Washington State Auditor's Office

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Financial Statements Audit Report

Public Utility District No. 1 of Skamania County

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

Published July 27, 2015

Report No. 1014761

Washington State Auditor's Office

July 27, 2015

Board of Commissioners
Public Utility District No. 1 of Skamania County
Carson, Washington

Report on Financial Statements

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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

Board of Commissioners
Public Utility District No. 1 of Skamania County
Carson, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Skamania 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 July 23, 2015.

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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 23, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Board of Commissioners
Public Utility District No. 1 of Skamania County
Carson, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Skamania 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Skamania County, as of December 31, 2014, and the 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.

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 13 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 July 23, 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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 23, 2015

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis is designed to provide our readers with an overview of the District's financial activity, identify changes in the District's financial position and to assist our readers in focusing on the significant financial issues.

OVERVIEW OF THE FINANCIAL STATEMENTS

Statement of Net Position: This statement presents information on all the District's Assets and Liabilities. This statement also provides the basis in evaluating the liquidity and financial flexibility of the District.

Statement of Revenues, Expenses and Changes in Net Position: This statement provides a measurement of the District's operation and can also be used to determine whether the District has successfully recovered all its costs through usage rates and other charges.

Statement of Cash Flow: This statement reports cash receipts and cash payments resulting from operating, financing and investing activities.

Notes to Financial Statements: The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements including significant accounting policies, obligations and other financial matters of the District.

This discussion and analysis of the financial performance of the District provides a summary of the financial activities for the year ended December 31, 2014 compared to 2013.

CONDENSED STATEMENT OF NET POSITION

Assets December 31,	2014	2013	Increase (Decrease) 2014-2012	% Change 2014-2013
Currents and Other Assets	$ 10,413,489	$ 10,347,167	$ 66,322	0.6%
Capital Assets, net of depreciation	23,587,141	22,888,228	698,913	3.1%
Total Assets	34,000,629	33,235,395	765,234	2.3%
Liabilities				
Current and Other Liabilities	1,891,991	1,721,380	170,611	9.9%
Noncurrents Liabilities	4,686,593	4,882,993	(196,400)	-4.0%
Total Liabilities	6,578,584	6,604,373	(25,789)	-0.4%
Net Position				
Invested in Capital Assets, net of related debt	19,838,736	18,878,785	959,951	5.1%
Restricted	31,613	69,377	(37,764)	-54.4%
Unrestricted	7,551,696	7,682,860	(131,164)	-1.7%
Total Net Position	27,422,045	26,631,022	791,023	3.0%
Total Liabilites & Net Position	$ 34,000,629	$ 33,235,395	$ 765,234	2.3%

CONDENSED STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

Year ended December 31,	2014	2013	Increase (Decrease) 2014-2013	% Change 2014-2013
Operating Revenue	$ 11,022,449	$ 10,843,691	$ 178,758	1.6%
Operating Expenses	10,940,266	10,140,366	799,900	7.9%
Net Operating Revenue	82,183	703,325	(621,142)	-88.3%
Net Non Operating Revenue and Expense	440,174	402,550	37,624	9.3%
Capital Contributions	268,667	250,614	18,053	7.2%
Change in Net Position	791,024	1,356,489	(565,465)	-41.7%
Total Net Position, January 31	26,631,022	25,274,533	1,356,489	5.4%
Total Net Position, December 31	$ 27,422,045	$ 26,631,022	$ 791,023	3.0%

FINANCIAL ANALYSIS

Capital Assets

The District's gross capital assets is $44,982,456 in 2014 and $43,099,541 in 2013, an increase of $1,882,915. This increase consists mainly of upgrades to the existing infrastructure to increase reliability. The largest portion of the system upgrade for the electric system was in underground distribution lines, poles, towers and fixtures, underground services and line replacements for the water systems.

Long Term Debt

The District's long term liabilities are revenue bonds issued for capital improvements, customer deposits, compensated absenses and other post-employment benefits (OPEB) . Long term debt decreased approximately 4% in 2014. This small decrease was due to the scheduled bond repayment offset by the increase in other post employmement benefits (OPEB).See Note 8, Long Term Debt, for further detail.

Current Liabilities

Current liabilities increased 9.9% due to the inclusion of estimated sick leave plus employers share of taxes and pension benefits. This estimate is higher than the 2013 amount due to the increase in the number of employees who are eligible to retire within one year and would qualify to receive sick leave benefits.

Operating Revenues

During 2014, the District's operating revenue from sales of electric and water increased 1.6%. Energy sales (kWh) increased .8% while water sales (cubic ft.) decreased 2.2% from 2013 to 2014.

