

Washington State Auditor's Office
Financial Statements Audit Report

**Public Utility District No. 1 of Douglas
County**

Audit Period
January 1, 2006 through December 31, 2006

Report No. 73908

Issue Date
January 28, 2008



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

January 28, 2008

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

Report on Financial Statements

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

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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**Public Utility District No. 1 of Douglas County
January 1, 2006 through December 31, 2006**

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Public Utility District No. 1 of Douglas County January 1, 2006 through December 31, 2006

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

We have audited the financial statements of each major fund of Public Utility District No. 1 of Douglas County, Washington, as of and for the year ended December 31, 2006, and have issued our report thereon dated December 18, 2007. The prior year partial comparative information has been derived from the District's 2005 financial statements and, in our report dated June 30, 2006, we expressed unqualified opinions on the respective financial statements of the business-type activities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on each major fund in the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted certain matters that we have reported to the management of the District in a separate letter dated December 21, 2007.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended for the information and use of management and the Board of Commissioners. 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 18, 2007

Independent Auditor's Report on Financial Statements

Public Utility District No. 1 of Douglas County January 1, 2006 through December 31, 2006

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

We have audited the accompanying basic financial statements of each major fund of Public Utility District No. 1 of Douglas County, Washington, as of and for the year ended December 31, 2006, as listed on page 5. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on each major fund in the financial statements based on our audit. The prior year partial comparative information has been derived from the District's 2005 financial statements and, in our report dated June 30, 2006, we expressed unqualified opinions on the respective financial statements of the business-type activities.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Public Utility District No. 1 of Douglas County, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2005, from which such partial information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 6 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of

management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 18, 2007

Financial Section

Public Utility District No. 1 of Douglas County January 1, 2006 through December 31, 2006

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2006

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2006

Statement of Revenues, Expenses and Changes in Net Assets – 2006

Statement of Cash Flows – 2006

Notes to Financial Statements – 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis presents an overview and analysis of the financial activities of Public Utility District No. 1 of Douglas County (the District) during the fiscal year ended December 31, 2006 and 2005. This supplementary information should be read in conjunction with the accompanying audited financial statements and related notes.

OVERVIEW OF FINANCIAL STATEMENTS AND OPERATIONS

The District is organized in two primary operating systems: the Electric Distribution System (Distribution System) and the Wells Hydroelectric Project (Wells Project). The Distribution System provides retail electric and wholesale broadband service to customers in Douglas County, Washington. The Wells project is a hydroelectric facility, owned and operated by the District and located on the Columbia River in the state of Washington. Generation from the Wells Project is sold at cost to four Pacific Northwest investor owned utilities (the Power Purchasers), pursuant to long term power sales contracts, to the District's Distribution System and to the Colville Confederated Tribes under the terms of a settlement agreement. See the notes to the financial statements for information regarding the Colville Settlement Agreement.

The financial report includes the Management's Discussion and Analysis (MD&A), the financial statements and the notes to the financial statements. The financial statements of the District report information using accounting methods similar to those used by private utility companies. These statements offer short and long term financial information about the District's activities. For additional information on the District's capital assets and long-term debt activity please refer to the footnotes.

- The balance sheet is a statement of position; it includes all of the District's investments in resources (assets), obligations to creditors (liabilities) and net assets (equity).
- The statement of revenues, expenses, and changes in net assets reflect the transactions and events that increase and decrease the economic resources of the district (operations). Revenues and expenses are summarized by major source and use. Revenues and expenses are further summarized by operating and nonoperating based on the nature of the transaction.
- The statements of cash flows reflect the District's sources and uses of cash separated into operating, investing, and capital activities.

DISTRIBUTION SYSTEM

The service area of the Electric Distribution System includes Douglas County with an area of 1,820 square miles. The assets (properties) of the Distribution System include 16 miles of 115-kV transmission lines, 13 substations, 1,170 miles of overhead and underground distribution lines, 229 miles of fiber optic lines and other buildings, equipment, inventories and related facilities.

Condensed Comparative Financial Information

Distribution System Balance Sheet

(Dollars in Thousands)

| | 12/31/2006 | 12/31/2005 | Increase (Decrease) | | 12/31/2004 |
|------------------------------------------------|-------------------|-------------------|---------------------|-------------|-------------------|
| | | | 2006-2005 | | |
| | | | \$ | % | |
| Capital Assets | \$ 108,959 | \$ 102,060 | \$ 6,899 | 6.8% | \$ 98,789 |
| Current & Other Assets | 70,475 | 66,540 | 3,935 | 5.9% | 58,775 |
| Total Assets | <u>179,434</u> | <u>168,600</u> | <u>10,834</u> | <u>6.4%</u> | <u>157,564</u> |
| Noncurrent Liabilities | 16,153 | 14,338 | 1,815 | 12.7% | 15,403 |
| Current Liabilities | 9,609 | 9,570 | 39 | 0.4% | 9,014 |
| Total Liabilities | <u>25,762</u> | <u>23,908</u> | <u>1,854</u> | <u>7.8%</u> | <u>24,417</u> |
| Invested in Capital Assets, <i>net of debt</i> | 89,548 | 84,564 | 4,984 | 5.9% | 80,760 |
| Unrestricted | 64,124 | 60,118 | 4,006 | 6.7% | 52,387 |
| Total Net Assets | <u>\$ 153,672</u> | <u>\$ 144,682</u> | <u>\$ 8,990</u> | <u>6.2%</u> | <u>\$ 133,147</u> |

Distribution System Statement of Earnings and Net Assets

(Dollars in Thousands)

| | 12/31/2006 | 12/31/2005 | Increase (Decrease) | | 12/31/2004 |
|---------------------------|-------------------|-------------------|---------------------|---------------|-------------------|
| | | | 2006-2005 | | |
| | | | \$ | % | |
| Operating Revenues | | | | | |
| Retail Electric Sales | \$ 12,983 | \$ 12,526 | \$ 457 | 3.6% | \$ 12,150 |
| Electric Sales For Resale | 24,691 | 31,158 | (6,467) | -20.8% | 26,713 |
| Broadband | 600 | 525 | 75 | 14.3% | 480 |
| Other | 212 | 306 | (94) | -30.7% | 271 |
| Nonoperating Revenues | 3,083 | 2,049 | 1,034 | 50.5% | 1,535 |
| Total Revenues | <u>41,569</u> | <u>46,564</u> | <u>(4,995)</u> | <u>-10.7%</u> | <u>41,149</u> |
| Operating Expenses | | | | | |
| Purchased Power | 19,568 | 22,356 | (2,788) | -12.5% | 22,268 |
| Other | 13,593 | 12,618 | 975 | 7.7% | 12,019 |
| Nonoperating Expenses | 620 | 714 | (94) | -13.2% | 714 |
| Total Expenses | <u>33,781</u> | <u>35,688</u> | <u>(1,907)</u> | <u>-5.3%</u> | <u>35,001</u> |
| Capital Contributions | 1,202 | 658 | 544 | 82.7% | 1,048 |
| Net Earnings | 8,990 | 11,534 | (2,544) | -22.1% | 7,196 |
| Beginning Net Assets | 144,681 | 133,147 | 11,534 | 8.7% | 125,951 |
| Ending Net Assets | <u>\$ 153,671</u> | <u>\$ 144,681</u> | <u>\$ 8,990</u> | <u>6.2%</u> | <u>\$ 133,147</u> |

Financial Analysis

During 2006, the Distribution System's overall financial position improved. Net assets increased by 6.2% to \$154 million.

Revenue

2005 to 2006:

Annual revenue fluctuations in energy sales are typically due to changes in weather conditions, river flows and electrical consumption patterns. In 2006, electric sales for resale decreased 20.8% to \$24.6 million. This decrease is primarily the result of a long term power exchange with BPA and Avista Energy that ended in March 2006 (further described in foot note 5). Electric sales to retail customers increased 3.6% to \$13 million in 2006. Nonoperating revenues increased 50% to \$3 million because of interest accrued on Distribution System investments.

2004 to 2005:

In 2005, total electric revenue increased 12.4%. The increase was primarily due to an increase in electric sales for resale, which increased 16.9% to \$31 million. Retail customer growth of 2% further contributed to electric sales. Retail customer sales increased 3.1% to \$12.5 million in 2005.

