

Annual Report

PUD #1 of Ferry County

MCAG No. 1778

Submitted pursuant to RCW 43.09.230

To the

Office of the State Auditor

For the fiscal year ended December 31, 2014

Certified correct this 20th day of November, 2015 to the best of my knowledge:

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MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

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

The District is a municipal corporation of the State of Washington and was established in 1936 and began operations in 1945. At that time the system served 300 customers. In 2014 the system served an average of 3,437 customers. The District is an electricity-only utility with distribution and limited 34.5 Kv transmission system. The District purchases all of its electricity from the Bonneville Power Administration (BPA) as a full-requirements customer. A three-member Board of Commissioners locally elected to six-year terms governs the District.

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One new Management position, Deputy Treasurer, was added in May of 2014 due to the expected retirement of our current Treasurer within the next few years, as well as providing a suitable back-up person to the Treasurer.

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Labor negotiations for the April 2014-March 2017 contract period were completed this year. The Union agreed to a 3% general wage increase in April 2014, with the 2015 and 2016 contract anniversaries seeing an increase that would follow inflation in the form of US Dept. of Labor CPI-W, with a minimum increase of 2% and a maximum increase of 3.5%.

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The District implemented a 6% increase in retail and demand rates, effective January 1, 2013 (resolution #13-08). This retail rate has remained in effect throughout 2014.

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An unanticipated expense related to our BPA contract was the levying of 'excess demand' charges by BPA when the District's electrical demand exceeded projections. In the worst case, this resulted in a \$43,000.00 charge for February 2014. The District continues to explore methods of mitigating the high demand that results in these charges.

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The District's recovery from a July 20, 2012 windstorm has continued into 2014, with most of the permanent repairs completed. The submission of costs to FEMA for

reimbursement of these costs and the costs of debris removal are ongoing.



The ten year, zero percent interest, loan of \$354,600 received from the State of Washington Department of Commerce Community Economic Revitalization Board (CERB) during 2008 in support of a construction project for an industrial customer in the District's service area is still outstanding. The District's continued its annual repayment installment in January of 2014.



The District's Revolving Loan and Grant Fund was active during 2014. In February the Board was given a progress report by Bill Scott, Mr. Scott having received a loan previously to support his micro-hydroelectric generator manufacturing business. February also saw the disbursement of a loan to the Friends of the Republic TV association which had been approved in 2013.

In September the Board approved a \$45,000.00 loan to Tim Schooley/Tim's Tire Pros for the purpose of inventory purchase and the retirement of a high interest line of credit. The term of the loan is 5 years at 5%.



In July the District provided mutual aid crews to Okanogan PUD to help in their recovery from the devastating Carlton Complex fires. The cost of the 13 days of overtime for our crews and equipment was covered by Okanogan PUD in accordance with an existing mutual aid agreement.



Since 2008, on the third Sunday of July, the District has worked with BPA in a system-wide maintenance outage to enable maintenance on the 47 mile radial feeder that provides BPA power to the District. This year the outage was cancelled by the County Sheriff out of concern for fires in the neighboring County. Though the financial effect on the District was insignificant, there was a related outage in early December due to the failure of a switch in the BPA substation that was to have been replaced during the cancelled outage.



The District declared surplus several transformers (Resolution 14-03), requesting bids from salvagers and rebuilders. The sale of these items netted \$14,000.00.



During 2014 the District cooperated with several Ferry and Okanogan County public

agencies in exploring the feasibility of building a ‘trunked’ radio system to better utilize existing equipment and improve communications during emergencies and outages. This study estimated that participation in this project would cost the District approximately 1.7 million dollars initially, with an annual cost of \$27,000.00 in 2014 dollars. The District declined to participate further.

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The District also awarded contracts for 2014 for tree-trimming/brush clearing and IT services.

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During 2014, the District continued to have only minor construction projects for small commercial and residential customers in its service area.

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The general economy of Ferry County continues to rely heavily upon its major industry, mining. This industry relies on the sometimes volatile international markets for commodities, as well as being subject to finite local resources. In 2012 Kinross Gold Corporation, our local producer announced that the local mining operations would come to an end sometime mid-year 2015. This mine-life estimate has since been extended through the third quarter of 2015.

