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**PUBLIC UTILITY DISTRICT NO. 1  
OF KLICKITAT COUNTY  
MCAG No. 1785**

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS**

**DECEMBER 31, 2009 and 2008**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Public Utility District No. 1 of Klickitat County MCAG No. 1785  
Goldendale, Washington

We have audited the accompanying combined balance sheet of Public Utility District No. 1 of Klickitat County as of December 31, 2009 and 2008 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 combined 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 audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Klickitat County as of December 31, 2009 and 2008 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis 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.



Portland, Oregon  
September 23, 2010

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**DIRECTORY OF OFFICIALS**

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<u>Office</u>	<u>Official</u>	<u>Term</u>	<u>Term Expiration</u>
<b>Board of Commissioners</b>			
President	Ray A. Mosbrucker	6 years	December 2010
Vice President	Randy L. Knowles	6 years	December 2012
Secretary	Dan G. Gunkel	6 years	December 2014
<b>Appointed Officials</b>			
General Manager	James R. Smith	1313 S. Columbus	
Auditor/Accounting Manager	Melvin J. Heuberger	Goldendale, WA 98620	
Public Utility District No. 1 of Klickitat County - Attorney	Ronald J. English	15624 111th Avenue N.E. Bothell, WA 98011	

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section provides an overview and analysis of key data presented in the basic financial statements for the years ended December 31, 2009 and 2008. Information within this section should be read in conjunction with the basic financial statements and accompanying notes.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Public Utility District No. 1 of Klickitat County (the District) consists of the electric system, eight water systems and five wastewater systems. The District's service area covers approximately 1,680 square miles in the County. The District also serves small areas in the surrounding counties of Yakima, Skamania and Benton. As of December 31, 2009 the District had 12,068 electric, 1,133 water and 1,154 wastewater customers. The District's wholesale activity is a significant part of the electric system business lines. Wholesale revenues are generated from the sale of the output from the Landfill Gas Project, a 10.5 MW facility, and from the White Creek Wind I power purchase contract, which the District owns 13% of the generated output from the 205 MW project.

The financial statements of the District report the self-supporting, proprietary activities of the District funded primarily by the sale of power, water and wastewater services. The District reports these business-type activities in a manner similar to private sector business enterprises, using the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

The Balance Sheet presents information on the District's assets and liabilities, with the difference between the two reported as net assets, and provides information regarding the nature and amount of resource investment (assets) and obligations incurred in the pursuit of such resources. This statement also provides a vehicle for evaluating the capital structure of the District and assessing liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses and Changes in Net Assets reports revenues and expenses as well as change in net assets (net income) for this period. This statement provides a measurement of the District's operations, helps to evaluate the level of cost recovery from charges for products and services, and can be used as a partial determinant of creditworthiness.

The Statement of Cash Flows provides information concerning cash receipts and disbursements during the reporting period resulting from operating, financing and investing activities. This information provides insight into the District's ability to generate net cash flows to meet obligations, as they become due, and is an important indicator of the District's liquidity and financial strength.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the financial statements, as described above, including significant accounting policies, commitments, obligations, risks, contingencies and other financial matters of the District.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Financial Highlights – 2009 to 2008**

- The year ended December 31, 2009 financial results showed the continued financial strength of the District. The debt service coverage was 2.29 for the electric system with a change in net assets of \$18,244,717. A large portion of this change is from contributions of Transmission Plant for three different Wind projects, while \$7,340,408 is from Operations.
- In 2009 the District completed a \$42.35 million bond sale to fund the remaining construction on the Land Fill Gas II (LFG II) project and provide three years of funding for Electric Distribution capital construction. LFG II is a 26.5 MW gas-fired combustion turbine and steam recovery generating facility located at the Roosevelt landfill.
- In June 2008 the District completed the transaction with Lewis PUD to sell 10% of our 26% share of the White Creek Wind I project power output. In December 2008, the District also sold 3% of our remaining 16% share of the White Creek Wind I project Power output to Benton PUD. The proceeds of \$36,846,000 and \$11,053,800 from Lewis PUD and Benton PUD, respectively, were used to pay down the bond anticipation note of \$47,000,000 to \$5,000,000. The gain on the sale of White Creek power rights was \$23,678,404.
- In April 2008 the District approved a loan payoff on the Klickitat Water and Wastewater System in the amount of \$214,200 plus interest of \$5,535.
- The District receives transmission revenues for providing transmission services for various utilities in the White Creek Wind I project and from the Goldendale Energy Center, a 248 MW natural gas-fired combined cycle combustion turbine electric generating facility owned and operated by Puget Sound Energy. The revenue received from this business-line was approximately \$3,782,000.
- Customer growth was near 1% in 2009, which is consistent over the last 3 years. Energy consumption was 5% lower than in 2008.
- Staff worked with each local community in which we serve either water or wastewater or both to review operations, rates and projected future projects. Rate increases were adopted for those systems where revenues did not cover estimated expenses and debt service.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Financial Highlights – 2008 to 2007**