Expenses

2005 to 2006:

During 2006 as compared to 2005 power cost decreased 12.5% to \$19.5 million. The primary reason for this decrease was the District's purchase of a 50 megawatt block of power from BPA that ended in March 2006. The Distribution System continues to purchase a bulk of its power from the Wells Project. Other power resources currently include: Rocky Reach Dam, Nine Canyon Wind Project and a long term exchange contract with Coral Energy.

2004 to 2005:

Power cost remained stable at \$22 million with only a .4% increase from 2004. Total operating expenses increased 2% largely as a result of general wage escalation.

Capital Asset and Long Term Debt Activity

During 2006, capital assets, net of construction work-in-progress increased \$6.9 million. Capital additions are associated with a growing customer base, long-term maintenance of electrical distribution facilities and moving district facilities for road expansion projects.

The Distribution System's outstanding debt, net of the current portion, is \$12 million in outstanding bonds. Annual debt service payments for 2006 were \$1.9 million. Debt service coverage ratios for 2006 and 2005 were 7.1 and 6.6, respectively.

Please see the notes to the financial statements for further information regarding capital assets and long term debt activity of the Distribution System.

Capital Contributions

District customers pay Contributions-in-Aid-of Construction (CIAC) that helps fund new construction projects. In 2006 the District experienced an increase in commercial and residential building projects, which increased capital contributions by 83% in 2006.

WELLS PROJECT

The Wells Project is located 516 river miles from the mouth of the Columbia River. The District was issued a 50-year license, expiring in 2012, to develop the Wells site as the Wells Hydroelectric Project. Commercial operation began on September 16, 1967. The Wells Project is constructed in a hydrocombine design, which includes generating units, switchyard, spillways, and fish passage facilities in a single integrated concrete structure.

Condensed Comparative Financial Information

Well Project Balance Sheets

(Dollars in Thousands)

| | 12/31/2006 | 12/31/2005 | Increase (Decrease) | | 12/31/2004 |
|----------------------------------------------------|------------------|------------------|---------------------|--------------|------------------|
| | | | 2006-2005 | | |
| | | | \$ | % | |
| Current and Other Assets | \$ 128,166 | \$ 132,218 | \$ (4,052) | -3.1% | \$ 63,418 |
| Capital Assets | 178,942 | 176,180 | 2,762 | 1.6% | 175,307 |
| Total Assets | <u>307,108</u> | <u>308,398</u> | <u>(1,290)</u> | <u>-0.4%</u> | <u>238,725</u> |
| Long-Term Liabilities | 207,347 | 216,241 | (8,894) | -4.1% | 155,488 |
| Other Liabilities | 19,750 | 17,964 | 1,786 | 9.9% | 13,899 |
| Total Liabilities | <u>227,097</u> | <u>234,205</u> | <u>(7,108)</u> | <u>-3.0%</u> | <u>169,387</u> |
| Invested in Capital Assets, Net of Related Debt | 57,183 | 50,888 | 6,295 | 12.4% | 35,011 |
| Restricted | 10,595 | 9,355 | 1,240 | 13.3% | 7,637 |
| Unrestricted | 12,233 | 13,950 | (1,717) | -12.3% | 26,691 |
| Total Net Assets | <u>\$ 80,011</u> | <u>\$ 74,193</u> | <u>\$ 5,818</u> | <u>7.8%</u> | <u>\$ 69,339</u> |

Wells Project Statements of Earnings and Net Assets

(Dollars in Thousands)

| | 12/31/2006 | 12/31/2005 | Increase (Decrease) | | 12/31/2004 |
|-----------------------|------------------|------------------|---------------------|--------------|------------------|
| | | | 2006-2005 | | |
| | | | \$ | % | |
| Operating Revenues | \$ 36,346 | \$ 31,806 | \$ 4,540 | 14.3% | \$ 30,828 |
| Nonoperating Revenues | 3,888 | 1,796 | 2,092 | 116.5% | 395 |
| Total Revenues | <u>40,234</u> | <u>33,602</u> | <u>6,632</u> | <u>19.7%</u> | <u>31,223</u> |
| Operating Expenses | 21,704 | 17,826 | 3,878 | 21.8% | 18,959 |
| Nonoperating Expenses | 12,713 | 10,921 | 1,792 | 16.4% | 9,808 |
| Total Expenses | <u>34,417</u> | <u>28,747</u> | <u>5,670</u> | <u>19.7%</u> | <u>28,767</u> |
| Net Earnings | 5,817 | 4,855 | 962 | 19.8% | 2,456 |
| Beginning Net Assets | 74,194 | 69,339 | 4,855 | 7.0% | 66,883 |
| Ending Net Assets | <u>\$ 80,011</u> | <u>\$ 74,194</u> | <u>\$ 5,817</u> | <u>7.8%</u> | <u>\$ 69,339</u> |

Financial Analysis

Fluctuations shown in the comparison of financial position of the Wells Project at December 31, 2006 and 2005 were due mainly to a decrease in long-term liabilities resulting from the pay down of outstanding bonds through regular debt service and the refinancing of older, higher interest debt. The refinancing and other significant financial items are discussed in further detail below and in the notes to the financial statements.

Revenues & Expenses

Because the electricity generated by the Wells Project is sold at cost, which, under the terms of the power sales contracts includes debt service but excludes depreciation, operating revenues fluctuate based on operating expenses and debt service requirements.

2005 to 2006:

During 2006 as compared to 2005, total annual operating expenses increased by \$3.9 million to \$21.7 million, a 21.8% increase. Several items contributed to this increase, as follows:

- The District procured the services of a contractor for the clean out of the rock trap and removal of debris in the tailrace and forebay, respectively, of the Wells Project, at a cost of \$1.3 million.
- The Federal Energy Regulatory Commission (FERC) administrative charges in 2006 were \$.7 million higher than the previous year.
- Payments to the Wells Project's consulting engineer, Jacobs Civil, were \$.6 million greater in 2006 than 2005. This was due mainly to increased work performed by Jacobs related to preliminary planning and engineering pertaining to several upcoming projects.
- Depreciation expense increased by \$.5 million.

During 2006 total nonoperating revenues increased by \$2.1 million. This was due to increased investment earning resulting from a continued general increase in interest rates and from the first full year of investment of the proceeds of the 2005 Bonds. Nonoperating expenses increased by \$1.8 million, due mainly to the first full year of interest expense on the 2005 Bonds.

2004 to 2005:

During 2005 as compared to 2004 total annual operating expense decreased by \$1.1 million to \$17.8 million, a 6.0% decrease. The primary reason for this decrease was the reduction of expenses due to fish hatchery sharing agreements with neighboring public utility districts. Under the terms of these agreements the other public utility districts utilize excess fish rearing capacity at the Wells Project's fish hatcheries and pay a share of the hatchery expenses. The hatchery sharing agreements were implemented about mid-year in 2004, and 2005 was the first full year of their use.

During 2005 total nonoperating revenues increased by \$1.4 million, due to increased investment earnings resulting from a general increase in interest rate and from investment of the 2005 Bonds, issued mid-year. Nonoperating expenses increased by \$1.1 million, due mainly to increased interest expense on long-term debt resulting from issuance of the 2005 Bonds.

Capital Assets and Long Term Debt Activity

As of December 31, 2006 the Wells Project had approximately \$179 million invested in capital assets, net of accumulated depreciation, including its hydraulic generation and transmission plant, fish rearing facilities, and related land, office buildings and equipment. Capital costs of the Wells Project, other than major additions or replacements, are typically funded from revenues. Costs of major additions or replacements are funded from bond proceeds.

As of December 31, 2006 the Wells Project had long-term liabilities of \$207 million. This included \$198 million of revenue bonds outstanding, net of the current portion of \$11 million. In July 2005 the District issued an additional \$88 million of Wells Project bonds for the purposes of financing a major rebuild of the generating units at the Wells Project, certain other capital projects, payment of the cash portion of the Colville Settlement Agreement, and refinancing of a portion of the District's outstanding 1999 Wells Project Bonds. In August 2006 the District issued \$13 million of Wells Project bonds (the 2006 Bonds) for the purpose of refinancing the remaining outstanding 1986A Bonds. This resulted in total debt service savings of \$4.8 million over the ensuing 12 years. Please see the notes to the financial statements for further information regarding the 2005 and 2006 Bonds and other Wells Project bonds.