In reviewing the financial effects of the 2012 storm, the Board of Commissioners determined that the \$980,000.00 Storm & Vacation fund was insufficient for its purpose and agreed to increase the amount in the fund to \$1,700,000.00 at the regular June Board meeting.

The District’s overall financial position has definitely recovered from the extraordinary costs of the 2012 storm. During 2014, the District increased its Total Assets and Net Position by approximately \$475 thousand since Total Liabilities saw no significant change. Operating Revenues brought in 10% more funds than were anticipated while Contributions also exceeded expectations; operating Expenses realized were within 3% of projected expenditures resulting in this change in Net Position. The Board continued to pay strict attention to budget goals and monitor reserves due to the upcoming loss of our major industrial load that was mentioned above. Because of the efforts of Commissioners and staff, the District’s financial position continued to improve.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The *Statement of Net Position* presents information on the District's assets, liabilities and equity at year end. It also provides information about the nature and amounts of investment in resources (assets) and the District's obligations to its creditors (liabilities).
- The *Statement of Revenue, Expenses and Changes in Net Position* accounts for the years revenue and expense transactions. This statement measures the District's operations over the past year and may be used to determine if the District has been successful in recovering its costs through rates and other charges.
- The *Statement of Cash Flows* provides information on the District's cash receipts and disbursements during the year. This statement reports changes in cash resulting from operations, investing and financing activities.
- The *Notes to the Financial Statements* provide additional information that is an integral part of the financial statements. This information includes the disclosure of significant accounting policies, financial activities, risks, commitments, obligations and subsequent events.

SELECTED FINANCIAL INFORMATION

	2014	2013
Total Capital Assets	12,782,945	12,904,815
Total Current Assets	6,292,282	5,692,397
Total Assets	19,075,227	18,597,212
Total Long-term Liabilities	306,760	317,888
Total Current Liabilities	771,365	757,883
Total Liabilities	1,078,125	1,075,771
Net Investment in Capital Assets	12,605,694	12,692,106
Restricted Assets	2,078,414	1,379,759
Unrestricted Assets	3,312,994	3,449,576
Total Net Position	17,997,102	17,521,441
Cash & Cash Equivalents	2,274,378	2,252,156
Total Energy Sales	7,595,049	7,245,825
Other Electric Revenue	97,089	50,921
Total Operating Revenues	7,692,138	7,296,746
Cost of Purchased Power	3,669,608	3,405,013
O&M Expenses	1,181,213	1,132,216
Customer Service Expenses	499,208	444,045
G&A, Taxes and Other Expenses	1,316,023	1,360,691
Depreciation and Amortization	764,548	722,913
Total Operating Expenses	7,430,600	7,064,878
Non-Operating Revenues	47,989	43,511
Income before Contributions, Special & Extraordinary Items and Transfers	309,527	275,379
Contributions	168,050	222,735
Special & Extraordinary Items	(1,916)	1,831,870
Transfers	-	-
Change in Net Position	475,661	2,329,984
Year End Net Position	17,997,102	17,521,441

See Note 3 Utility Plant and Depreciation for capital assets.

SIGNIFICANT LONG-TERM DEBT

As of December 31, 2014, the District no longer had any significant long-term debt outstanding. See Note 5.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

PUD No. 1 of Ferry County

Statement of Net Position

For the period ending December 31, 2014

		<u>2014</u>
<u>Assets</u>		
	Cash and Cash Equivalents	2,274,378
	Deposits with Fiscal Agents/Trustees	-
	Receivables (Net)	
	Notes Receivable	727,027
	Accounts Receivable	806,552
	Inventories	383,557
	Prepayments	19,955
	Other Current Assets	2,399
	Restricted Assets	
	Storm Fund	1,700,000
	Note Fund P&I	132,941
	Bond Reserve	600
	Customer Deposits	135,200
	High Cost Line Extension Grant Fund	82,293
	Restrict Fund - Trnsprt & Oper Equipment	-
	Revolving Loan and Grant Fund	27,380
	Total Current Assets	6,292,282
	Assets Being Depreciated	
	Plant	22,838,103
	Buildings	817,925
	Machinery and Equipment	2,626,988
	Assets Not Being Depreciated	
	Land	200,484
	Investment in Economic Development Projects	-
	Construction Work in Progress	112,920
	Retirement Work in Progress	3,106
	Less Accumulated Depreciation	
	Less Accumulated Depreciation	(13,816,582)
	Capital Assets (Net)	12,782,945
	Total Non Current Assets	12,782,945
	Total Assets	19,075,227