- The year ended December 31, 2008 financial results showed the continued financial strength of the District. The debt service coverage was 2.29 for the electric system with a change in net assets of \$26,274,229. A large portion of this change is from a gain on the partial sale of White Creek Wind I project power rights, while \$2,595,825 is from operations and other nonoperating revenues and expenses.
- The District completed the transaction with Lewis PUD to sell 10% of the District's 26% share of the White Creek Wind I project power output on June 16, 2008. In December 2008, the District also sold 3% of their remaining 16% share of the White Creek Wind I project power output to Benton PUD. The proceeds of \$36,846,000 and \$11,053,800 from Lewis PUD and Benton PUD, respectively, were used to pay down the bond anticipation note of \$47,000,000 to \$5,000,000 which was entered into to fund the power purchase agreement that was entered into in November of 2007 in the amount of \$48,366,917. The gain on the sale of White Creek power rights was \$23,678,404.
- In 2007 the District completed phases II and III of the Klickitat Water project and finished the construction of the collection system and treatment plant for the Klickitat wastewater project. These projects were funded by grants and loans provided by federal and state agencies. The final accounting for these projects was completed in early 2008. In May of 2008 rate adjustments were made to the systems on which rates were not sufficient to cover expenses and debt service. In April 2008 the District approved a loan payoff on the Klickitat Water and Wastewater System in the amount of \$214,200 plus interest of \$5,535.
- The District receives transmission revenues for providing transmission services for various utilities in the White Creek Wind I project and from the Goldendale Energy Center, a 248 MW natural gas-fired combined cycle combustion turbine electric generating facility owned and operated by Puget Sound Energy. The revenue received from transmission services was approximately \$2,900,000. Also, the increase in wholesale customers is due to the sale of energy from the White Creek Wind I project.
- Customer growth was near 1.7% in 2008, which is a little lower than previous years. Energy consumption was 5% higher than in 2007.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Condensed Comparative Financial Information**

***Combined Balance Sheet***

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital assets	\$ 167,546,723	\$ 115,858,833	\$ 111,050,080
Current, restricted and other assets	<u>103,677,107</u>	<u>89,691,828</u>	<u>111,506,868</u>
 Total assets	 <u>\$ 271,223,830</u>	 <u>\$ 205,550,661</u>	 <u>\$ 222,556,948</u>
Long-term liabilities	\$ 133,779,264	\$ 94,694,565	\$ 95,455,860
Current liabilities	<u>20,452,841</u>	<u>12,109,088</u>	<u>54,628,309</u>
 Total liabilities	 <u>154,232,105</u>	 <u>106,803,653</u>	 <u>150,084,169</u>
Invested in capital assets, net of related debt	72,287,796	55,474,073	52,505,219
Restricted	13,403,331	8,989,531	8,456,380
Unrestricted	<u>31,300,598</u>	<u>34,283,404</u>	<u>11,511,180</u>
 Total net assets	 <u>116,991,725</u>	 <u>98,747,008</u>	 <u>72,472,779</u>
 Total liabilities and net assets	 <u>\$ 271,223,830</u>	 <u>\$ 205,550,661</u>	 <u>\$ 222,556,948</u>

***Capital Activity***

***2009 to 2008***

Net utility plant for the District increased \$52 million during 2009. Some of the large projects completed to plant in 2009 were Energizer Substation, Rock Creek to Willis Transmission, and Willis Substation. These three projects contributed \$11.9 million to plant assets. Currently we are in the process of constructing our LFG II facility expending \$34.5 million on this project in 2009.

***2008 to 2007***

Net utility plant for the District increased \$4.8 million during 2008. This was lower than previous years due to higher than normal plant additions during those years pertaining to the White Creek Substation and the White Creek Transmission Line. Some of the large projects completed to plant in 2008 were a new Klickitat Waste Treatment Plant with a project cost of \$6.8 million over several years, John Day substation \$1.2 million and Husum substation \$1.04 million to distribution plant.



**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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***Debt Activity***

*2009 to 2008*

The District issued \$42,350,000 in electric system revenue bonds in December 2009. The proceeds are being used to fund LFG II, a methane gas fired combustion turbine and steam recovery plant to generate 26.5 MW of electricity. The plant is expected to come on line in the third quarter of 2010.

*2008 to 2007*

The District completed a transaction with Lewis PUD to sell them 10% of our 26% share of the White Creek Wind I project power output on June 16, 2008. In December 2008, the District also sold 3% of its remaining 16% share of the White Creek Wind I project power output to Benton PUD. The proceeds of \$36,846,000 and \$11,053,800 from Lewis PUD and Benton PUD, respectively, were used, along with operating revenues, to pay down the first section of the \$47,000,000 bond anticipation note in May 2008. This left the District with only the second section of the bond anticipation note still outstanding for \$5,000,000. All additional debt activity was due to payments made.

***Current, Restricted and Other Activity***

*2009 to 2008*

Current, Restricted and Other assets increased by \$13.9 million, primarily due to \$13.5 million designated for the next three years of capital construction from bond proceeds.

*2008 to 2007*

Current, restricted and other assets decrease by \$21.8 million, primarily due to the sale of the District's 13% interest in White Creek Wind I project, reducing the investment in White Creek by \$24.2 million and cash increased during 2008 by approximately \$4.7 million.

***Overall Results of Operations***

*2009 to 2008*

The District's 2009 results met or exceeded expectations set during the planning and budget process. With an increase in Operating Income of \$2,878,200 or 65% the District is in a position for continued financial strength.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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***Overall Results of Operations*** – (continued)

*2008 to 2007*

The District's 2008 results met or exceeded expectations set during the planning and budget process. With an increase in operating income of \$1,945,029 or 77% the District is in a position for continued financial strength.

***Electric System Operating Results***

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 41,104,154	\$ 37,970,633	\$ 26,920,565
Operating expenses	<u>33,638,316</u>	<u>34,081,266</u>	<u>24,804,702</u>
Operating income	7,465,838	3,889,367	2,115,863
Net nonoperating revenue (expense)	(2,679,412)	19,936,317	(310,992)
Capital contributions	<u>12,726,042</u>	<u>1,872,245</u>	<u>1,510,654</u>
Change in net assets (net income)	<u>\$ 17,512,468</u>	<u>\$ 25,697,929</u>	<u>\$ 3,315,525</u>

***Operating Revenues***

*2009 to 2008*

The District had increased retail sales of 16,009,208 KWH during 2009 which led to increased electric revenues of \$3,133,521 over 2008 as follows: Residential sales up \$978,684, general service sales up \$704,528, industrial sales up \$425,755, irrigation sales down \$110,814 and street lighting up \$2,920. Other wholesale and transmission electric revenues increased \$1,132,447 mainly due to increased wheeling fees on transmission lines serving multiple wind generation projects that are located within Klickitat County. Overall Revenues increased by 8% during 2009.