In the spring of 2002 the bond rating firm of Standard & Poor's upgraded its rating of the Wells Project to "AA". This rating was affirmed in the fall of 2003. Additionally, in the fall of 2003 Moody's Investors Service upgraded its bond rating for the Wells Project to "Aa2". These ratings were affirmed by Standard & Poor's and Moody's, respectively, in 2005 and 2006.

In November 2004 the District reached a settlement with the Tribes regarding use of Tribal lands. The settlement included three items of compensation from the Wells Project, namely 1) a cash payment; 2) a transfer of land owned by the Wells Project; and 3) an agreement to sell a portion of future Wells Project power generation to the Tribes at cost. The cash payment of \$13.5 million was made during the summer of 2005, and was financed by the 2005 Bonds. This cash payment is reflected as a deferred charge on the balance sheet, and is being amortized to expense over the life of the 2005 Bonds. Title to the land was transferred in early 2005.

Please see the notes to the financial statements for further information regarding capital assets and long term debt activity of the Wells Project.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the finances of the District. If you have questions about this report or need additional financial information, please contact Public Utility District No. 1 of Douglas County, 1151 Valley Mall Parkway, East Wenatchee, WA 98802.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2006

| | Wells | | Distribution System | TOTAL | |
|----------------------------------------------|-----------------------|----------------|---------------------|----------------|----------------|
| | Hydroelectric Project | | | 2006 | 2005 |
| ASSETS | | | | | |
| Non-Current Assets | | | | | |
| Electric Plant: | | | | | |
| Electric Plant | \$ 232,197,518 | \$ 147,531,720 | | \$ 379,729,238 | \$ 367,973,262 |
| Construction Work in Progress | 9,512,898 | 5,702,278 | | 15,215,176 | 13,391,017 |
| Electric Plant - Gross | 241,710,416 | 153,233,998 | | 394,944,414 | 381,364,279 |
| Less: Accum. Depreciation & Amortization | 62,768,605 | 51,376,035 | | 114,144,640 | 107,696,516 |
| Net Electric Plant | 178,941,811 | 101,857,963 | | 280,799,774 | 273,667,763 |
| Intradistrict Note Receivable | | 2,900,000 | | 2,900,000 | 600,000 |
| Deferred Charges: | | | | | |
| Unamortized Debt Discount & Expense | 3,108,741 | 303,485 | | 3,412,226 | 3,761,219 |
| Unamortized Loss on Reacquired Debt | 4,359,851 | - | | 4,359,851 | 3,387,743 |
| Other Deferred Charges | 32,031,712 | 3,897,796 | | 35,929,508 | 37,895,240 |
| Total Non-Current Assets | 218,442,115 | 108,959,244 | | 327,401,359 | 319,311,965 |
| Current Assets | | | | | |
| Restricted: | | | | | |
| Construction Funds-Cash | 9,999 | - | | 9,999 | 331,864 |
| Construction Funds-Investments | 69,707,155 | - | | 69,707,155 | 74,221,554 |
| Debt Repayment Funds-Cash | 1,841,981 | 100,626 | | 1,942,607 | - |
| Debt Repayment Funds-Investments | 6,007,233 | - | | 6,007,233 | 9,517,759 |
| Reserve & Contingency Fund-Cash | 1,189,645 | - | | 1,189,645 | 517,764 |
| Reserve & Contingency Fund-Investments | 4,500,000 | - | | 4,500,000 | 5,025,000 |
| Wells Project Relicensing Fund - Cash | - | 2,950,427 | | 2,950,427 | - |
| Wells Project Relicensing Fund - Investments | - | 5,770,617 | | 5,770,617 | 9,692,911 |
| Total Restricted | 83,256,013 | 8,821,670 | | 92,077,683 | 99,306,852 |
| Unrestricted: | | | | | |
| Cash | 3,781,096 | 24,330,636 | | 28,111,732 | 24,434,576 |
| Investments | - | 14,665,000 | | 14,665,000 | 6,596,245 |
| Rate Stabilization Fund | - | 12,000,000 | | 12,000,000 | 12,000,000 |
| Receivables - Net | 1,049,556 | 4,399,993 | | 5,449,549 | 8,325,659 |
| Materials and Supplies | - | 3,661,657 | | 3,661,657 | 3,502,040 |
| Other Current & Accrued Assets | 578,756 | 2,595,751 | | 3,174,507 | 3,512,253 |
| Total Unrestricted | 5,409,408 | 61,653,037 | | 67,062,445 | 58,370,773 |
| Total Current Assets | 88,665,421 | 70,474,707 | | 159,140,128 | 157,677,625 |
| TOTAL ASSETS | \$ 307,107,536 | \$ 179,433,951 | | \$ 486,541,487 | \$ 476,989,590 |

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2006

| | Wells | | Distribution System | TOTAL | |
|-------------------------------------------------|-----------------------|-----------|---------------------|-----------|--------------------|
| | Hydroelectric Project | | | 2006 | 2005 |
| LIABILITIES & NET ASSETS | | | | | |
| Non-current Liabilities | | | | | |
| Bonds Payable, excluding current portion | \$ 197,815,000 | \$ | 12,410,000 | \$ | 221,865,000 |
| Unamortized Bond Premiums (Discounts) | 6,171,193 | | 436,044 | | 6,803,949 |
| Bonds Payable, Net | <u>203,986,193</u> | | <u>12,846,044</u> | | <u>228,668,949</u> |
| Deferred Credits | 460,699 | | 3,111,393 | | 613,954 |
| Intradistrict Note Payable | 2,900,000 | | - | | 600,000 |
| Unamortized Gain on Redeemed Debt | - | | 195,472 | | 234,328 |
| Total Non-current Liabilities | <u>207,346,892</u> | | <u>16,152,909</u> | | <u>230,117,231</u> |
| Current Liabilities | | | | | |
| Accounts Payable | 3,574,541 | | 4,896,261 | | 5,338,975 |
| Other Accrued Liabilities | 2,214,927 | | 3,986,127 | | 7,848,420 |
| Payable from Restricted Assets: | | | | | |
| Accrued Interest Payable | 3,365,616 | | 46,376 | | 4,004,078 |
| Current Portion Long-Term Debt | 10,595,000 | | 680,000 | | 10,805,000 |
| Total Current Liabilities | <u>19,750,084</u> | | <u>9,608,764</u> | | <u>27,996,473</u> |
| Total Liabilities | <u>227,096,976</u> | | <u>25,761,673</u> | | <u>258,113,704</u> |
| Net Assets | | | | | |
| Invested in Capital Assets, Net of Related Debt | 57,182,865 | | 89,447,655 | | 135,285,714 |
| Restricted For Debt Service | 10,595,000 | | 100,626 | | 9,522,209 |
| Unrestricted | 12,232,695 | | 64,123,997 | | 74,067,963 |
| Total Net Assets | <u>80,010,560</u> | | <u>153,672,278</u> | | <u>218,875,886</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 307,107,536</u> | <u>\$</u> | <u>179,433,951</u> | <u>\$</u> | <u>476,989,590</u> |