<u>Liabilities</u>		
	Accounts Payable	514,420
	Customer Deposits	135,200
	Accrued Taxes	21,431
	Accrued Payroll	64,854
	Current Portion of Long Term Debt	35,460
	Other Current Liabilities	-
	Payables from Restricted Assets	
	Debt Interest	-
	Total Current Liabilities	771,365
	CERB Loan	141,790
	Compensated Absences	164,970
	Total Non Current Liabilities	306,760
	Total Liabilities	1,078,125
<u>Net Position</u>		
	Net Investment in Capital Assets	12,605,694
	Restricted Assets	2,078,414
	Unrestricted Assets	3,312,994
	Total Net Position	17,997,102
	Total Net Position and Liabilities	19,075,227

Notes to Financial Statements are an integral part of this statement

PUD No. 1 of Ferry County
Statement of Revenue, Expenses, and Changes in Net Position
For the period ending December 31, 2014

	<u>2014</u>
Total Energy Sales	7,595,049
Income from Plant Leased to Others	55,481
Other Revenue	41,608
Total Operating Revenue	<u>7,692,138</u>
Cost of Purchased Power	3,669,608
Operating Expense	458,489
Maintenance Expense	722,724
Customer Services	499,208
General & Administrative Services	877,827
Depreciation & Amortization Expense	766,768
Interest on Short-term Debt	-
Taxes Other than Income Taxes	435,976
Total Operating Expenses	<u>7,430,600</u>
Operating Income (Loss)	261,538
Income from Non-Utility Operations	11,840
Interest and Dividend Income	22,096
Gains/Losses from Disposition of Property	14,053
Extraordinary Income	-
Interest on Long-term Debt	-
Non Operating Revenues (Expenses)	<u>47,989</u>
Income before Contributions, Transfers	
Extraordinary and Special Items	<u>309,527</u>
Contributions, transfers, extraordinary and special items	166,134
Change in Net Position	<u><u>475,661</u></u>

Total Net Position Beginning of Year	17,521,441
Total Net Position End of Year	17,997,102
Change in Net Position	475,661

Notes to Financial Statements are an integral part of this statement

PUD No. 1 of Ferry County

Statement of Cash Flows

For the period ending December 31, 2014

		<u>2014</u>
Cash Flows from Operating Activities		
	Receipts from Customers	7,590,111
	Payments to Employees & Suppliers	(6,493,049)
	Cash Flows from Operating Activities	1,097,062
Cash Flows from Non Capital Financing Activities		
	Extraordinary Income	-
	Cash Flows from Non Capital Financing Activities	-
Cash Flows from Capital & Related Financing Activities		
	Proceeds from Grants	
	Capital Contributions	168,050
	Purchase of Capital Assets	(643,403)
	Principal Paid on Capital Debt	(35,460)
	Proceeds/Loss from Disposition of Property	14,053
	Cash Flows from Capital & Related Financing Activities	(496,760)
Cash Flows from Investing Activities		
	Interest and Dividends	111,975
	Cash Out to Restricted Investment Funds	(690,055)
	Cash Flows from Investing Activities	(578,080)
	Net Increase (Decrease) in Cash & Cash Equivalents	<u>22,222</u>
	Cash & Cash Equivalents Beginning of Year	2,252,156
	Cash & Cash Equivalents End of Year	<u>2,274,378</u>
	Net Increase (Decrease) to Cash & Cash Equivalents	22,222

Notes to Financial Statements are an integral part of this statement

PUD No. 1 of Ferry County

Statement of Cash Flows

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

For the period ending December 31, 2014

	<u>2014</u>
Operating Income	261,538
Adjustments to Reconcile Net Operating Revenues to Cash Provided (Used) by Operating Activities:	
Depreciation & Amortization Expense	766,768
Change in Operating Assets and Liabilities:	
Accounts Payable	(1,929)
Accounts Receivable	(98,628)
Customer Deposits	8,600
Materials & Supplies	141,608
Compensated Absences	24,332
Accrued Payroll & Accrued Taxes	6,811
Other Current Assets	-
Other Current Liabilities	-
Notes Receivable	(11,999)
Prepayments	132
Miscellaneous	(171)
Change in Assets and Liabilities	<hr/> 68,756
Net Cash Provided by Operating Activities	1,097,062

Notes to Financial Statements are an integral part of this statement

FERRY COUNTY P.U.D. NO. 1
NOTES TO THE FINANCIAL STATEMENTS

January 1, 2014 through December 31, 2014

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity.