Operating Expenses

Operating expenses increased 7.9% in 2014 when compared to 2013. The largest increase was in purchased power, maintenance of overhead lines due to the 2014 winter storm and administrative and general expense due to increase in healthcare cost and liability insurance.

Non-Operating Revenues and Expenses

Non-operating revenues and expenses consist mainly of a tax levy, investment earnings and debt related expenses. The significant source of the District's non operating revenue is the tax levy. The Systems net non operating revenues and expenses increased 9.3% in 2014 when compared to 2013. This increase was due to the increase in income from tax levy and the decrease in debt discount expense.

Capital Contributions

Capital contributions increased 7.2% in 2014 when compared to 2013. This increase was due to additional water connects, while the annual electric contributions remained steady.

Net Position

The largest portion of the District's net position is investment in capital assets. As of December 31, 2014 The District's investment in capital assets net of depreciation and related debt to acquire these assets is 72% of the Distrticts net position.

Restricted portion of the District's net position have been restricted for bond covenants and restricted for other reserve funds. In connection with bond covenants the District is required to transfer funds each month into the debt service account in amounts sufficient to pay for the next annual payment of principal and the semi annual payment of interest. As of December 31, 2014 the District's restricted net position is approximately .1%. The remaining balance of the district's net position is unrestricted. The unrestricted portion of the District's net assets decreased primarily due to more resources invested in capital assets.

Summary of Financial Position

The District's financial position improved slightly in 2014 with an increase of 3% as a result of operation. The District continue to meet its debt service coverage ratio, an indication of stable but modest operation.

OTHER SIGNIFICANT MATTERS

Bond Covenants

In accordance with the District's financial policies and covenants within the District's bond resolutions, the District is required to maintain and collect rates and charges sufficient to provide the net revenue in any fiscal year in an amount equal to at least 1.25 times the annual debt service. For the year ended December 31, 2014 and 2013 the District met this requirement.

The District did not issue new debt in 2014 and 2013 but intends to issue revenue bonds in 2015. The proceeds of this bond will be used to refund the 2005 Bond and to finance capital improvements for both electric and water systems. The expected closing and delivery date of the bond proceeds is September 1, 2015.

Rates

There were no rate increase in either electric or water systems in 2014. However, the Board engaged in a multi-year rate strategy to levelize future rate impacts upon customers. Revenue requirements are forecast to increase primarily due to increased power costs and bond financing of capital improvements.The District expects to refund the 2005 bonds and issue new debt in 2015. Rate increases for the electric and water systems are listed below:

	2015	2016	2017	2018
Electric	2%	2%	3%	3%
Carson Water	7%	7%	5.5%	5.5%
Underwood Water	8.9%	8.9%	5.5%	5.5%

This financial report is designed to provide general overview of the District's finances. Question concerning any of the information provided in this report or request for additional financial information should be addressed to the Auditor/Manager of Finance and Administration, PO Box 500, Carson, WA 98610.

Public Utility District No. 1 of Skamania County
COMBINED STATEMENT OF NET POSITION
December 31, 2014

		2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	8,007,783
Customer Accounts Receivable, Net	$	1,266,382
Other Receivable	$	13,178
Taxes Receivable	$	42,865
Prepayments	$	38,645
Debt Service Fund-Restricted	$	43,963
Customer Deposit-Restricted	$	73,623
Materials & Supplies	$	686,171
Total Current Assets	**$**	**10,172,610**
NON CURRENT ASSETS		
Customer Deposit	$	154,780
Unamortized Debt Discount	$	35,354
Other Non Current Assets	$	50,745
Total Non Current Assets	**$**	**240,879**
CAPITAL ASSETS		
Utility Plant	$	40,651,633
Construction Work in Progress	$	752,618
General Plant	$	3,578,206
Less: Accum Depreciation/Amortization	$	(21,395,316)
Total Capital Assets Net of Depreciation	$	23,587,141
Total Noncurrent Assets	**$**	**23,828,019**
Total Assets	**$**	**34,000,629**

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

Public Utility District No. 1 of Skamania County
COMBINED STATEMENT OF NET POSITION
December 31, 2014