*2008 to 2007*

The District had increased retail sales of 16,831,900 KWH during 2008 which led to an overall increase in electric revenues of \$1,422,651 over 2007. This was lower than expected due to a \$897,436 refund given to the customers in December 2008 from payments made by BPA for the Residential Exchange Program recorded as a reduction to operating revenues. During 2008 the following categories had these changes in revenue for 2008: residential revenue up \$103,700, general service revenue down \$61,815, industrial revenue up \$186,025, irrigation revenue up \$135,222, street lighting up \$2,605 and generation revenue up \$1,056,913. Wholesale and Transmission revenue increased by \$9,627,417 during 2008. Revenue from the landfill gas generation project was up \$26,532 during 2008 and other wholesale and transmission electric revenues increased \$9,600,885 mainly due to a full year's production of the White Creek Wind I project energy sales. Overall revenues increased by 41% during 2008.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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*Operating Expenses*

*2009 to 2008*

Operating expenses were down slightly in 2009 by \$442,950. Power, Operations and Maintenance costs up \$389,755 because of increased aerial distribution maintenance during 2009. Admin and General expense decreased by \$454,462 mainly due to general expense being higher in 2009. Taxes assessed by state and municipal governments increased \$193,534 as a result of the increase in generation power sales for the landfill gas project, wind project and the increase in transmission revenues now collected by the District for services on the various generation projects. Finally depreciation expense increased on Transmission Plant by \$298,146 due the large amount of work orders closed in 2009 for this asset class. Expenses decreased .1% from 2008.

*2008 to 2007*

As with revenues, operating expenses were up in 2008 due costs associated with operation of White Creek Wind I for a full year. This along with higher fuel prices increased operating expenses during 2008. Power supply costs were up, \$5,713,703, operations and maintenance expenses increased \$2,550,648 and administrative and general expenses are up \$722,413. Depreciation and amortization increased \$278,622 and has continued to increase with the District's continued plant expansion of our transmission lines and substations to serve the multiple wind generation projects that are located within Klickitat County. Taxes assessed by state and municipal governments increased \$11,773 as a result of the increase in generation power sales for the landfill gas project and the increase in transmission revenues now collected by the District for services on the various generation projects. Overall expenses increased 37% over 2007.

*Nonoperating Revenue/(Expense)*

*2009 to 2008*

Non-operating income decreased in 2009 mainly due to the sale of 13% of the District's 26% White Creek power rights resulting in a gain of \$23,678,404 in 2008. Other income items changes in 2009 are: Interest expense down \$1,463,879 due to during 2008 increased interest payments for bond anticipation notes. Investment income decreased \$1,073,970 due to lower cash availability throughout the year because of funding of construction projects and continued lower interest rates in the state investment pool during 2009. Other income increased by \$790,870 mainly due to a DOE renewable energy credit received for \$437,029 and scheduling services and fees increases for Wind Project for \$176,976.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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*Nonoperating Revenue/(Expense)* – (continued)

*2008 to 2007*

The gain recorded in 2008 on the sale of White Creek power rights contributed the largest portion of nonoperating revenue of \$23,678,404. This was from the sale of 13% of the District's 26% interest in power rights. Other income items are: interest expense up \$724,927 during 2008 mainly due to increased interest payments for bond anticipation notes and due to adjustments in interest expense not recorded to the correct expense accounts during 2007. Investment income decreased \$1,116,291 due to lower cash availability throughout the year because of funding of construction projects and lower interest rates in the state investment pool during 2008. Amortization of loan items was impacted by a full year of amortization of issuance costs and premium. These items combined brought other nonoperating income down \$3,431,095 from 2007, excluding the White Creek power rights sale.

***Capital Contributions***

*2009 to 2008*

Capital contributions increased \$10,853,797 from the previous year. The capital contributions in 2009 were above normal contributions for a given year due to an \$11.9 million contribution of plant assets from our agreements with Windy Point Partners to maintain transmission and substation equipment which the District operates and maintains.

*2008 to 2007*

Capital contributions increased \$361,591 from the previous year. The capital contributions in 2008 were above normal contributions for a given year. Some of the major amounts came from LUD formations and other wind projects which the District operates as a transmission and substation provider.

***Legal Settlement***

There were no legal issues during 2009 or 2008 where the District received or disbursed a settlement.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Water and Wastewater Systems Operating Results**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 1,414,787	\$ 1,411,738	\$ 1,061,673
Operating expenses	<u>1,540,216</u>	<u>838,897</u>	<u>660,357</u>
Operating income	(125,429)	572,841	401,316
Net nonoperating revenue/(expense)	(14,226)	(14,445)	28,637
Capital contributions and grants	<u>871,905</u>	<u>17,904</u>	<u>1,321,087</u>
Change in net assets (net income)	<u>\$ 732,250</u>	<u>\$ 576,300</u>	<u>\$ 1,751,040</u>

***Operating Revenues***

*2009 to 2008*

The District Water/Waste Water revenues were essentially unchanged from 2008.

*2008 to 2007*

The District Water/Wastewater revenues were up 33% this year over the previous year in the amount of \$350,065. During 2008 the District took over operation of the Dallesport Wastewater and Industrial Park Water systems, and raised the rates in several of the communities it provides water/wastewater services to.

***Operating Expenses***

*2009 to 2008*

The expenses to operate the Water/Waste Water systems were up 84% or \$701,319 compared to a year ago. This increase in operating expenses can be attributed to the takeover of operations for the Dallesport Wastewater and Industrial Park Water Systems having a full year of expenses in 2009 as opposed to only a half year expenses in 2008. These two systems represented \$345,036 of expenses in 2009. Depreciation expense is up by 158% or \$295,623 due to the booking of a large amount of depreciable plant at the end of 2007 for phase II and III of the Klickitat Water and WasteWater projects collection system and treatment plant.