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For The Fiscal Year Ended December 31, 2006

| | Wells | | Inter-system Eliminations | TOTAL | |
|--------------------------------------------------------|--------------------------|------------------------|------------------------------|-----------------------|-----------------------|
| | Hydroelectric Project | Distribution System | | 2006 | 2005 |
| Operating Revenues | | | | | |
| Retail Sales of Electric Energy | \$ - | \$ 12,982,678 | \$ - | \$ 12,982,678 | \$ 12,526,283 |
| Energy Sales for Resale | 36,345,787 | 24,691,196 | (12,820,397) | 48,216,586 | 51,391,627 |
| Broadband | - | 599,460 | - | 599,460 | 525,250 |
| Other | - | 212,211 | - | 212,211 | 305,895 |
| Total Operating Revenues | <u>36,345,787</u> | <u>38,485,545</u> | <u>(12,820,397)</u> | <u>62,010,935</u> | <u>64,749,055</u> |
| Operating Expenses | | | | | |
| Operations | 12,986,259 | 24,934,181 | (12,820,397) | 25,100,043 | 26,720,503 |
| Maintenance | 3,388,583 | 2,984,709 | - | 6,373,292 | 4,774,572 |
| Depreciation | 4,149,420 | 4,203,604 | - | 8,353,024 | 7,605,837 |
| Taxes | 1,179,440 | 1,038,243 | - | 2,217,683 | 2,125,959 |
| Total Operating Expenses | <u>21,703,702</u> | <u>33,160,737</u> | <u>(12,820,397)</u> | <u>42,044,042</u> | <u>41,226,871</u> |
| Operating Income | <u>14,642,085</u> | <u>5,324,808</u> | <u>-</u> | <u>19,966,893</u> | <u>23,522,184</u> |
| Non-operating Revenues (Expenses) | | | | | |
| Interest Income | 3,888,091 | 3,018,480 | - | 6,906,571 | 3,711,935 |
| Interest Expense | (10,437,017) | (599,057) | - | (11,036,074) | (9,321,199) |
| Net Amortization of Debt Discounts, Premiums and Costs | (2,276,164) | (20,580) | - | (2,296,744) | (2,314,780) |
| Other | - | 64,169 | - | 64,169 | 133,988 |
| Total Non-operating Revenues (Expenses) | <u>(8,825,090)</u> | <u>2,463,012</u> | <u>-</u> | <u>(6,362,078)</u> | <u>(7,790,056)</u> |
| Income Before Contributions | <u>5,816,995</u> | <u>7,787,820</u> | <u>-</u> | <u>13,604,815</u> | <u>15,732,128</u> |
| Capital Contributions | <u>-</u> | <u>1,202,137</u> | <u>-</u> | <u>1,202,137</u> | <u>657,739</u> |
| Change In Net Assets | <u>5,816,995</u> | <u>8,989,957</u> | <u>-</u> | <u>14,806,952</u> | <u>16,389,867</u> |
| Net Assets, Beginning of Year | <u>74,193,565</u> | <u>144,682,321</u> | <u>-</u> | <u>218,875,886</u> | <u>202,486,019</u> |
| Net Assets, End of Year | <u>\$ 80,010,560</u> | <u>\$ 153,672,278</u> | <u>\$ -</u> | <u>\$ 233,682,838</u> | <u>\$ 218,875,886</u> |

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2006

| | Wells Hydroelectric Project | Distribution System | Intersystem Eliminations | 2006 | 2005 |
|------------------------------------------------------------------|-----------------------------------|------------------------|-----------------------------|----------------------|----------------------|
| Cash Flow from Operating Activities | | | | | |
| Receipts from Customers | \$ 35,981,535 | \$ 45,568,741 | \$ (12,820,397) | \$ 68,729,879 | \$ 68,726,423 |
| Receipts for Other Agencies | - | 11,104,849 | - | 11,104,849 | 16,290,475 |
| Receipts for Internal Services Provided | 1,248,929 | 394,121 | (1,643,050) | - | 1,538,423 |
| Payments for Internal Services Used | (394,121) | (1,248,929) | 1,643,050 | - | (1,538,423) |
| Payments to Employees & Payroll Related | (8,493,283) | (5,818,282) | - | (14,311,565) | (13,272,414) |
| Payments to Suppliers & Other Agencies | (9,014,748) | (33,636,007) | 12,820,397 | (29,830,358) | (44,215,678) |
| Net Cash Provided by Operating Activities | <u>19,328,312</u> | <u>16,364,493</u> | - | <u>35,692,805</u> | <u>27,528,806</u> |
| Cash Flows from Investing Activities | | | | | |
| Purchase of Investments | (28,057,275) | (23,140,000) | - | (51,197,275) | (189,101,257) |
| Proceeds from Sales and Maturities of Investments | 34,343,444 | 18,923,784 | - | 53,267,228 | 119,573,271 |
| Interest on Investments | 3,834,080 | 2,914,323 | - | 6,748,403 | 3,607,146 |
| Net Cash Provided by Investing Activities | <u>10,120,249</u> | <u>(1,301,893)</u> | - | <u>8,818,356</u> | <u>(65,920,840)</u> |
| Cash Flows from Non-Capital Financing Activities | | | | | |
| Proceeds from Bond Issuance | - | - | - | - | 13,500,000 |
| Net Cash Provided by Non-Capital Financing Activities | - | - | - | - | <u>13,500,000</u> |
| Cash Flows from Capital and Related Financing Activities | | | | | |
| Additions to Electric Plant in Service | (156,253) | (5,574,618) | - | (5,730,871) | (13,918,359) |
| Net Additions to Construction Work in Progress | (6,059,332) | (2,817,260) | - | (8,876,592) | 1,921,044 |
| Intradistrict Note Payable-Proceeds (Loaned) | 2,300,000 | (2,300,000) | - | - | - |
| Proceeds from Bond Issuance | 13,280,000 | - | - | 13,280,000 | 74,085,000 |
| Premium (Discount) and Expenses Related to Issuance of Bonds | (1,386,191) | - | - | (1,386,191) | 793,294 |
| Payment of Colville Settlement | - | - | - | - | (13,500,000) |
| Proceeds from Capital Contributions | - | 1,202,137 | - | 1,202,137 | 657,739 |
| Principal Payments on Long-term Debt | (23,000,000) | (1,450,000) | - | (24,450,000) | (14,650,000) |
| Interest Payments on Long-term Debt | (10,461,533) | (553,323) | - | (11,014,856) | (7,752,557) |
| Net Cash Used in Capital and Related Financing Activities | <u>(25,483,309)</u> | <u>(11,493,064)</u> | - | <u>(36,976,373)</u> | <u>27,636,161</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>3,965,252</u> | <u>3,569,536</u> | - | <u>7,534,788</u> | <u>2,744,127</u> |
| Cash & Cash Equivalents, Beginning of Year | <u>2,857,469</u> | <u>23,812,153</u> | - | <u>26,669,622</u> | <u>23,925,495</u> |
| Cash & Cash Equivalents, End of Year | <u>\$ 6,822,721</u> | <u>\$ 27,381,689</u> | <u>\$ -</u> | <u>\$ 34,204,410</u> | <u>\$ 26,669,622</u> |

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2006

| | Wells Hydroelectric Project | Distribution System | Intersystem Eliminations | TOTAL | |
|--------------------------------------------------------------------------------------------|-----------------------------------|------------------------|-----------------------------|---------------|---------------|
| | | | | 2006 | |
| | | | | 2005 | |
| Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities | | | | | |
| Operating Income | \$ 14,642,085 | \$ 5,324,808 | \$ - | \$ 19,966,893 | 23,522,184 |
| Receipts for Other Agencies | | | | | |
| Receipts for Internal Services Provided | | | | | |
| Depreciation | 4,149,420 | 4,203,604 | - | 8,353,024 | 7,605,837 |
| Amortization | - | 46,356 | - | 46,356 | 43,044 |
| Net Cash From Jobbing Activities | - | 66,046 | - | 66,046 | 66,046 |
| Payment of Interest on Customer Deposits | - | (45,735) | - | (45,735) | (34,133) |
| Cash Provided by changes in Operating Assets and Liabilities: | | | | | |
| Accounts Receivable | 182,464 | 3,329,012 | - | 3,511,476 | (2,793,838) |
| Prepaid Expenses | 12,992 | 324,754 | - | 337,746 | (60,613) |
| Materials and Supplies | - | (159,617) | - | (159,617) | (676,527) |
| Excess Revenue Fund | (364,252) | - | - | (364,252) | (225,198) |
| Other Accrued Expenses | (499,351) | - | - | (499,351) | (697,124) |
| Accounts Payable | 903,636 | 2,228,191 | - | 3,131,827 | 145,085 |
| Customer Deposits | - | 2,441 | - | 2,441 | 9,711 |
| Other Current Liabilities | - | (1,708,732) | - | (1,708,732) | 559,918 |
| Other Deferred Assets & Liabilities | 301,318 | (240,246) | - | 61,072 | 133,813 |
| Customer Advances for Construction | - | 2,993,611 | - | 2,993,611 | (69,399) |
| Net Cash Provided by Operating Activities | \$ 19,328,312 | \$ 16,364,493 | \$ - | \$ 35,692,805 | \$ 27,528,806 |

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

Notes to Financial Statements

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Douglas County, Washington (the District) is a municipal corporation of the State of Washington established in 1936. The District is administered by a three person Board of Commissioners, elected by the voters of Douglas County. The District is organized in two primary operating systems: the Electric Distribution System and the Wells Hydroelectric Project. The Electric Distribution System provides retail electricity and broadband communication to customers in Douglas County, Washington. The Wells Hydroelectric Project generates electricity from a hydroelectric dam located on the Columbia River.

