a judicial retirement system); employees of legislative committees; college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local government. Participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either February 28, 2002 for state and higher education employees or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported to Plan 2 until a choice is made. Employees who fail to choose within 90 days default to Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any eligible consecutive 24-month period. This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased three percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with 5 years of service. The annual pension is two percent per year of service of the average final compensation. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65 or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 2,241 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2014:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	107,073
Active Plan Members Nonvested	43,633
	267,081

Funding Policy

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. 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, 2014 and 2013 were:

2014	Plan 1	Plan 2	Plan 3
Employer *	9.21%	9.21%	9.21%
Employee	6.00%	4.92%	***

2013	Plan 1	Plan 2	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 0.16%.
** Plan 3 defined benefit portion only.
*** 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 required contributions for the years ended December 31, were as follows:

	Plan 1	Plan 2	Plan 3
2014	$ 20,567	$ 1,166,247	$ 70,064
2013	$ 23,872	$ 1,007,121	$ 60,969
2012	$ 23,657	$ 878,294	$ 49,567
2011	$ 44,382	$ 743,904	$ 39,991

Deferred Compensation – 401(k) and 457 Plans

The District offers its employees a 401(k) Deferred Compensation Plan created in accordance with Internal Revenue Code Section 401(k) which permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets of the plan are deposited, as specified by each participating employee, with Fidelity Investments as trustee. The District matches employee contributions to the plan up to 4 percent of eligible employee compensation. During 2014 and 2013, the District made matching contributions of $398,265 and $397,150, respectively.

The District also offers its employees the State of Washington Department of Retirement System's Deferred Compensation Program. This Deferred Compensation Plan is in accordance with Internal Revenue Code Section 457, which permits employees to defer a portion of their salary until future years. Distributions from the plan can be made after separation from service or upon the death of the participant. Participants can elect to receive an in-service distribution once every two years for an amount not to exceed $5,000.

10. COMMITMENTS AND CONTINGENCIES

Bonneville Power Administration (BPA)

During 2008 the District entered into purchase power agreements with BPA for Block and Slice running from October 1, 2011 through September 30, 2028. The Block Product provides a set amount of energy delivered in a flat block over all hours of the month, with the blocks of energy varying from month-to-month to correspond to seasonal variations in the District's loads. The Slice Product represents a specified percentage (or "slice") of the output of the Federal System, so that the District receives increased or decreased energy supply depending on the output of the Federal System. The District is required to pay a corresponding percentage of the costs of the portion of the Federal System allocated to the Slice Product. The amounts payable by the District under the 2011 Power Sales Agreement are subject to adjustment from time to time by BPA to recover the costs of the Federal System.

Swift Plant No. 2 Power Contract

The Swift No. 2 Hydroelectric Production System is located on the Lewis River and consists of a 3.2 mile long power canal with an adjacent power house and transmission switchyard. It operates in conjunction with the Swift No. 1 Project, which is owned by PacifiCorp. Swift No. 1 consists of an earthen dam and power house, which discharges into the Swift No. 2 power canal.

Swift No. 2 is operated under contract by PacifiCorp. The operating agreement provides that the District is entitled to 26% of the combined output of Swift No. 1 and Swift No. 2. The District's share of the output is purchased by the Electric System at the cost of production of the energy, whether or not it is producing energy.

Grant County PUD

The District's original 1956 contract with Grant County PUD for output from Priest Rapids Development expired on October 31, 2005. In addition, the District's original 1959 contract with Grant County PUD for output from Wanapum Development expired on October 31, 2009. For a time, the District received its share of power output from the Priest Rapids (beginning in 2005) and Wanapum (beginning in 2009) Developments pursuant to an "exchange" agreement with Grant County PUD that expired on September 30, 2011. Following the expiration of the "exchange" agreement, the District now acquires its power from Grant County PUD pursuant to the "New Power Sales Contracts", which became effective on November 1, 2005. The New Power Sales Contracts, which apply to both the Priest Rapids Development (as of November 1, 2005) and the Wanapum Development (as of November 1, 2009), consist of three separate contracts with terms that extend until expiration of the new long-term license for the Priest Rapids Project (April 1, 2052).

The New Power Sales Contracts consist of the "Additional Products" Contract, the "Product Sales" Contract and the "Reasonable Portion Product" Contract. Grant County PUD sells 30% of the output of the Priest Rapids Project for sales within the region based on market principles (Public Law 83-544), retains approximately 62% of the Project for its own needs and sells approximately 8% to the Purchasers, such as the District. Given these new demands on the output of the Priest Rapids Project, the power available to the District is about 1 aMW on a firm basis, as compared to approximately 21 aMW historically.

Energy Northwest's Nine Canyon Wind Project

The District entered into a contract with Energy Northwest in December 2003 for the purchase of the output associated with 2 megawatts of the Nine Canyon Wind Project. The District utilizes the power to serve its customers by use of a BPA wind integration product. The "green tags" or "renewable energy credits" associated with the District's share of output are used for District load.

White Creek Wind Project Transmission Service Agreement

In 2006 the District entered into a Transmission Service Agreement with Klickitat PUD (KPUD) for power transmission from the White Creek Project Substation to the Rock Creek Substation where the transmission line and the facilities of BPA are connected. The District is billed and pays for services under this Agreement monthly. In accordance with the Agreement, the District was to provide KPUD an irrevocable standby Letter of Credit and for the contract year commencing August 1, 2010 and for the contract years thereafter, the District petitioned and KPUD has waived the requirement for a Letter of Credit or an alternate Letter of Credit.

Beacon Hill Sewer District (BHSD)

Effective January 1, 2008, the District entered into an Inter-Local Agreement with BHSD, a Washington municipal corporation, pursuant to The Cooperation Act of the Revised Code of Washington Chapter 39.34. Under the Agreement BHSD operated and maintained the Water System under joint oversight by the Boards of Commissioners of both the District and BHSD until full ownership was transferred to BHSD. On December 28, 2010 the District transferred ownership of all of the Water System's assets, including related loans. As part of the transfer, existing loans from the Electric System to the Water System along with a vehicle loan were consolidated at 4.5% for ten years. Future maturities are as follows:

2015	$ 111,544
2016	116,668
2017	122,027
2018	127,633
2019	133,497
2020	139,630
Total	$ 750,999

Under the terms of the Transfer Agreement, the District may be obligated to assist BHSD with obtaining financing for certain capital needs subject to various conditions, restrictions and limitations through December 28, 2020.

Claims and Litigation

The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material impact on its financial position, results of operations or cash flows.

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.

Contact information for the State Auditor's Office	
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