CURRENT LIABILITIES		
Warrant Payable	$	178,406
Accounts Payable	$	807,021
Compensated Absenses	$	310,737
Customer Deposit	$	73,623
Accrued Taxes	$	212,539
Accrued Interest	$	12,350
Other Current Liabilities	$	24,525
Current Portion of Long-Term Debt	$	272,790
Total Current Liabilities	**$**	**1,891,991**
NON CURRENT LIABILITIES		
Accrued Opeb Liabilities	$	740,662
Compensated Absenses	$	280,184
Customer Deposits	$	154,780
CW Loan	$	175,968
2005 Revenue Bonds	$	3,335,000
Total Noncurrent Liabilities	**$**	**4,686,593**
Total Liabilities and Deferred Inflows of Resources	**$**	**6,578,584**
NET POSITION		
Net Investment in Capital Assets	$	19,838,736
Restricted	$	31,613
Unrestricted	$	7,551,696
Total Net Position	**$**	**27,422,045**
Total Liabilities & Net Position	**$**	**34,000,629**

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

Public Utility District No. 1 of Skamania County
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended December 31, 2014

		2014
OPERATING REVENUES		
Electric Sales	$	9,872,846
Water Sales	$	873,709
Other Operating Revenue	$	194,946
Misc. Service Revenue	$	80,948
Total Operating Revenues	**$**	**11,022,449**
OPERATING EXPENSES		
Purchased Power	$	4,713,671
Maintenance & Operations	$	2,021,636
Customer Billing & Collection	$	439,262
Administrative & General Expense	$	1,773,404
Depreciation	$	1,350,365
Taxes	$	641,928
Total Operating Expenses	**$**	**10,940,266**
Operating Income/(Loss)	**$**	**82,183**
NONOPERATING REVENUES (EXPENSES)		
Taxes	$	580,457
Interest Income	$	12,505
Miscellaneous Non-Operating Revenue	$	12,533
Interest and Debt Discount Amortization	$	(165,321)
Total Nonoperating Revenues (Expenses)	**$**	**440,174**
Income (Loss) Before Capital Contributions	**$**	**522,357**
Capital Contributions	$	268,667
CHANGE IN NET POSITION	**$**	**791,024**
Net Position, beginning of year	**$**	**26,631,022**
Net Position, end of year	**$**	**27,422,045**

The accompanying notes are an integral part of the financial statements

Public Utility District No. 1 of Skamania County

COMBINED STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014

	2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 10,938,560
Payments to suppliers for goods & services	$ (6,396,895)
Payments to employees for services	$ (2,346,803)
Taxes paid	$ (641,928)
Other Operating Cash Received	$ 275,894
Net cash provided (used) by operating activities	$ 1,828,829
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Misc. Non Operating Revenue	$ 12,533
Net cash provided (used) from noncaptial financing activities	$ 12,533
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to plant	(2,049,278)
Contributions from Customers	223,896
2005 Construcion Fund Proceed	44,770
Principal paid on long term debt	(264,256)
Interest paid on long term debt	(165,560)
Tax levy proceeds	580,457
Net cash provided (used) for capital financing activties	(1,629,971)
CASH FROM INVESTING ACTIVITIES	
Proceeds from earnings on investments	12,505
Net cash provided from investing activities	12,505
Net increase (decrease) in cash and cash equivalents	**223,896**
Cash and cash equivalents, beginning of year	**8,056,252**
Cash and cash equivalents, end of year	**$ 8,280,148**

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The accompanying notes are an integral part of the financial statements

Reconciliation of operating income to net cash provided from operating activities

Net Operating Income (loss)	$ 82,183
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation/Amortization	1,350,365
Increase (Decrease) in Other liabilities	72,690
Increase (Decrease) in Accounts receivable	229,978
(Decrease) Increase in Other Receivables	(1,299)
(Decrease) Increase in Inventory	(65,585)
Increase (Decrease) in Warrants payable	149,804
(Decrease) Increase in Accounts payable	(145,955)
(Decrease) Increase in Customer deposits	(2,336)
Increase (Decrease) in Taxes payable	10,407
Increase (Derease) in Allowance for vacation	163,342
(Decrease) Increase in Prepayments	(14,765)
Net Cash Provided by Operating Activities	1,828,829

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The accompanying notes are an integral part of the financial statements

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

NOTE 1 – ORGANIZATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The District operates as proprietary fund and applies all applicable GASB Codification of Government Accounting and Financial Reporting. The following is a summary of the most significant policies.

A. Reporting Entity

Skamania County PUD is a municipal corporation established in 1938 by a vote of the people of Skamania County and exists under and by virtue of RCW 54 for the distribution and sale of electric energy and water. The District is governed by an elected three (3) member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Skamania County PUD has no component units. The District is engaged in distribution and sale of electricity serving Skamania County. The District also operates two water systems serving Carson and Underwood.

B. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of RCW 43.09. The District's accounting records are also maintained using the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the Washington Budgeting, Accounting and Reporting System (BARS).