Accounting Policies:

The accounting policies of the District conform to generally accepted accounting principals (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principals. Accounting records are maintained in accordance with the Uniform System of Accounts of the Federal Power Act, prescribed by the Federal Energy Regulatory Commission (FERC). The District's accounting records are further maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses. Revenues and expenses related to financing and investing activities, and any other revenues and expenses not related to the District's principal operations, are considered to be nonoperating revenues and expenses.

GASB Statement No. 20 requires that the District apply all GASB pronouncements as well as the pronouncements issued on or before November 30, 1989, by the Financial Accounting Standard Board (FASB) and its predecessor organizations, unless those pronouncements conflict with or contradict GASB pronouncements. As provided for in GASB Statement No. 20, the District has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

During 2003, the District adopted GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; GASB Statement No. 37, Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34; and GASB Statement No. 38, Certain Financial Statement Note Disclosures; all of which address financial statement presentation and disclosure. Significant reporting changes include using the direct method of the Statement of Cash Flows presentation, and reclassification of Net Assets (equity) into three components: Invested in capital assets, net of related debt; Restricted; and Unrestricted. The statements also require a Management's Discussion and Analysis introducing financial statements and providing an overview of the District's financial activities.

Revenue Recognition:

The Distribution System recognizes revenue as billed on a monthly and bi-monthly basis. Service rates are established by the District's publicly elected Board of Commissioners. Wells Project revenues are derived through the sale of power to four major Pacific Northwest electric utilities and the Colville Confederated Tribes, under the terms of long term power sales contracts, and to the District's Distribution System. Revenue for the Wells Project is billed monthly and pays all annual expenses and debt service, whether or not the project is operable.

Utility Plant and Depreciation:

Distribution System plant assets are stated at cost. New construction, betterments and major renewals are capitalized. Maintenance and repairs are charged to operation as incurred. Depreciation is calculated on the straight-line method over the estimated useful lives of the asset, ranging from 12.5 to 35 years and on the double-declining balance method which is applied for 5 years on vehicles. Composite rates are used for depreciation of asset groups and accordingly, no gain or loss is recorded on the disposition of an asset. When operating plant assets are retired, their estimated original cost together with removal costs, less salvage, is charged to accumulated depreciation.

Wells Project plant, including land and all related facilities, is recorded at cost. Cost is comprised of the following: **(a)** all direct construction and acquisition costs; **(b)** all indirect costs up to the commencement of initial power generated on September 7, 1967, and only those indirect costs related to the construction and acquisition since that date; and **(c)** interest costs capitalized up to certain dates, which were subsequent to the date generating units were placed in service. Under FERC accounting, interest costs would cease to be capitalized after units are placed in service. Management of the District elected to capitalize interest costs through January 1, 1969, as to the 1963 series bonds, and to September 1, 1972, as to the 1965 series bonds, because it believed this was the accounting treatment specifically prescribed in the bond resolutions and power sales contracts. Depreciation of substantially all depreciable assets is provided over estimated useful lives ranging from 15 to 95 years, using the sinking fund method (6% rate).

Receivables:

Distribution System uncollectible accounts are estimated based on an experience percentage of sales to ultimate consumers. The District's Commissioners approve all write-offs.

The Wells Project does not have an allowance for uncollectable accounts.

Inventories:

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

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the District considers all short-term investments with a remaining maturity of three months or less when purchased to be cash equivalents. This definition of cash equivalents excludes investments with a maturity of less than three months, which are pooled with investments with longer maturity periods.

Investments and Deposits:

Investments of the District are in the form of time certificates, deposits with banks, direct obligations of the U.S. Government, and a Repurchase Agreement with underlying securities consisting of Government National Mortgage Association (GNMA) securities, which are fully guaranteed by the U.S. Government, pursuant to the requirements of Chapter 39.58 RCW and the District's master bond resolutions. The District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC). Time certificates, U.S. Government obligations, and the Repurchase Agreement are recorded at amortized cost, cost, and cost plus contractual earnings, respectively. The District's practice is to hold all investments to maturity.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. The District has no formal policy addressing custodial credit risk. However, due to the nature of the District's investments and deposits, as described above, such risk to the District is insignificant.

Unamortized Debt Expense:

Costs related to the sale of bonds are deferred and amortized on the straight-line method over the lives of the various bond issues. The straight-line method results in amortization not significantly different than that which would result from use of the interest method of amortization.

Excess Revenue Fund:

The Wells Project Excess Revenue Fund represents working capital in the Revenue Fund, as defined in the bondholders' resolution, in excess of the amount of working capital required by the power sales contracts.

Compensated Absences:

Employees accrue personal leave to be used for vacation, sick, and family leave purposes. Annual leave granted each employee varies in accordance with years of service and may be carried forward from year-to-year, capped at a maximum bank of 1200 hours. The District records the cost of personal leave as the leave is taken. The liability for compensated absences is recorded as a current liability. The following changes occurred in the District's compensated absences liability:

| | Balance December 31, 2005 | Increase | Decrease | Balance December 31, 2006 |
|--------------------------------------------|------------------------------------------|---------------------|---------------------|------------------------------------------|
| Compensated Absences - Distribution System | \$ 739,114 | \$ 746,600 | \$ 768,235 | \$ 717,479 |
| Compensated Absences - Wells Project | 1,007,149 | 1,510,855 | 1,284,862 | 1,233,142 |
| Totals | <u>\$ 1,746,263</u> | <u>\$ 2,257,455</u> | <u>\$ 2,053,097</u> | <u>\$ 1,950,621</u> |

Accounting Estimates:

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

Reclassifications:

The following prior year balances have been reclassified to be consistent with the current year presentation:

- \$600,000 intra-district note receivable on the balance sheet was reclassified as a non-current asset
- cash and investment balances on the balance sheet were separated and reclassified for improved clarity
- \$13,500,000 bond proceed was moved from capital and related financing activities to non-capital financing activities

| | Audited 2005 | Wells | Distribution | Restated 2005 | |
|--------------------------------------------------|-------------------------|--------------|---------------------|--------------------------|-----------------------------------|
| Current Assets | | | | | Current Assets |
| Construction Funds | \$ 74,553,418 | 331,864 | | \$ 331,864 | Construction Funds - Cash |
| Debt Repayment Funds | 9,517,759 | (331,864) | | 74,221,554 | Construction Funds - Investments |
| Reserve & Contingency Fund | 5,542,764 | (5,025,000) | | 9,517,759 | Debt Repayment Funds |
| | | 5,025,000 | | 517,764 | Reserve & Contingency Fund - Cash |
| Wells Project Relicensing Fund | 9,692,911 | | | 5,025,000 | Reserve & Contingency Fund - Inv. |
| Total Restricted | <u>99,306,852</u> | | | <u>9,692,911</u> | Wells Project Relicensing Fund |
| | | | | <u>99,306,852</u> | Total Restricted |
| Cash | 2,232,574 | | 22,202,002 | 24,434,576 | Cash |
| Investments | 28,798,247 | | (22,202,002) | 6,596,245 | Investments |
| Rate Stabilization Fund | 12,000,000 | | | 12,000,000 | Rate Stabilization Fund |
| Receivables - Net | 8,925,659 | | (600,000) | 8,325,659 | Receivables - Net |
| Materials and Supplis | 3,502,040 | | | 3,502,040 | Materials and Supplis |
| Other Current & Accrued Assets | 3,512,253 | | | 3,512,253 | Other Current & Accrued Assets |
| Total Unrestricted | <u>58,970,773</u> | | | <u>58,370,773</u> | Total Unrestricted |
| Total Current Assets | <u>\$ 158,277,625</u> | | | <u>\$ 157,677,625</u> | Total Current Assets |
| Non-Current Assets | | | | | Non-Current Assets |
| | | | 600,000 | | Intradistrict Note Receivable |
| Cash Flows from Capital Financing Activities | \$ 87,585,000 | (13,500,000) | | | |
| Cash Flows from Non-Capital Financing Activities | | | | | |
| Proceeds from Bond Issuance | | 13,500,000 | | \$ 13,500,000 | |