*2008 to 2007*

The expenses to operate the Water/Wastewater systems were up 27% or \$178,540 compared to a year ago. This can be attributable to the takeover of operations for the Dallesport Wastewater and Industrial Park Water Systems.

***Nonoperating Revenue/(Expense)***

*2009 to 2008*

Nonoperating expenses were basically unchanged between 2009 and 2008.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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*Nonoperating Revenue/(Expense)* – (continued)

*2008 to 2007*

Nonoperating expenses were higher in 2008 due higher interest rates being paid on loans for the water/wastewater systems than the District was able to get from investing excess cash in the State Investment pool.

*Capital Contributions & Grants*

*2009 to 2008*

The significant increase of \$854,001 was primarily due to establishment of Ponderosa Park LUD contributing \$828,200 during 2009.

*2008 to 2007*

The significant decrease of \$1,303,183 was primarily due to two major projects taking place in 2007, Klickitat Wastewater and Klickitat Water. Much of the construction and grant funding for these projects occurred in 2007.

*The District Looking Forward 2010*

The District issued bonds to finance additional capacity at the Landfill Gas (LFG) Generating Facility by approximately 10 to 18 MW's. The anticipated capital cost is around \$50,000,000 for the entire project. The project is expected to be completed in third quarter 2010.

The District anticipates that additional transmission projects will surface during 2010 along with those undertaken during 2009 due to other entities locating wind projects within Klickitat County. These capital costs are paid for by project developers.

The District sees many challenges and opportunities in the coming years with additional projects in transmission, landfill gas and wind generation, and a new Bonneville Power Administration power sales contract in the fall of 2009, which will set rates and limit supply for the period beginning on October 1, 2011. The District is positioned to meet these changes with a solid financial position.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**COMBINED BALANCE SHEET**

**ASSETS**

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 15,358,699	\$ 14,694,564
Notes receivable	146,876	146,876
Accounts receivable, net	1,015,381	325,480
Unbilled revenue	1,583,969	1,687,150
Other receivables	4,395,313	1,219,193
Materials and supplies	1,835,291	2,219,784
Prepayments	246,573	198,161
Current portion of prepaid power contract	1,180,359	1,180,359
Total current assets	<u>25,762,461</u>	<u>21,671,567</u>
<b>RESTRICTED ASSETS</b>		
Cash - construction funds/special funds	-	111,847
Special deposits	400	400
Construction funds	37,417,619	30,825,000
Special funds	13,792,107	9,267,141
Total restricted assets	<u>51,210,126</u>	<u>40,204,388</u>
<b>CAPITAL ASSETS</b>		
Total plant in service	168,952,097	155,226,877
Construction work in progress	48,299,053	7,583,441
Total utility plant	217,251,150	162,810,318
Accumulated provision for depreciation	(49,704,427)	(46,951,485)
Total capital assets	<u>167,546,723</u>	<u>115,858,833</u>
<b>OTHER ASSETS</b>		
Other investments and transmission deposits	2,694,841	3,053,194
Deferred debits	24,009,679	24,762,679
Total other assets	<u>26,704,520</u>	<u>27,815,873</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 271,223,830</u></u>	<u><u>\$ 205,550,661</u></u>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**COMBINED BALANCE SHEET**

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**LIABILITIES AND NET ASSETS**

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 8,725,335	\$ 3,973,277
Current portion of long-term debt	2,777,287	217,830
Bond anticipation note	5,000,000	5,000,000
Consumers deposits	297,374	274,472
Other current and accrued liabilities	3,652,845	2,643,509
Total current liabilities	20,452,841	12,109,088
<b>NONCURRENT LIABILITIES</b>		
Compensated absences	363,481	499,434
Long-term debt	133,390,602	94,030,452
Deferred credits	25,181	164,679
Total noncurrent liabilities	133,779,264	94,694,565
Total liabilities	154,232,105	106,803,653
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	72,287,796	55,474,073
Restricted	13,403,331	8,989,531
Unrestricted	31,300,598	34,283,404
Total net assets	116,991,725	98,747,008
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 271,223,830</b>	<b>\$ 205,550,661</b>



**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>OPERATING REVENUES</b>		
Electric system		
Sales to retail customers	\$ 21,365,057	\$ 20,374,969
Sales to wholesale and transmission customers	19,739,096	17,595,664
Water/wastewater systems	1,414,787	1,411,738
Total operating revenues	<u>42,518,940</u>	<u>39,382,371</u>
<b>OPERATING EXPENSES</b>		
Power expense	15,667,600	15,803,519
Operations expense	6,011,285	6,044,680
Maintenance expense	3,818,329	3,259,261
Administrative and general expense	4,011,409	4,465,871
Depreciation expense	4,072,044	3,942,500
Tax expense	1,597,865	1,404,332
Total operating expenses	<u>35,178,532</u>	<u>34,920,163</u>
<b>OPERATING INCOME</b>	<u>7,340,408</u>	<u>4,462,208</u>
<b>NONOPERATING REVENUES/(EXPENSES)</b>		
Interest income	483,823	1,557,793
Gain on sale of White Creek Wind I rights	-	23,678,404
Other nonoperating revenues	1,501,351	828,366
Interest expense	(4,546,492)	(6,010,371)
Amortization expense	(132,320)	(132,320)
Total nonoperating revenues/(expenses)	<u>(2,693,638)</u>	<u>19,921,872</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS</b>	4,646,770	24,384,080
<b>CAPITAL CONTRIBUTIONS AND GRANTS</b>	<u>13,597,947</u>	<u>1,890,149</u>
<b>CHANGE IN NET ASSETS</b>	<u>18,244,717</u>	<u>26,274,229</u>
<b>NET ASSETS, beginning of year</b>	<u>98,747,008</u>	<u>72,472,779</u>
<b>NET ASSETS, end of year</b>	<u>\$ 116,991,725</u>	<u>\$ 98,747,008</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**COMBINED STATEMENT OF CASH FLOWS**