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

B. Basis of Accounting and Presentation

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

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

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

With respect to proprietary activities, the District has elected to apply all applicable GASB pronouncements. In December 2010, GASB issued Statement N. 62,

Codification of Accounting and Financial Reporting Guidance Contained in Pre-Nov 30, 1989 FASB and AICPA Pronouncements. This statement incorporated into GASB's authoritative literature FASB and AICPA pronouncements issued on or before November 30, 1989 that do not conflict with GASB pronouncements and classified post-November 30, 1989 non-GASB standards as "other accounting literature." GASB Statement No. 62 is effective for financial statements for periods beginning after December 15, 2011. The District's financial statements have not been impact by this issuance.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. GASB Concepts Statement No. 4 introduced and defined those elements as a consumption of net assets that is applicable to a future reporting period, and an acquisition of net assets that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The District has no deferred inflows or outflows to report for the year ended December 31, 2014.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement is effective for fiscal periods beginning after June 15, 2014. It requires governments providing defined benefit pensions to their employees to recognize the net pension liability for pension benefits on their statements of net position. Net position liability is measured as total pension liability, less the amount of a plan's fiduciary net position. Currently, the District participates in a multiple-employer plan, known as Washington State Public Employees Retirement System (PERS), and has not estimated a net pension liability, but is expecting the Washington State Actuary to provide net pension liability information for future reporting.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68. The purpose of this statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and financial Reporting for Pensions*. The statement relates to amounts associated with contributions, if any, made by a state or local government employer, or non-employer contributing entity, to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

C. Cash and Cash Equivalents

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

D. Utility Plant and Depreciation-See Note 3

E. Restricted Funds

In accordance with Board resolutions and certain other agreements, separate restricted funds are required to be established. The assets held in these funds are designated for specific uses. There is one bond reserve kept for the annual debt service payment for the District's BIA land lease. Customer deposits are required by law to be available for refund. The Vacation, Sick Leave, and Storm Fund was established by Board resolution as a way of "self-insuring" against leave liabilities and major catastrophes. Use of this Fund requires specific Board approval. This fund was utilized to cover the initial costs of Storm Recover Efforts in Mid-2012. The Board used funding from a short-term line of credit to restore the funds to full level by fall 2012. Feeling that this fund may not be sufficient for future potential damages from storms, the Board increased it to \$1,700,000 during 2014. Revolving Loan and Grant Fund was established for economic development and is overseen by a board that consists of the elected Commissioners of the District and three other persons who are customers of the District. The Revolving Loan and Grant Fund can only be used for loans or grants for economic development projects. It remained in place during 2014 with two new loans granted. The High-Cost Line Extension Fund was designated for low interest loans to customers for high-cost line extensions in 2013, there were no new loans granted in 2014 totaling \$75,000. The Reserve Fund – Transportation and Operating Equipment is for the sole purpose of future replacement needs in these areas. The funding comes from the sale of any and all surplus equipment. The restricted funds as of December 31, 2014 are listed below.

	<u>2014</u>
Storm Fund	1,700,000
Bond Reserves	600
Customer Deposits	135,200
High-Cost Line Extension Fund	82,293
Note Fund P & I	132,941
Restricted Fund – Transportation & Oper Equipment	-
Revolving Loan and Grant Fund	<u>27,380</u>
Total Restricted Funds	<u>2,078,414</u>

F. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services. Once a year, the Board of Commissioners authorizes the write-off of the uncollectible receivable accounts against the allowance account. In addition, the District maintains an allowance for uncollected accounts in the amount of \$30,000. As of December 31, 2014 the balance was \$30,000.

G. Inventories

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

H. Investments

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

I. Compensated Absences

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

Compensated absences at the end of December 31, 2014 amount to \$164,970.