NOTE 2 – DEPOSITS AND INVESTMENTS

Investments: The District had the following investments as of December 31, 2006 and 2005, respectively:

| | Wells | | Distribution | |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Municipal Money Market | \$ - | \$ - | \$ 25,745,843 | \$ 22,202,002 |
| U.S. Treasury Securities | - | - | 1,101,117 | 2,666,000 |
| Repurchase Agreement | 69,707,155 | 70,255,844 | | |
| Certificates of Deposit | 10,507,233 | 16,244,713 | 31,334,501 | 27,801,338 |
| Total | <u>\$ 80,214,388</u> | <u>\$ 86,500,557</u> | <u>\$ 58,181,461</u> | <u>\$ 52,669,340</u> |

NOTE 3 – UTILITY PLANT

The following changes occurred in the District's utility plant:

| Electric Plant Assets | Balance December 31, 2005 | Increase | Decrease | Balance December 31, 2006 |
|--------------------------------|------------------------------------------|----------------------|----------------------|------------------------------------------|
| Hydraulic Generation | \$ 198,804,539 | \$ 7,733,939 | \$ 1,623,006 | \$ 204,915,472 |
| Transmission | 21,914,720 | 385,055 | 80,198 | 22,219,577 |
| Distribution | 102,423,907 | 4,373,572 | 881,714 | 105,915,765 |
| General | 43,783,415 | 2,707,518 | 859,190 | 45,631,743 |
| Miscellaneous | 1,046,681 | | | 1,046,681 |
| Subtotal | 367,973,262 | 15,200,084 | 3,444,108 | 379,729,238 |
| Construction Work in Progress | 13,391,017 | 15,573,552 | 13,749,393 | 15,215,176 |
| Less: Accumulated Depreciation | (107,696,516) | 3,055,031 | 9,503,155 | (114,144,640) |
| Net Utility Plant | \$ 273,667,763 | \$ 33,828,667 | \$ 26,696,656 | \$ 280,799,774 |

NOTE 4 – SHORT TERM DEBT

The District had no short term debt activity during 2006, and had no outstanding short term debt at December 31, 2006.

NOTE 5 – LONG TERM DEBT

Wells Hydroelectric Project

| | <u>Purpose</u> | <u>Balance 12/31/2005</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 12/31/2006</u> | <u>Due Within One Year</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------|----------------------|----------------------|-------------------------------|--------------------------------|
| Series of 1986A, term bonds maturing September 1, 2018, interest at 8.75% | Turbine Runner Replacement | 14,080,000 | | 14,080,000 | - | |
| Series of 1986B, term bonds maturing September 1, 2006, interest at 8.75% | Turbine Runner Replacement | 485,000 | | 485,000 | - | |
| Series of 1999A, serial bonds maturing annually to September 1, 2019 and term bonds maturing September 1, 2029; interest at 5.25% - 6.125% | Land Purchases, Recreation Action Plan & Habitat Conservation Plan | 9,340,000 | | 190,000 | 9,150,000 | 200,000 |
| Series of 1999B, serial bonds maturing annually to September 1, 2009, interest at 5.05% - 5.20% | Land Purchases, Recreation Action Plan & Habitat Conservation Plan | 515,000 | | 120,000 | 395,000 | 125,000 |
| Series of 2000A, serial bonds maturing annually to September 1, 2010 and term bonds maturing September 1, 2015 and 2018, interest at 5.75% - 6.35% | Refunding | 7,460,000 | | 395,000 | 7,065,000 | 420,000 |
| Series of 2003A, serial bonds maturing annually to September 1, 2018, interest at 2.75% - 5.25% | Refunding | 13,470,000 | | 470,000 | 13,000,000 | 440,000 |
| Series of 2003B, serial bonds maturing annually to September 1, 2018, interest at 2.60% - 5.00% | Refunding | 53,290,000 | | 5,730,000 | 47,560,000 | 5,940,000 |
| Series of 2003C, serial bonds maturing September 1, 2014 through 2018, interest at 4.125% - 5.00% | Refunding | 31,905,000 | | - | 31,905,000 | - |
| Series of 2005A, serial bonds maturing annually to September 1, 2030 and 2035, interest at 3.70% - 5.00% | Capital Improvements | 43,010,000 | | 530,000 | 42,480,000 | 740,000 |
| Series of 2005B, serial bonds maturing annually September 1, 2026 and term bonds maturing September 1, 2022, 2030 and 2035, interest at 3.20% - 5.25% | Refunding, Capital Improvements, and Colville Settlement | 35,580,000 | | 515,000 | 35,065,000 | 685,000 |
| Series of 2005C, serial bonds maturing annually to September 1, 2014 and term bonds maturing September 1, 2018, interest at 4.283% - 5.112% | Colville Settlement | 8,995,000 | | 485,000 | 8,510,000 | 550,000 |
| Series of 2006A, serial bonds maturing September 1, 2007 through 2016, interest at 4.50% - 5.00% | Refunding | - | 9,875,000 | - | 9,875,000 | 410,000 |
| Series of 2006A, bonds maturing September 1, 2018, interest at 5.00% | Refunding | - | 2,320,000 | - | 2,320,000 | - |
| Series of 2006B, bonds maturing September 1, 2007, interest at 5.60% | Refunding | - | 1,085,000 | - | 1,085,000 | 1,085,000 |
| Total revenue bonds | | \$ 218,130,000 | \$ 13,280,000 | \$ 23,000,000 | \$ 208,410,000 | \$ 10,595,000 |

Following is a summary of future debt service requirements for Wells Project revenue bonds outstanding at December 31, 2006:

| | Principal | Interest | Total |
|--------------|-----------------------|-----------------------|-----------------------|
| 2007 | \$ 10,595,000 | \$ 9,824,013 | \$ 20,419,013 |
| 2008 | 11,130,000 | 9,275,400 | 20,405,400 |
| 2009 | 11,075,000 | 8,872,282 | 19,947,282 |
| 2010 | 11,540,000 | 8,407,387 | 19,947,387 |
| 2011 | 11,965,000 | 7,979,175 | 19,944,175 |
| 2012-2016 | 65,580,000 | 31,144,416 | 96,724,416 |
| 2017-2021 | 34,300,000 | 16,391,690 | 50,691,690 |
| 2022-2026 | 16,965,000 | 11,146,994 | 28,111,994 |
| 2027-2035 | 35,260,000 | 8,418,423 | 43,678,423 |
| Total | \$ 208,410,000 | \$ 111,459,780 | \$ 319,869,780 |

Interest on all bonds for the Wells Hydroelectric Project is payable on March 1 and September 1. All bond covenants were complied with for fiscal years 2006 and 2005.

Advance Debt Refunding

In December 2003 the Wells Project issued its Wells Hydroelectric Revenue Bonds, Refunding Series 2003A, 2003B, 2003C, and 2003D (the "2003 Bonds"), in the total par amount of \$111,340,000. The 2003 Bonds advance refunded the following outstanding bonds:

| Bond Series | Amount Outstanding |
|-----------------------|---------------------------|
| 1963 | \$ 93,955,000 |
| 1965 | 5,500,000 |
| 1978 | 2,720,000 |
| 1993A | 14,810,000 |
| 1993B | 1,165,000 |
| Total Refunded | \$ 118,150,000 |

This advance refunding resulted in a reduction of \$10,167,000 in total Wells Project debt service over the next 15 years and an economic gain (difference between the present values of the old and new debt service requirements) of \$2,504,000.