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 38,716,564	\$ 40,192,758
Payments to suppliers for goods and services	(16,945,716)	(23,793,380)
Payments to employees for services	(5,910,860)	(5,110,620)
Taxes paid	(1,131,083)	(1,143,377)
Net cash flows from operating activities	<u>14,728,905</u>	<u>10,145,381</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Payment on bond anticipation note	-	(42,000,000)
Proceeds from sale of White Creek Wind I project rights	-	47,899,800
Proceeds from BPA transmission deposits	242,988	223,534
Other nonoperating income	1,501,351	821,757
Net cash flows from noncapital financing activities	<u>1,744,339</u>	<u>6,945,091</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(232,179)	(440,207)
Issuance of long-term debt	42,350,000	-
Bond issuance costs	(585,142)	-
Interest payments	(4,745,787)	(6,572,270)
Capital contributions, DOE funds and grants	1,657,905	1,890,149
Deferred debits/credits - preliminary engineering	25,465	(57,944)
Capital expenditures	(43,819,894)	(8,751,253)
Net cash flows from capital and related financing activities	<u>(5,349,632)</u>	<u>(13,931,525)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	546,261	1,674,048
Net change in LGIP	(11,117,585)	8,625,859
Net cash flows from investing activities	<u>(10,571,324)</u>	<u>10,299,907</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	552,288	13,458,854
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>14,806,411</u>	<u>1,347,557</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 15,358,699</u>	<u>\$ 14,806,411</u>
<b>RECONCILIATION TO THE FINANCIAL STATEMENTS</b>		
Cash - general funds	\$ 15,358,699	\$ 14,694,564
Cash - construction funds/special funds	-	111,847
	<u>\$ 15,358,699</u>	<u>\$ 14,806,411</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**COMBINED STATEMENT OF CASH FLOWS**

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	<u>Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>		
<b>OPERATING INCOME</b>	<u>\$ 7,340,408</u>	<u>\$ 4,462,208</u>
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>		
Depreciation expense	4,072,044	3,942,500
Amortization of prepaid power contract	1,180,359	1,794,569
Loss on White Creek Public LLC investment	115,365	-
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES</b>		
Receivables and unbilled revenue	(3,825,278)	751,356
Materials and supplies	384,493	(484,529)
Prepayments	(48,412)	(42,313)
Accounts payable	4,752,058	(998,099)
Customer deposits	22,902	59,031
Other current and accrued liabilities	1,010,417	819,459
Compensated absences	(135,953)	(158,801)
Deferred credits	(139,498)	-
Total adjustments	<u>7,388,497</u>	<u>5,683,173</u>
Net cash from operating activities	<u>\$ 14,728,905</u>	<u>\$ 10,145,381</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization and combined financial statements** – Public Utility District No. 1 of Klickitat County, Washington (the District) is a municipal corporation governed by an elected three-person Board of Commissioners. The District’s reporting entity is comprised of the combined electric system, eight water systems and five wastewater systems. All significant intercompany balances and transactions have been eliminated from the combined amounts reported. The District has no component units. The District’s service area covers approximately 1,680 square miles in the County. The District also serves small areas in the surrounding counties of Yakima, Skamania and Benton. As of December 31, 2009 the District had 12,068 electric, 1,133 water and 1,154 wastewater customers. The District’s wholesale activity is a significant part of the electric system business lines. Wholesale revenues are generated from the sale of the output from the Landfill Gas project, 10.5 MW, and from the White Creek Wind I power purchase contract. The District owns 13% of the generated output from the 205 MW project.

**Basis of accounting and presentation** – The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments using the full accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW, the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for the Electric System and the Uniform System of Accounts for Class A & B Water Utilities prescribed by the National Association of Regulatory Utility Commissioners for the Water System.

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.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES –**  
(continued)

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

**Investments** – The District records investments at fair value based on quoted market rates, with changes in unrealized gains and losses reported as investment income (See Note 2). Restricted funds in the LGIP are considered investments.

**Accounts receivable and allowance for uncollectible accounts** – Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances, of customers that may be unable to meet their financial obligations, and a reserve based on historical experience. The allowance for uncollectible accounts at December 31, 2009 and 2008 was \$77,259 and \$53,608, respectively.

**Other receivables** – Other receivables consists of amounts from customers for small material purchases, certain aid in construction billings, repairs to damaged plant and equipment from accidents caused by others, funding requests to granting or loaning agencies, customers who take primary electric service from the District or have a power sales contract, and other miscellaneous items that may require invoicing that would not normally be entered into the customer service billing system.

**Materials and supplies** – Materials and supplies provide for additions, maintenance and repairs to utility plant and are stated at average cost.

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

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES –**  
(continued)

**Capital assets (utility plant)** – Utility plant is stated at original cost or contract price or fair value if donated (See Note 3). Costs include labor, materials and related indirect costs, such as engineering, transportation and allowance for funds (i.e. interest) used during construction. Additions, renewals and betterments with a minimum cost of \$500 per item are capitalized. Repairs and minor replacements are charged to operating expenses. Unless a major retirement or a general plant asset, the cost of property and any removal cost less salvage are charged to accumulated depreciation when property is retired. Depreciation is computed using straight-line group rates; 3% for distribution plant, 2.75% for transmission plant and 1.67% to 2.5% for generating plant. Depreciation of water and wastewater plant has been computed over useful lives of 25 to 40 years. General plant composite rates range from 2.2% to 14.4%.