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Revenue derived from sale of electricity and water are recorded as operating revenue. Operating expenses for the District include the cost of selling of electricity and water, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are estimated and recorded at year end.

C. Use of Estimates

The preparation of financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements. The District used significant estimates in recording unbilled utility service revenue, allowance for doubtful accounts and other contingencies at year end.

D. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with maturity of three (3) months or less when purchased to be cash equivalents.

E. Restricted Funds

In accordance with bond resolutions, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements. These funds are classified as current and noncurrent assets as appropriate. The District's restricted funds as of December 31 are as follows:

Restricted Funds	2014
Debt Service Fund	43,963
Customer Deposit	228,403
Total Restricted Funds	272,366

F. Accounts Receivable and Allowance for Uncollectable Accounts

Customer account receivables consist of amounts owed from individuals and organizations for goods and services including amounts owed for which billings have not been prepared. The District has established a reserve for uncollectible accounts based upon historical losses on gross revenues net of related debt write off and recoveries. All account receivable write offs are approved by the commissioners and are turned over to the collection agency. Amounts written off remain on the customer's accounts.

F. Materials and Supplies

Materials and supplies are valued at average cost, which approximates the market value.

G. Utility Plant and Depreciation

See Note 5: Capital assets and Depreciation.

H. Compensated Absences and Termination Benefits

District employees are granted vacation leave in varying amounts. The District records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay is payable upon resignation, retirement or death. The total amounts of vacation accrued including tax and pension benefits as of December 31 was $444,989.

GASB 16, *Accounting for Compensated Absences*, requires state and local government to accrue liabilities for compensated absences as the benefits are earned by employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employee's termination or retirement. The District's full time employees accrue 8 hours sick leave and part time employees accrue sick leave based on full time equivalent (FTE). For employees who retire under the PERS program, the District policy allows 65 percent of the cash value of accrued sick leave balance at the time of employee's retirement to be deposited toward the employee's HRA/VEBA plan. Further, if an employee dies while on active employment, 100 percent cash value of the employee's sick leave is paid into his or her VEBA Plan. The District's sick leave liability is estimated based on the

District’s past experience of making termination payments for sick leave. The total estimated sick leave liability including tax and pension benefits as of December 31, 2014 was $145,933.

I. Purchase Commitments

The District is a preference customer of Bonneville Power Administration (BPA) pursuant to federal legislation, which requires BPA to give preference and priority to public agencies and cooperatives in the distribution and marketing of federal power. The District signed a contract with BPA providing for power sales from BPA to the District beginning October 1, 2011 and terminating September 30, 2028. This Contract, a full requirements contract, provides for all of the District’s power needs. The contract is at a preference rate.

The District is a board member utility of WPPSS (*now known as Energy Northwest*) and is a participant in WPPSS Nuclear Projects 1,2 and 3. The District has entered into "Net Billing Agreements" with WPPSS and Bonneville Power Administration (BPA). Under terms of these agreements, the District has purchased a maximum of 0.231 percent of the capability of WPPSS Nuclear Projects (WNP) No. 1, 0.547 percent of WNP No. 2, and 0.207 percent of WNP 3. The District has, in turn, sold this capability to BPA. Under the "Net Billing Agreements" BPA is unconditionally obligated to pay the District, and the District is unconditionally obligated to pay WPPSS, the pro rata share of the total annual costs of each project, including debt service on revenue bonds issued to finance the projects, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the Projects' output. WNP 1 and 3 have been terminated by action of the Supply System (WPPSS) Board.

Because of its membership in WPPSS the District was involved for several years in various lawsuits. All such litigation involving the District has now been fully and finally resolved. The District is not involved in any other litigation that would affect its financial status.

NOTE 2 – DISCLOSURE OF SEGMENT INFORMATION

The District operates an electric system and two water systems. The District maintains a separate accounting of all revenues, expenses, gains, losses, assets, and liabilities for each system. It relies solely on the revenue generated by each individual activity to pay its expenses and liabilities. Summary of financial information for each system for the years ended December 31, 2014 is presented below.