In July 2005, the Wells Project issued its Wells Hydroelectric Revenue and Refunding Bonds, Series 2005A, 2005B, and 2005C (the 2005 Bonds), in the total par amount of \$87,585,000. The issuance of the 2005 bonds resulted in a premium of \$2,027,482. A portion of the 2005 Bonds refinanced and legally defeased \$5,160,000 of the outstanding 1999B Bonds. This refinancing resulted in a reduction of \$1,058,000 in total Wells Project debt service over the next 24 years and an economic gain (difference between the present values of the old and new debt service requirements) of \$358,000.

In August 2006, the Wells Project issued its Wells Hydroelectric Revenue Refunding Bonds, Series 2006A and 2006B (the 2006 Bonds), in the total par amount of \$13,280,000. The issuance of the 2006 Bonds resulted in a premium of \$251,744. The 2006 Bonds refinanced and legally defeased \$14,080,000 of the 1986A Bonds, which was the remaining outstanding balance of 1986A Bonds. This refinancing resulted in a reduction of \$4,774,000 in total Wells Project debt service over the next 12 years and an economic gain (difference between the present values of the old and new debt service requirements) of \$2,214,000.

Debt service on these refunded bonds and other outstanding Wells Project bonds which were refunded in prior years is met by cash and investments held in irrevocable trust with an escrow agent. As of December 31, 2006, the escrow agent was holding cash and investments of \$40,366,000 which are expected to fully fund debt service on all outstanding Wells Project refunded bonds. The trust account assets and the liability for the corresponding refunded bonds are not included in the District's financial statements.

Distribution System

In January 2004, \$18,420,000 of revenue bonds were issued for capital improvements to electrical facilities. These bonds are non-voted State I.D. No. 252.11. The bonds will mature and be retired during the next five years ending December 31 as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------|----------------------|---------------------|----------------------|
| 2007 | 680,000 | 527,506 | 1,207,506 |
| 2008 | 695,000 | 512,206 | 1,207,206 |
| 2009 | 715,000 | 486,144 | 1,201,144 |
| 2010 | 735,000 | 466,481 | 1,201,481 |
| 2011 | 760,000 | 445,534 | 1,205,534 |
| 2011-2023 | 9,505,000 | 3,039,466 | 12,544,466 |
| Total | \$ 13,090,000 | \$ 5,477,337 | \$ 18,567,337 |

The 2004 Distribution bonds are serial bonds through 2020 and term bonds maturing in 2021, 2022 and 2023. Interest rates range from 2.0% to 5.00% and interest is payable on June 1 and December 1. The bondholders' resolution requires the District to maintain at least 125% coverage for debt service. The required coverage was maintained in 2006 and 2005.

NOTE 6 – OTHER COMMITMENTS AND CONTINGENCIES

a) Colville Confederated Tribes Settlement

In January 2003 the Colville Confederated Tribes (“Tribes”) presented an economic consultant’s study indicating the District owed the Tribes approximately \$950,000,000 for past annual charges and approximately \$18,000,000 annually for use of freeboard lands previously considered tribal lands and one-half of the bed of the Okanogan and Columbia Rivers bordering the Colville Reservation. The District had been aware of a claim made by the Tribes for the use of the bed of the river for years, but there had never been a claim to shore land that the District owns. The bed of the river claim had surfaced on several occasions, during the previous 25 years, but the Tribes chose not to pursue it seriously until January 2003. The Tribes’ claim in 2003 included annual charges, past and future, for all of the lands that the District previously acquired in fee title from allottees, individuals of the Tribes, and the Bureau of Indian Affairs, as well as for one-half of the bed of the Okanogan and Columbia Rivers abutting the Colville Reservation. The District has recorded fee title deeds to all of the shore land below Project Boundary abutting the Colville Reservation.

In 2004 the District and the Tribes entered into a settlement of this claim which provided for a \$13,500,000 cash payment and the transfer of land with a book value of \$958,140 to the Tribes. Additionally the District agreed to sell to the Tribes 4.5% of the output of the Wells Project through August 31, 2018, and 5.5% thereafter, at Wells Project cost, for so long as the District holds a license for the Wells Project. In return the Tribes granted and affirmed all land rights previously conveyed by the Tribes to the District; granted to the District overflow rights to the bed of the Okanogan and Columbia Rivers; covenanted not to compete for a license for the Wells Project and to support the District’s relicensing application; and granted the District certain water rights in connection with the Wells Project.

The cash portion of the settlement was paid in July 2005, financed with Wells Project Revenue Bonds, and is reported as a deferred charge on the balance sheet, to be amortized over the corresponding revenue bond debt service period. The land portion of the settlement was transferred in March 2005.

The Wells Project's four investor-owned Power Purchasers approved the settlement, as evidenced by an Endorsement Agreement between the Power Purchasers and the District dated November 1, 2004. The District, the Tribes, and the Power Purchasers filed a joint application with the Federal Energy Regulatory Commission ("FERC") seeking approval of the Colville Settlement Agreement and the Colville Power Sales Contract. FERC formally approved the contracts on February 11, 2005.

b) Power Purchasers Settlement Agreement

Under this agreement the District must offer certain temporary, non-firm energy to the Wells Project Power Purchasers under two pricing strategies which are subject to annual adjustments. Annual adjustments are made when the Wells Annual Power Cost has been determined; after the end of each Wells fiscal year. The adjustment is based on the computed excess of District reserved share power and effectively adjusts the Power Purchaser's cost of this energy to the Wells Annual Power Cost Rate. The District estimates the adjustment to revenue each month required by this agreement.

c) Memo of Understanding with Okanogan County PUD

The District and Okanogan PUD entered into a written Memorandum of Understanding granting Okanogan the first right of refusal to any power and energy the District makes available after meeting the needs within Douglas County and contractual commitments in place on the date of the Memorandum. The two Districts also committed to negotiate a Power Sales Contract intended to allocate an additional 22% share of the output of Wells Project to Okanogan after expiration of the current Power Sales Contracts in 2018. The additional share is contingent upon each of the following: (1) The District and Okanogan PUD successfully relicensing the Project and obtaining 100% of the Project output; (2) the new license entitling the District to 92 percent of the output and Okanogan PUD to 8 percent of the output of the Project; and (3) the District's compliance with the Power Sales Contracts with each of the four Wells Power Purchasers. Okanogan PUD and the District are in the process of negotiating a long-term power sales contract.

d) Endangered Species

Several species of fish in the vicinity of the Wells Project are listed as threatened or endangered under the Endangered Species Act. Steelhead and spring chinook were listed as endangered species on August 18, 1998 and March 16, 1999, respectively. Bull trout were listed as a threatened species on June 10, 1998. Summer chinook salmon migrating above Rock Island Dam were petitioned for listing in June 1993; however National Marine Fisheries Service declined to list summer chinook.

The District has negotiated with state and federal fisheries resource agencies and Indian tribes, a multispecies Habitat Conservation Plan ("HCP"). The HCP species are spring chinook, summer/fall chinook, steelhead, sockeye, and coho salmon. The purpose of the HCP is to have legally enforceable measures in place to either avoid a listing under the Endangered Species Act ("ESA") or, in the event of a listing, allow continued operation of the Wells Project under an incidental take permit. The HCP satisfies all FERC relicensing and ESA requirements for the Plan species. FERC approved the HCP in June of 2004 and amended the Wells Project license accordingly. At the District's request, FERC also issued an Order on Rehearing in November 2004, clarifying several technical items.

Bull trout have been observed at the Wells Project but are not covered in the HCP. The United States Fish and Wildlife Service ("USF&W") issued a biological opinion for bull trout for the operations of the Wells Project under the terms of the HCP in May of 2004. Under the amended Wells license FERC has the authority to require the District to carry out specified measures for the purpose of participating in the development and implementation of a bull trout recovery plan.