**Unamortized debt expense and premium** – Bond issue costs are amortized to amortization expense using the straight-line method over the term of the bonds. Bond premium is amortized to interest expense, using the weighted average method over the term of the bonds.

**Other investments** – Consists of investment in White Creek Public LLC carried on the equity basis of accounting.

**Transmission deposits** – Consists of deposits for certain transmission services paid to Bonneville Power Administration (BPA).

**Unamortized prepaid power contract** – Consists of prepaid power amortized using the straight-line method over the term of the contract (See Note 4).

**Compensated absences** – Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records compensated absences as an expense and liability when earned. Vacation pay and sick leave pay policies were superseded by a Personal Time Off (PTO) Policy in 2008. District employees are entitled to time off based upon length of continuous service which is payable upon resignation, retirement or death. There is a 700-hour cap on PTO accrual, determined according to the employees' anniversary dates. After the annual transfer of PTO hours into Volunteer Employee Beneficiary Association (VEBA) or deferred comp, any hours over the 700-hour cap will be forfeited. At separation, if an employee is not eligible to retire, they may cash out their PTO bank at a schedule governed by years of service.

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

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES –**  
(continued)

**Net assets** – Net assets consist of:

- **Invested in capital assets, net of related debt** – This component of net assets consists of capital assets, net of accumulated depreciation, and unspent bond proceeds less outstanding balances of any bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – This component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.
- **Unrestricted** – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**Revenues and expenses** – Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District’s principal ongoing operations. Operating revenues are recognized when billed and expenses are recognized when incurred. In addition, the District recognizes unbilled revenue, revenues from services provided, but not yet billed. The principal operating revenues of the District are charges to customers for electric, water and wastewater service. Operating expenses for the District include the cost of sales and services, maintenance, administrative expenses, depreciation on capital assets and taxes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**Capital contributions** – Capital contributions are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES –**  
(continued)

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

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

**Reclassifications** – Changes have been made to prior year account classifications as needed to conform to the current year presentation format. The primary change is the definition of cash equivalent for the LGIP account.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Cash and investments consist of the following at December 31:

	Investments	Cash and Cash Equivalents	Total 2009	Total 2008
Construction funds	\$ 37,417,619	\$ -	\$ 37,417,619	\$ 30,825,000
Special funds	13,792,107	-	13,792,107	9,267,141
Cash - general funds	-	15,358,699	15,358,699	14,694,564
Cash - construction funds/ special funds	-	-	-	111,847
Special deposits	-	400	400	400
Totals	<u>\$ 51,209,726</u>	<u>\$ 15,359,099</u>	<u>\$ 66,568,825</u>	<u>\$ 54,898,952</u>



**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2 – DEPOSITS AND INVESTMENTS** – (continued)

**Interest rate risk** – The District’s investment policy limits investment maturities to less than five years from the date of purchase unless authorized by the General Manager and Finance Manager for a specific purpose. During 2009 and 2008 all investments were in the State Treasurer’s Local Government Investment Pool (LGIP), which has a weighted average portfolio maturity of less than 90 days.

**Credit risk** – In accordance with the Revised Code of Washington, District bond resolutions and District internal investment policies, all investments are direct obligations of the U.S. Government, deposits in the LGIP, or deposits with financial institutions recognized as qualified public depositories of the State of Washington. The District’s cash deposits are covered by federal depository insurance or protected against loss by deposit with financial institutions recognized as qualified public depositories of the State of Washington. The District intends to hold deposits and securities until maturity.

**Concentration of credit risk** – District policies allow the entire portfolio to be invested in direct United States Government guaranteed obligations or in the LGIP. No other investment may exceed half of portfolio market value. The LGIP, a 2a7-like pool as defined by GASB Statement No. 31 and the Securities and Exchange Commission, invests in high quality, short term investments; all LGIP money market securities must be rated A-1 by Standard & Poor’s Corporation or P1 by Moody’s Investor Services, Inc. The LGIP weighted average maturity must not exceed 90 days and no single investment may exceed 762 days in maturity. Withdrawals in excess of \$10 million are available on a one day notice. The LGIP Annual Report is available on the Washington State Treasurer’s website.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 3 – CAPITAL ASSETS (UTILITY PLANT)**

The following are changes in capital assets for the year ended December 31, 2009:

Description	Balance 1/1/2009	Additions	Retirements and Transfers	Balance 12/31/2009
<b>Capital assets not being depreciated</b>				
Organization	\$ 14,767	\$ -	\$ -	\$ 14,767
Franchises and consents	211,427	-	-	211,427
Land and land rights	1,088,382	214,233	-	1,302,615
Construction work in progress	7,583,441	56,971,552	16,255,940	48,299,053
	<u>8,898,017</u>	<u>57,185,785</u>	<u>16,255,940</u>	<u>49,827,862</u>
<b>Capital assets being depreciated</b>				
Electric plant				
Distribution plant	87,200,924	10,055,188	1,587,204	95,668,908
Transmission plant	16,494,704	4,292,161	16,197	20,770,668
Generating plant	24,309,457	-	-	24,309,457
Water and wastewater plant	17,333,250	160,564	9,172	17,484,642
General plant	8,573,966	620,931	5,284	9,189,613
	<u>153,912,301</u>	<u>15,128,844</u>	<u>1,617,857</u>	<u>167,423,288</u>
Total capital assets	162,810,318	72,314,629	17,873,797	217,251,150
Accumulated depreciation	<u>(46,951,485)</u>	<u>(4,393,265)</u>	<u>1,640,323</u>	<u>(49,704,427)</u>
Net capital assets	<u>\$ 115,858,833</u>	<u>\$ 67,921,364</u>	<u>\$ 16,233,474</u>	<u>\$ 167,546,723</u>

**NOTE 4 – DEFERRED DEBITS AND CREDITS**

Deferred debits consist of the following:

	2009	2008
Prepaid power contract, net of current portion	\$ 20,066,112	\$ 21,246,468
Unamortized debt issuance expense	3,491,343	3,038,522
Preliminary investigation charges	452,224	477,689
	<u>\$ 24,009,679</u>	<u>\$ 24,762,679</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4 – DEFERRED DEBITS AND CREDITS – (continued)**

**Prepaid power contract** – The District entered into a 20-year Energy Purchase Agreement for the White Creek Wind I Facility, which became effective January 1, 2008. Under this Agreement, the District had rights to 26% of the output from the 205 MW facility and was obligated to pay the same percentage of the reimbursable operating expenses. In June 2008, the District completed a transaction with Lewis PUD to sell 10% of the 26% share of the White Creek Wind I project power output. In December 2008, the District also sold 3% of the remaining 16% share of the White Creek Wind I project power output to Benton PUD. The proceeds from the sale were \$36,846,000 and \$11,053,800 from Lewis PUD and Benton PUD, respectively. The gain on the sale of White Creek power rights was \$23,678,404. The remaining portion of the project is amortized on a straight-line basis over the remaining term of the contract.

Deferred credits consist of the following:

	<u>2009</u>	<u>2008</u>
Energy services loan	\$ -	\$ 161,468
Energy settlement	21,970	-
Unclaimed checks	<u>3,211</u>	<u>3,211</u>
	<u>\$ 25,181</u>	<u>\$ 164,679</u>

**NOTE 5 – LONG-TERM DEBT**

The following are changes in long-term debt for the year ended December 31, 2009:

	<u>Balance 01/01/09</u>	<u>Additions</u>	<u>Payments/ Amortization</u>	<u>Balance 12/31/09</u>	<u>Due Within One Year</u>
Electric revenue bonds	\$ 89,035,000	\$ 42,350,000	\$ -	\$ 131,385,000	\$ 2,580,000
Unamortized bond premium	2,998,422	-	198,214	2,800,208	-
W/WW revenue bonds	311,000	-	26,000	285,000	169,787
W/WW loans	<u>1,903,860</u>	<u>-</u>	<u>206,179</u>	<u>1,697,681</u>	<u>27,500</u>
Total Long-Term Debt	<u>\$ 94,248,282</u>	<u>\$ 42,350,000</u>	<u>\$ 430,393</u>	<u>\$ 136,167,889</u>	<u>\$ 2,777,287</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 – LONG-TERM DEBT – (continued)**

Substantially all electric revenues are pledged as security for the electric revenue bonds and substantially all water/wastewater revenues are pledged as security for the water/wastewater revenue bonds. Water/Wastewater loans are secured by water/wastewater assets. Electric revenue bonds carry fixed interest rates of 1.470% to 7.038%. The water/wastewater revenue bonds have a 5.0% fixed rate. The loans from the Public Work Trust Fund (PWTF) carry fixed rates from 0.0% to 3.0% and the State Revolving Fund (SRF) loans have a 0% rate. Electric revenue bonds mature through 12/01/2031, water and wastewater bonds mature through 3/01/2021 and the PWTF and SRF loans mature through 4/30/2027. There is \$12,040,422 in restricted assets of the District representing revenue bond reserve requirements for the various indentures. There are a number of other limitations and restrictions contained in the various bond indentures.

Future maturities are as follows:

Electric Revenue Bonds			
Year(s)	Principal	Interest	Totals
2010	\$ 2,580,000	\$ 6,631,483	\$ 9,211,483
2011	3,180,000	6,721,539	9,901,539
2012	3,240,000	6,656,985	9,896,985
2013	3,325,000	6,573,425	9,898,425
2014	3,430,000	6,467,724	9,897,724
2015-19	24,350,000	29,702,570	54,052,570
2020-24	41,465,000	21,323,213	62,788,213
2025-29	36,955,000	10,012,858	46,967,858
2030-32	12,860,000	1,238,053	14,098,053
	\$ 131,385,000	\$ 95,327,850	\$ 226,712,850

Water/Wastewater Revenue Bonds			
Year(s)	Principal	Interest	Totals
2010	\$ 27,500	\$ 14,250	\$ 41,750
2011	29,000	12,875	41,875
2012	33,000	11,425	44,425
2013	23,000	9,775	32,775
2014	23,000	8,625	31,625
2015-19	141,000	23,425	164,425
2020-22	8,500	525	9,025
	\$ 285,000	\$ 80,900	\$ 365,900

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 – LONG-TERM DEBT – (continued)**

Water/Wastewater PWTF & SRF Loans			
Year(s)	Principal	Interest	Totals
2010	\$ 169,787	\$ 3,308	\$ 173,095
2011	169,787	1,910	171,697
2012	124,733	511	125,244
2013	124,733	465	125,198
2014	124,733	418	125,151
2015-19	488,924	1,395	490,319
2020-24	372,502	279	372,781
2025-29	122,482	-	122,482
	<u>\$ 1,697,681</u>	<u>\$ 8,286</u>	<u>\$ 1,705,967</u>
Total	<u>\$ 133,367,681</u>	<u>\$ 95,417,036</u>	<u>\$ 228,784,717</u>

The carrying amounts of the Electric Bonds and Public Work Trust Fund and State Revolving Fund loans approximate the fair value since such loans are exclusive and have no market.

The District had the following defeased bonds at December 31, 2008:

Defeased Issues	Amount Outstanding
2001 Electric Revenue Bonds	<u>\$ 24,955,000</u>

This refunded bond constitutes a contingent liability of the District only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements, and are therefore excluded from the financial statements because the likelihood of additional funding requirements is considered remote.