CONDENSED STATEMENT OF NET POSITION

December 31, 2014	Electric System	Carson Water System	Underwood Water System	TOTAL 2014
Assets				
Currents and Other Assets	$ 9,319,334	$ 798,879	$ 295,276	10,413,489
Capital Assets, net of depreciation	18,022,682	3,419,101	2,145,358	23,587,141
Total Assets	27,342,016	4,217,980	2,440,633	34,000,629
Liabilities				
Current and Other Liabilities	1,712,739	131,822	47,431	1,891,991
Long Term Debt	3,235,625	985,968	465,000	4,686,593
Total Liabilities	4,948,364	1,117,789	512,431	6,578,584
Net Position				
Net Investment in Capital Assets	15,826,108	2,362,996	1,649,632	19,838,736
Restricted	17,011	8,778	5,823	31,613
Unrestricted	6,581,647	708,544	261,504	7,551,696
Total Net Position	22,424,767	3,080,318	1,916,960	27,422,045
Total Liabilites & Net Position	$ 27,373,131	$ 4,198,108	$ 2,429,390	$ 34,000,629

CONDENSED STATEMENT OF REVENUES, EXPENSES & CHANGE IN NET POSITION

For the Year Ended December 31, 2014	Electric System	Carson Water System	Underwood Water System	Total 2014
Operating Revenue	$ 10,144,812	$ 597,950	$ 279,687	$11,022,449
Operating Expenses	10,063,852	576,666	299,747	$10,940,266
Net Operating Revenue	80,960	21,284	(20,060)	$82,183
Net Non Operating Revenue and Expense	462,439	(16,071)	(6,195)	$440,174
Other Income/Grants	-			$0
Capital Contributions/Grants	196,926	44,770	26,970	$268,667
Change in Net Position	740,326	49,983	715	791,024
Total Net Position, January 31	21,684,441	3,030,335	1,916,245	$26,631,021
Total Net Position, December 31	$ 22,424,767	$ 3,080,318	$ 1,916,960	$ 27,422,045

CONDENSED STATEMENT OF CASH FLOWS
Year Ended December 31, 2014

	Electric System	Carson Water System	Underwood Water System	Total 2014
Net Cash provided (used) by:				
Operating Activities	$ 1,578,328	$ 174,767	$ 75,734	$ 1,828,829
Noncapital financing activities	12,533			12,533
Capital and related financing activities	(1,165,132)	(285,269)	(179,570)	(1,629,971)
Investing activities	10,708	1,048	749	12,505
Net Increase (Decrease) in cash and cash equivalents	436,437	(109,454)	(103,087)	223,896
Beginning Cash and Cash Equivalents	6,958,015	724,252	373,985	8,056,252
Ending Cash and Cash Equivalents	$ 7,394,451	$ 614,798	$ 270,898	$ 8,280,148

Interfund Activity
Year ended December 31,

	2014
Carson Water Payable to Electric	21,320
Underwood Water Payable to Electric	9,795
Underwood Water Payable to Carson Water	1,448

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance related legal or contractual provisions.

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NOTE 4 – DEPOSITS AND INVESTMENTS

All of the District's receipts and cash holdings are on deposit with the county treasurer. The county treasurer process or maintain all of the District's deposits, disbursements and investments. Funds not required for immediate expenditures are invested. The District's cash holdings are deposited solely in interest bearing checking accounts entirely covered by federal depositary insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District has not experienced any losses from any investments and believes its cash value is not exposed to any significant investment risk. The District has no investments in derivative instruments. The District's total deposits and investments as of December 31, 2014 are shown below.

DEPOSITS AND INVESTMENTS

	2014
Restricted Funds	272,365
General Funds	1,476,259
Revolving Fund	5,000
Special Funds	6,525,723
Total Deposits/Investments	8,279,347

NOTE 5 – CAPITAL ASSETS PLANT AND DEPRECIATION

Capital assets are defined by the District as assets with initial individual cost of more than $1,000 and an estimated useful life of more than 3 years.

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

Utility plant in service and other capital assets are recorded at cost where historical cost is known. Where historical cost is not known, assets are recorded at estimated cost. Donations by developers and customers are recorded at appraised value. Funds received from customer for construction are recorded as capital contributions.

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

Initial depreciation of capital assets are recorded in the year subsequent to purchase. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant. Charges that relate to abandoned project are expensed.

Capital assets are depreciated on the straight line and group life depreciation method over estimated lives as follows:

Buildings and Improvements	5-40 Years
Electric Plant-Distribution	10-33 Years
General Plant-Equipment	3-20 Years
General Plant-Transportation	5-10 Years
Water-Transmission and Distribution	6-40 Years

The following are changes in the District's capital assets for the year ended December 31, 2014.