J. Unamortized Debt Expense

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

K. Construction Financing

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

L. Purchase Commitments

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

NOTE 2 - DEPOSITS AND INVESTMENTS

a. Deposits

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

b. Investments

The District strictly adheres to the State of Washington RCWs pertaining to Eligible Investments for Public Funds. These include RCW 39.59.020, RCW 39.59.030, RCW 43.84.080 and RCW 43.250.040. Thus the District finds no need for a custodial risk policy and so to date has not implemented one. As of December 31, 2014, the District had the following cash and investments, including restricted funds:

Investments	<u>2014</u>
State Investment Pool	2,672,580
Federal Farm Cr Bureau	299,587
Federal Natl Mortgage Assn	398,988
Federal Home Loan Corp	291,778
Federal Home Loan Bank	264,596
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	3,927,529
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Other property and investments are shown on the balance sheet at cost. Management intends to hold remaining time deposits and securities until maturity; this is however at the discretion on the Board of Commissioners.

NOTE 3 - UTILITY PLANT AND DEPRECIATION

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

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

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

The original cost of operating property retired or otherwise disposed of and the cost of removal, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility

plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

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

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

PUD No. 1 of Ferry County
Utility Plant Activity
For the period ended December 31, 2014

	Beginning			Ending
	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
Utility Plant Not Being Depreciated				
Land	200,484	-	-	200,484
Construction Work in Progress	364,883	578,674	830,638	112,919
Retirement Work in Progress	64,847	160,276	222,017	3,106
Bio Mass Study & RUS Plan Doc	-	-	-	-
Total Utility Plant Not Being Depreciated	<u>630,214</u>	<u>738,950</u>	<u>1,052,655</u>	<u>316,509</u>
Utility Plant Being Depreciated				
Buildings	802,936	15,974	985	817,925
Equipment	2,587,697	43,565	4,274	2,626,988
Distribution Plant	20,567,155	913,061	212,421	21,267,795
All Other Utility Plant	123,131	9,292	-	132,423
Transmission Plant	1,444,669	1,353	8,139	1,437,883
Total Utility Plant Being Depreciated	<u>25,525,588</u>	<u>983,245</u>	<u>225,819</u>	<u>26,283,014</u>
Total Utility Plant	<u>26,155,802</u>	<u>1,722,195</u>	<u>1,278,474</u>	<u>26,599,523</u>
Less Accumulated Depreciation For:				
Transmission Plant	(749,570)	-	44,219	(793,789)
Distribution Plant	(9,844,952)	289,384	673,225	(10,228,793)
General Plant	(1,546,140)	4,689	47,704	(1,589,155)
Equipment	(1,082,403)	-	93,045	(1,175,448)
All other Plant	(27,177)	-	2,220	(29,397)
Total Accumulated Depreciation	<u>(13,250,242)</u>	<u>294,073</u>	<u>860,413</u>	<u>(13,816,582)</u>
Total Utility Plant Being Depreciated, Net	<u>12,275,346</u>	<u>1,277,318</u>	<u>1,086,232</u>	<u>12,466,432</u>
TOTAL UTILITY PLANT, NET	<u><u>12,905,560</u></u>	<u><u>2,016,268</u></u>	<u><u>2,138,887</u></u>	<u><u>12,782,941</u></u>

NOTE 4 – CONSTRUCTION WORK IN PROGRESS

Construction in progress, representing expenditures to date on projects which are not fully completed for electrical plant or unitized to plant accounts, totals \$112,920 as of December 31, 2014. (See Note 3 – Utility Plant and Depreciation regarding historical departure from GAAP)

NOTE 5 - LONG-TERM DEBT

a. Long Term Debt

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

	As of December 31, 2014	
	CERB	Total Debt
2015	35,460	35,460
2016	35,460	35,460
2017	35,460	35,460
2018	35,460	35,460
2019	35,410	35,410
Total Debt	<u>177,250</u>	<u>177,250</u>

The District’s only long-term debt is the CERB zero interest loan referenced above. This long-term debt for the District was incurred solely for the construction of electrical lines to service the ultimate consumer. Arbitrage rules are not applicable for the District, as all revenue bonds were expended within the time requirement.

During the year ended December 31, 2014, the following changes occurred in long-term Liabilities.