There is extensive litigation in the federal court system under the ESA, challenging actions taken by the responsible federal agencies in regard to anadromous fish. Future legal actions to protect fish may have a significant impact on the amount and/or cost of power generated at the Wells Project. As the ultimate outcome of the matter is not determinable, no accruals have been made to the financial statements.

e) Land Acquisition

Recent surveys by the District's contracted surveyors have revealed errors on portions of the original survey of the Wells Project. There are a few locations where the Wells Project boundary is under water. The District has determined that the appropriate course of action will involve relocation of portions of the Wells Project boundary, which will require acquisition of additional property rights at these locations. A property owner with water from the Wells Project encroaching on his property could pursue legal action in order to remedy the situation. The District intends to vigorously pursue acquisition in fee title of any lands upon which the Wells Reservoir is encroaching.

f) Energy Northwest – Nine Canyon Wind Project

The Nine Canyon Wind Project is located eight miles southwest of Kennewick, Washington in the Horse Heaven Hills. The project was developed in two phases. Phase I consists of thirty seven 1.3 MW wind turbine generators and Phase II consists of an additional twelve 1.3 MW units. The District is responsible for 6.25% of Phase I debt service and 43.59% of Phase II debt service, and 15.4% of operations and maintenance costs.

g) Douglas PUD – Chelan PUD Power Sales Contract

The District has a long term power sales contract with Chelan PUD to purchase 2.77% of the output of Chelan PUD's Rocky Reach Project. The contract is a take-or-pay contract requiring the District to pay costs associated with operation, maintenance, renewals and replacements to Rocky Reach, whether or not the project is operable or operating. The initial term of the power sales contract expires on October 31, 2011. The District recently exercised its option to extend the contract and purchase an additional 2.77% (5.54% total) of the output. The District has the right to extend the term of the contract for 5 successive 10-year periods. Discussions with Chelan PUD are on-going regarding the appropriate pricing for its post 2011 share of Rocky Reach output.

h) Avista Energy Long-Term Firm Power Agreement

The District entered into an agreement with Avista Energy, Inc. to exchange power from October 1, 2000 through July 31, 2017. The District is obligated to deliver fixed annual amounts of energy totaling 1.9 million MWh of energy to Avista from October 1, 2000 through March 31, 2006; and Avista is subsequently obligated to deliver a like amount of firm energy to the District from August 1, 2006 through July 31, 2017.

i) Relicensing

The Wells Project License expires May 31, 2012. The District intends to use its best efforts to obtain a new license. Pursuant to the Integrated Licensing Process the District, in December 2006, filed with the FERC 1) a Notice of Intent to relicense the Wells Project and 2) a Pre-Application Document. The District will seek a 50 year license.

j) Generating Unit

In February 2005, Generating Unit 1 ("Unit 1") at the Wells Project experienced a fault in the generator windings and was taken out of service. The District awarded a contract to have the unit rebuilt. Including change orders the contract amount was \$5.5 million. The rebuild was completed and Unit 1 returned to service in June 2006. The other nine generating units will be rebuilt over the next several years.

The District had an insurance policy covering the failure of Unit 1. The District settled its claim with the insurance carrier for \$3.6 million in February 2006, and applied those funds to the rebuild of Unit 1. The remaining cost of the Unit 1 repair was paid with bond proceeds, as will be the cost to rebuild the other nine generating units.

NOTE 7 – PENSION PLANS, DEFERRED COMPENSATION 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 and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380.

The PERS system includes two defined benefit pension plans, Plan 1 and Plan 2, and a combination defined benefit/defined contribution plan, Plan 3. Participants who joined the system by September 30, 1977, are Plan 1 members. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The average pension is two percent of the average final compensation per year of service, capped at 60 percent.

Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. Plan 2 retirements prior to age 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at three percent annually.

Plan 3 members may retire with at least 10 years of service; or five years, including twelve months that were earned after age 54; or 5 service credit years earned in Plan 2 prior to June 1, 2003.

Employer and employee contribution rates are established periodically by the State Legislature. The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2006 were:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|----------|-------------|-------------|----------------------------------|
| Employer | 3.69%* | 3.69%* | 3.69%* |
| Employee | 6.00% | 3.50% | Variable 5-15% employee selected |

*employer rates include an administrative expense fee of .19%

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

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|------|-------------|-------------|-------------|
| 2006 | \$33,066 | \$334,946 | \$13,383 |
| 2005 | 22,136 | 193,378 | 7,054 |
| 2004 | 17,542 | 129,618 | 4,964 |

The District also offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(a) permitting employees to defer a portion of their salary until future years. The District provides a 50% match of employee contributions capped at a percentage of employee regular straight-time wages for the pay period equal to 7.32%, less the PERS 2 employer contribution percentage. At January 1, 2007 the cap was frozen at 2% of regular straight-time wages. The deferred compensation is not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

NOTE 8 – DEFERRED DEBITS AND CREDITS

Distribution System

The Distribution System has deferred debits of \$3,897,796 and \$3,651,003 respectively at December 31, 2006 and 2005. The deferred debits consist of preliminary survey and investigation, such as wind development costs, undistributed balances in clearing accounts, miscellaneous work in progress and retiree employee benefits. The employee benefits are amortized and the remaining deferred debits are capitalized or expended according to generally accepted accounting principles. The Distribution System has deferred credits of \$3,111,393 and \$90,321 respectively at December 31, 2006 and 2005. The deferred credits consist of funds retained for contract performance, secured funds for installation costs, and retired employee benefits.

Wells Hydroelectric Project

The Wells Hydroelectric Project has deferred debits of \$32,031,712 and \$34,244,237 respectively at December 31, 2006 and 2005. The deferred debits consist of improvements to recreational facilities, repair and maintenance costs, miscellaneous fish improvements, preliminary survey and investigation, and miscellaneous clearing accounts. The deferred debits are amortized over the life of the 1986, 1990 and 1993 bonds which were issued to fund the projects except for the miscellaneous clearing accounts which are cleared annually. The Wells Hydroelectric Project has deferred credits of \$460,699 and \$523,633 respectively at December 31, 2006 and 2005. The deferred credits consist of funds retained for contract performance and power cost adjustments not taken by Power Purchasers.

NOTE 9 – BROADBAND SERVICES

Douglas County Community Network (DCCN):

Since the 1960's the District has owned and operated data communication facilities that provide communication for District electrical equipment, employees and office equipment. The communication system has grown to become an integral part of the District's electrical system, providing remote monitoring, switching, metering, internal communication, and security to District assets. In 2000 the Washington State Legislature gave Public Utility Districts the authority to offer wholesale telecommunication services. The District named its broadband network the Douglas County Community Network (DCCN). DCCN provides wholesale broadband data communication services to customers of the District. As of December 31, 2006 the District has capitalized \$13.9 million dollars of communication equipment.

| <u>Douglas County Community Network</u> | <u>2006</u> |
|------------------------------------------------|--------------------|
| Operating Revenue: | |
| Wholesale Broadband Residential & Business | \$ 293,538 |
| Broadband Governmental | 248,538 |
| Colocation & Bandwidth | 57,587 |
| | <u>\$ 599,663</u> |
| Operating Expenses: | |
| Operation & Maintenance | 559,957 |
| Administration and General | 29,476 |
| | <u>\$ 589,433</u> |

Northwest Open Access Network (NoaNet):

The District, along with 14 other Washington State Public Utility Districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over Public Benefit Fibers leased from Bonneville Power Administration, throughout the State of Washington for assisting its members in the efficient management of load, conservation and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001.

In July 2001, NoaNet issued \$27 million in telecommunications network revenue bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations and maintenance. The Bonds are currently being redeemed and remain outstanding through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. As of December 2006, \$21,675,000 (unaudited) of the bonds remain outstanding. In addition, NoaNet opened a line of credit with Bank of America to fund capital expenditures. The line of credit is not being fully utilized; \$5 million (unaudited) remains outstanding at December 31, 2006. Each member of NoaNet has entered into a repayment agreement to guarantee the debt of NoaNet. The District's guarantee of NoaNet's liabilities is limited to a 5.74% interest.

The management of NoaNet anticipates meeting operating costs through profitable operations; however members have been contributing to help meet debt service obligations. A NoaNet annual report may be obtained by writing to Northwest Open Access Network, 3511 Norfolk Court, Olympia, WA 98501. NoaNet's web site is www.noanet.net.



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.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

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