Asset Description	Beg Balance 1/1/2014	Increase	Decrease	Ending Balance 12/31/2014
Capital Assets not being depreciated:				
Construction Work in Progress	1,175,294	-	$ 422,676	$ 752,617
Franchise and Consents	4,507			4,507
Organizations	1,035			1,035
Land and Land Rights	80,213			80,213
Total	1,261,049	-	422,676	838,372
Capital Assets being depreciated:				
Utility Plant-Electric	30,610,644	1,727,194	183,188	32,154,651
Utility Plant-Water	7,982,725	476,115	5,185	8,453,656
General Plant	3,245,123	318,131	27,476	3,535,777
Total	41,838,492	2,521,440	215,848	44,144,084
				-
Total Capital Assets	43,099,541	2,521,440	638,525	44,982,456
Accum. Depreciation/Amortization	(20,211,313)	(1,402,221)	218,219	(21,395,315)
Net Capital Assets	$ 22,888,228	$ 1,119,219	$ 856,744	$ 23,587,141

NOTE 6 – CONSTRUCTION WORK IN PROGRESS

The District's construction work in progress represents capital costs to date on projects authorized for construction but not completed at year end.

NOTE 7 – SHORT TERM DEBT

The District has no short term debt for the year ending December 31, 2014.

NOTE 8 – LONG TERM DEBT

In December 2005 the District's Electric System, Carson Water System and Underwood Water System issued Revenue and Refunding Bonds in the amount of $3,405,000, $ 1,340,000 and $775,000 respectively.

The District has covenanted in the Bond Resolution that it will establish, maintain and collect rates and charges sufficient to pay the costs of maintenance and operation, pay principal and interest of all bonds, and to pay taxes and other assessments imposed on the system in an amount equal to at least 1.25 times the annual debt service.

The District resolution also provides that payments will be made into the Bond Fund in an amount sufficient to meet the next maturing installments of principal and interest. The District is in compliance with all bond requirements and no arbitrage liability was incurred.

In February 2005, Carson Water received $200,000 in loan from the Washington Investment Board to help fund needed capital improvements. The annual interest is 2% payable in 20 years.

In 2006, the District secured a $50,000 loan from the Washington State Community Economic Revitalization Board (CERB) for Carson Water System. The annual interest is 1% payable in 20 years, with initial monthly payment to begin in January 2015, five years from the receipt of loan funds. The following table is a summary of the District's long term debt as of December 31, 2014.

	Year Issued	Amount Originally Issued	Balance as of 1/1/2014	Additions/ (Reductions)	Balance as of 12/31/2014	Due Within One Year
Elec Rev. Bond	2005	$ 3,405,000	$ 2,380,000	$ (160,000)	$ 2,220,000	$ 160,000
CW Rev. Bond	2005	1,340,000	935,000	(60,000)	875,000	65,000
UW Rev. Bond	2005	775,000	535,000	(35,000)	500,000	35,000
CW WIB Loan	2005	200,000	148,014	(9,256)	138,758	9,445
CW CERB Loan	2006	50,000	50,000	-	50,000	3,345
Bonds/Loans		$ 5,770,000	$ 4,048,014	$ (264,256)	$ 3,783,758	$ 272,790
Compensated Absenses*			$ 427,579	$ 163,342	$ 590,921	$ 310,737
Customer Deposit			$ 230,738	$ (2,335)	$ 228,403	$ 73,623
OPEB			$ 667,972	$ 72,690	$ 740,662	
Other Long Term Liabilities			$ 1,326,289	$ 233,697	$ 1,559,986	$ 384,360
Total Long Term Liabilities			$ 5,374,303	$ (30,559)	$ 5,343,744	$ 657,150

*Compensated absenses include $145,932 estimated sick leave liability plus taxes and pension

The annual requirements to amortize all debts outstanding as of December 31, 2014 including interests are as follows:

2005 Revenue Bond-Electric

Year	Principal	Interest	Total
2015	160,000	91,515	251,515
2016	170,000	84,315	254,315
2017	175,000	77,685	252,685
2018	185,000	70,773	255,773
2019	195,000	63,373	258,373
2020-2024	1,090,000	191,923	1,281,923
2025	245,000	10,413	255,413
Total	$ 2,220,000	$ 589,995	$ 2,809,995

2005 Revenue Bond and Loans-Carson Water

	2005 Bond		WIB Loan		CERB Loan		Total Annual
Year	Principal	Interest	Principal	Interest	Principal	Interest	Debt Service
2015	65,000	36,080	9,445	2,696	3,345	500	$117,066
2016	65,000	33,155	9,636	2,505	3,379	467	$114,141
2017	70,000	30,620	9,830	2,311	3,412	433	$116,606
2018	75,000	27,855	10,029	2,113	3,446	399	$118,841
2019	75,000	24,855	10,231	1,910	3,481	364	$115,841
2020-2024	430,000	75,640	54,338	6,368	17,934	1,292	$585,572
2025-2028	95,000	4,038	35,249	1,001	15,003	377	$150,668
Total	$875,000	$232,243	$138,758	$18,905	$50,000	$3,831	$1,318,736