ID Number & Class	Date Issued	Date to Mature	Interest Rate	Original Amount	Beginning Balance 1/1/2014	Additions in 2014	Principal Paid in 2014	Balances Outstanding as of 12/31/2014	Due Within One Year
CERB	2008	2019	0.00%	354,600	212,710	-	35,460	177,250	35,460
Total Debt				<u>354,600</u>	<u>212,710</u>	<u>-</u>	<u>35,460</u>	<u>177,250</u>	<u>35,460</u>
Compensated Absences					<u>140,638</u>	<u>24,332</u>		<u>164,970</u>	
Total Long-Term Liabilities				<u>354,600</u>	<u>353,348</u>	<u>24,332</u>	<u>35,460</u>	<u>342,220</u>	<u>35,460</u>

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

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

NOTE 6 – RESTRICTED ASSETS

The District's Balance Sheet reports \$ 2,078,414 of restricted assets as of December 31, 2014.

NOTE 7 - PENSION PLANS

Substantially all of The District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans.¹ 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, 2013²:

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:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
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.

² GASB does not require the number of participating employers and members to be presented in the notes to the financial statements. The information has been provided here so it can be included in the notes if desired.

Members Participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
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 The District and the employees made the required contributions. The District required contributions for the years ended December 31 were as follows³:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$	\$ 203,348	
2013	\$	\$ 176,056	
2012	\$	\$ 158,847	

NOTE 8 - DEFERRED DEBITS (OR CREDITS)

In accordance with generally accepted accounting principles for regulated businesses, the District has no deferred debits as of December, 31 2014. The balance of the deferred debit reported in previous years was for the RUS Planning Study completed in 2007 and it was written down over four years, leaving a zero balance at the end of 2011.

NOTE 9 - DEFERRED COMPENSATION PLAN

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

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

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

NOTE 10 – PRIOR PERIOD ADJUSTMENT

The District discovered an accounting error regarding a fixed asset variance account. Adjustments in the amount of \$747 were made to zero out this account balance and prior year margins were used to correct this error. 2014 year end balances correctly reflect fixed asset totals.

In addition, the District mad adjustments to CWIP to cancel incomplete work orders with no plans for completion. The minimal costs in construction work in progress totaling \$2,672 for these work orders were expensed to prior year margins to zero out the work order balances.

NOTE 11 - CONTRACTS WITH ENERGY NORTHWEST

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

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

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

The District was a participant in Energy Northwest Nuclear Projects No. 1, No. 2 and No. 3 in previous years. The current status of these projects is defined below by ENW.

Nuclear Project No. 1, a 1,250 megawatt electric nuclear power plant, and Nuclear Project No. 3, a 1,240 megawatt nuclear power plant, were terminated by the Board of Directors on May 13, 1994. Termination expenses and debt service costs activities related to Project No. 1 are funded through net-billing obligations. The Agency is no longer responsible for any site restoration costs for Project No. 3 as they were transferred with the assets to the Satsop Redevelopment Project. All obligations of the project have been

completed and the fund was dissolved by the Executive Board in July 2005. The debt service related activities remain for Project No. 3 and are paid through the net-billing process.

Nuclear Project No. 2, Columbia Generating Station Nuclear Power Plant (Columbia) was completed and placed in operation on December 13, 1984. It is owned by Energy Northwest and its participants, and operated by Energy Northwest. The plant is a 1,153 MW boiling water nuclear power station located on the Department of Energy's Hanford Reservation north of Richland, Washington. It is currently operating under a Nuclear Regulatory Commission license renewed in 2013.

B. PACKWOOD LAKE HYDROELECTRIC PROJECT

The District is a participant in Energy Northwest's Packwood Project, located in the Cascade Mountains south of Mount Rainier. In late 2011, the District signed an agreement with Public Utility District #1 of Clallam County for the sale and purchase of project output and associated environmental attributes. The rights to the District's 1% share of the project are assigned to Clallam County through 2028. In return, Clallam will pay the District's share of project costs directly to ENW, a 10% mark-up of the costs to the District and \$15 for each REC provided to Clallam from this assignment. The District received \$2,300.00 in payments during 2014.

NOTE 12 - RISK MANAGEMENT

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

Workers compensation insurance coverage is provided by the District through the State of Washington Department of Labor and Industries. Rather than pay monthly insurance premiums, the District has elected to self-insure for unemployment insurance purposes. Claims are filed with, and processed by, the State of Washington Employment Security Department and, upon authentication and payment, are reimbursed by the District. At December 31, 2012 the District's estimated liability for potential claims was minimal.