2005 Revenue Bond-Underwood Water

Year	Principal	Interest	Total
2015	35,000	20,605	55,605
2016	40,000	19,030	59,030
2017	40,000	17,470	57,470
2018	40,000	15,890	55,890
2019	45,000	14,290	59,290
2020-2024	245,000	43,375	288,375
2025	55,000	2,338	57,338
Total	$500,000	$132,998	$632,998

NOTE 9 – PENSION PLANS

Substantially all district full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

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

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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

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

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

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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

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

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

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

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

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

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

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

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

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

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

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013 :

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Non vested	101,191
Total	**368,272**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

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

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** Plan 3 defined benefit portion only.

***Minimum rate.

Both district and the employees made the required contributions. The (city/county/district's) required contributions for the years ended December 31 were as follows :

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2014	n/a	$ 215,328	n/a
2013	n/a	$ 186,509	n/a
2012	n/a	$ 162,247	n/a

Deferred Compensation Plans

The District offers its employees deferred compensation plans created under IRS Code Section 457 permitting employees to defer a portion of their salary until future years. The plan is operated for the exclusive benefit of participants and their beneficiaries. Participants direct the investments of their money into one or more options and may change their selection from time to time. By enrolling in the plan, participants accept and assume all risks inherent in the plan and its administration. The District has no liability for investment losses under the plan. The plan is not reported in the District's financial statements.

NOTE 10 – UNAMORTIZED DEBT EXPENSE

In accordance with generally accepted accounting principles for regulated business, the district has an unamortized debt discounts and expenses relating to the issuance of revenue bonds. These costs are being amortized using the straight line method over the lives of various bond issues. As of December 31, 2014 the unamortized debt expense was $35,354.

NOTE 11 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property values listed as of May 31st of the prior year. The county assessor establishes assessed values at 100 percent of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the county treasurer.

The District is permitted by law to levy up to $0.45 per $1,000 of assessed valuation for general District purposes.

The District may voluntarily levy taxes below the legal limit. Special levies approved by the voters are not subject to the above limitations.

Property taxes are recorded as receivables when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

The District's property tax levies are listed below.

Property Tax Levy

Year	Assessed Value	Levy Rate Per Thousand	Total Levy Amount
2014	1,385,989,129	0.363585	503,925
2013	1,346,748,598	0.357232	481,101
2012	1,339,574,379	0.347930	466,078

NOTE 12 – LEASE COMMITMENTS

The District entered into a lease agreement with various telephone companies for the joint use of the District's Distribution Poles. Telephone Companies pay rent for the pole on which they have attached wires or cables. Amounts received from these lease agreement were reported as operating rental income. Operating Rental Income for the year ending December 31, 2014 was $69,417.

NOTE 13 – RISK MANAGEMENT

Liability Risk Pool

The Skamania County PUD is a member of the Washington Public Utility Districts' Utilities System Joint Self Insurance Fund (WPUDUS). RCW 48.62 authorizes the governing body of any one or more governmental entities to form or join a pool or organization for the joint purchasing of insurance, and/or joint self insurance, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made according to the provisions of RCW 54.16. The Pool was formed on December 31, 1976 when certain PUDs in the State of Washington joined together by signing an Agreement to pool their self-insured losses and jointly purchase insurance and administrative services.

Public Utility Risk Management Services (PURMS) provides liability coverage for its members participating in the Liability Risk Pool and their employees under the PURMS Joint Self-Insurance Agreement. The Liability Pool has a self-insured retention (Liability Coverage Limit) of $1,000,000 per occurrence and excess liability insurance in the amount of $35 million. This pool is financed through assessments of its members. These assessments occur at the beginning of each calendar year and at any time the Liability Pool Balance becomes $500,000 less than the Designated Liability Pool Balance.

Property Risk Pool

PURMS provides property insurance coverage for its Members participating in the Property Risk Pool. The Property Pool has a self-insured retention (Property Coverage Limit) of $250,000 per Property Loss. PURMS also maintains Excess Property Insurance for its members in the Property Pool of $200 million over the $250,000 retention level. This pool is financed through assessments of its members.

Health and Welfare Risk Pool

PURMS provides health and welfare insurance coverage for the employees of its members participating in the Health and Welfare Risk Pool.

The H&W Pools operations are financed through assessments of its members under the H&W General Assessment Formula. Each month, each member of the H&W Pool is assessed for the cost the H&W Pool incurred during the preceding month for the H&W Claims for such member's employees and for such member's share of Shared H&W Costs, including administrative expenses, premiums for Stop-Loss insurance, PPO charges and Shared H&W Claims.

The exposure of each H&W Pool Member to the H&W Claims Costs of its employees is limited by Stop-Loss Points. The first two Stop-Loss Points are established annually by the Excess Stop-Loss Insurance that the H&&W Pool acquires and maintains for its members. These Stop-Loss Points represent the dollar amounts at which the Stop-Loss Insurance attaches and begins paying either the H&W Claim Costs for an individual Employee's total medical claims for the year (H&W Pool Individual Stop Loss Point) or the H&W Claims Costs of all employees of all members for the year (H&W Pool Aggregate Stop Loss Point). For 2014, the H&W Pool Individual Stop-Loss Point was $250,000 per employee and the H&W Pool Aggregate Stop Loss Point was $16,054,348 for the combined H&W

Claims Costs of all employees of all members of the H&W Pool.

Additionally, each H&W Pool Member's exposure to the H&W Claims Costs for its employees is further limited by another Stop-Loss point determined by the H&W Pool for its Members. Medical expenses that exceed the Member Stop-Loss Points become Shared H&W Claims and are assessed as Share H&W Costs which are paid by all H&W Pool Members. The Member Stop-Loss Points are calculated annually under the H&W Assessment Formula.

NOTE 14 – CONTINGENT LIABILITIES AND LITIGATION

A requestor of public records filed a suit on August 7, 2013, against the District. The District believes the claims are defensible and will continue to oppose them. The outcome of this lawsuit may have a material adverse impact on its financial position, however the potential exposure is not estimable at the time of this report.

The District has recorded in its financial statements all material liabilities. There are no violations or possible violations that should be considered for disclosure in the financial statements as a loss contingency.

NOTE 15 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, This statement requires state and local governments to account and report their costs of Other Post Employment Employee Benefits. These benefits includes medical, dental, vision, hearing, life insurance, and other non pension post employment benefits.

Skamania PUD makes available health, vision, dental and life insurance for all employees who retire under the PERS program. The District used the Alternative Measurement Method (AMM) as allowed by GASB 45 and used Milliman's online OPEB tool to determine its Unfunded Actuarial Liability and Annual Required Contributions. The ARC consists of the following: 1) Normal Cost: Cost for OPEB benefits attributable to the current year of service and Amortization payment: a catch up payment for past service costs to amortize the Unfunded Actuarial Accrued Liability over 30 years. The estimate is based on the following assumptions: discount rate of .25%, 2.3% projected salary increases, 30 years amortization period, average retirement age 58, and the medical inflation rate of 9% in year 1, and decreasing to 4.7% in year 10 and thereafter. As of December 31, 2014 the District's net OPEB obligation is $740,662.

The District Administers a single employer defined benefit healthcare plan with funding policy based on pay as you go basis. As of December 31, 2014, the plan was 0% funded.

Calculation of Net OPEB Obligation- 2014

Description	Calculated Amount
Annual Required Contribution	$ 115,622
Interest on Net OPEB Obligation	$ 1,670
Adjustment to Annual Required Contribution	$ (21,399)
Annual OPEB Cost	$ 95,893
Age Adjusted Contributions Made	$ (23,202)
Change in Net OPEB Obligation	$ 72,690
Net OPEB, Beginning of Year	$ 667,972
Net OPEB Obligation, end of Year	$ 740,662

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Acturial Accrued Liability	Unfunded AAL	Unfunded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/2014	0	$ 982,145	$ 982,145	0%	$ 2,346,803	41.85%

History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	95,893	23,202	24.2%	740,662
12/31/2013	111,273	20,396	18.3%	667,972
12/31/2012	106,877	41,962	39.3%	577,096

NOTE 16 – CONSERVATION

The District has agreements with the Bonneville Power Administration (BPA) to participate in energy conservation programs. They are the Conservation Rate Credit (CRC), which was part of a power sales contract revision, and the Energy Conservation Agreement (ECA). BPA terminated the CRC and ECA programs September 2011 and began a new program called the Energy Efficiency Incentive (EEI) October 2011.

The District has determined that Efficiency Services Group, LLC (ESG, LLC) can most efficiently and costs effectively provide services for implementation of conservation measures in accordance with BPA requirements. Therefore, the District has entered into a contract with ESG, LLC to provide energy efficiency services, which comply with the BPA Conservation Program requirements.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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