**Derivative instrument** – On March 14, 2007 the District entered into a London Inter-Bank Offered Rate (LIBOR) floating to fixed interest rate swap to hedge the anticipated issuance of \$42,000,000 of variable rate Series 2007 Bonds in late year 2007. The swap was to become effective January 1, 2007 but the District and Lehman Brothers entered into a second agreement to move the effective date to June 1, 2008 for the same notional amount. The Series 2007 Bonds were not issued and on June 2, 2008 the swap was terminated with the District paying \$1,263,500 which is included in interest expense.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 6 – SHORT-TERM DEBT**

The District issued a bond anticipation note on November 5, 2007 in the amount of \$47,000,000 to finance the District's 26% of the power output from the White Creek Wind I project for the term of 20 years per the agreement. This note was in two sections, a \$42,000,000 and a \$5,000,000 section. Proceeds from the sale of 13% of the District's 26% share of power output from White Creek Wind project was used to pay off the first \$42,000,000 section of the bond anticipation note, and the balance has remained \$5,000,000 at December 31, 2009 and 2008.

**NOTE 7 – RETIREMENT BENEFITS**

**1. Pension plan**

Substantially all of the District's full-time and qualifying part-time employees participate in one of the 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 – PO Box 48380 – Olympia WA 98504-8380. The following disclosures are made pursuant to GASB Statement 27, Accounting for Pensions by State and Local Government Employers.

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

**Plan description** – 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.

Membership in the system includes elected officials; state employees; employees of the Supreme, Appeals and Superior courts (other than judges in a judicial retirement system); employees of legislative committees, community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local government.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY**  
**MCAG No. 1785**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 7 – RETIREMENT BENEFITS – (continued)**

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

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment the benefit is reduced.

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of two percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60 month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost of living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

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**NOTE 7 – PENSION BENEFITS** – (continued)

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60 month period. Effective June 7, 2007, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to age 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost of living allowance as Plan 2.

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

There are 2,300 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and beneficiaries receiving benefits	\$ 73,122
Terminated plan members entitled to but not yet receiving benefits	27,267
Active plan members vested	105,212
Active plan members non-vested	56,456
Total	\$ 262,057



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**NOTE 7 – PENSION BENEFITS – (continued)**

**Funding policy** – Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for PERS 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 benefits portion for Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee’s age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2009, were as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	5.31%**	5.31%**	5.31%**
Employee	6.00%****	3.9%****	*****

- \* The employer rates include the employer administrative expense fee currently set at 0.16%.
- \*\* The employer rate for state elected officials is 12.39% for Plan 1, 8.31% 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 5.45% for Plan 2.
- \*\*\*\*\*Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member.

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2009	\$ 20,312	\$ 589,365	\$ 33,197
2008	\$ 63,430	\$ 533,370	\$ 31,087
2007	\$ 49,275	\$ 342,649	\$ 21,853

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**NOTE 7 – PENSION BENEFITS – (continued)**

**2. Post Employment Benefits Plan Other than Pensions**

**Plan description** – In addition to pension benefits, the District provides post employment health care benefits. District members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits under Plan 2 of the PERS (age 65 with 5 years of service; age 55 with 20 years of service). Currently former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement. Survivors of members who die are not eligible for medical benefits.

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

**Annual OPEB cost and net OPEB obligation** – The District’s annual other postemployment benefit (OPEB) cost is based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2008.

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2008 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2009	\$ 410,566	39.58%	\$ 489,595
12/31/2008	\$ 407,386	40.71%	\$ 241,532

**Funding Status and Funding Progress** – As of December 31, 2009, the most recent valuation date, the plan was 0% funded. The accrued liability for benefits was \$4.8 million, and the actuarial value of assets was \$0, resulting in a UAAL of \$4.8 million.

The following table presents a schedule of funding progress for the District’s OPEB Plan:

Valuation Date	Actuarial Value of Assets	Accrual Accrued Liability	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2008	\$ -	\$ 4,784,699	\$ 4,784,699	\$ -	N/A	N/A

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**NOTE 7 – PENSION BENEFITS – (continued)**

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

**NOTE 8 – SEGMENT INFORMATION – ENTERPRISE FUNDS**

The District operates an electric, eight water and five wastewater utilities which are primarily financed by user charges. The key financial data for the years ended December 31, 2009 and 2008 is as follows:

Condensed balance sheets:

	Electric System	Water- Wastewater Systems	Total 2009	Total 2008
<b>Assets</b>				
Current, restricted and other assets	\$ 100,391,400	\$ 3,285,707	\$ 103,677,107	\$ 89,691,828
Capital assets	151,830,882	15,715,841	167,546,723	115,858,833
Total assets	<u>\$ 252,222,282</u>	<u>\$ 19,001,548</u>	<u>\$ 271,223,830</u>	<u>\$ 205,550,661</u>
<b>Liabilities</b>				
Current liabilities	\$ 19,183,961	\$ 1,268,880	\$ 20,452,841	\$ 12,109,088
Noncurrent liabilities	131,859,435	1,919,829	133,779,264	94,694,565
Total liabilities	<u>151,043,396</u>	<u>3,188,709</u>	<u>154,232,105</u>	<u>106,803,653</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	54,397,595	17,890,201	72,287,796	55,474,073
Restricted	13,173,326	230,005	13,403,331	8,989,531
Unrestricted	33,607,967	(2,307,369)	31,300,598	34,283,404
Total net assets	<u>101,178,888</u>	<u>15,812,837</u>	<u>116,991,725</u>	<u>98,747,008</u>
Total liabilities and net assets	<u>\$ 252,222,284</u>	<u>\$ 19,001,546</u>	<u>\$ 271,223,830</u>	<u>\$ 205,550,661</u>

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**NOTE 8 – SEGMENT INFORMATION – ENTERPRISE FUNDS – (continued)**

Condensed statements of revenues, expenses and changes in net assets:

	Electric System	Water- Wastewater Systems	Total 2009	Total 2008
Operating revenues	\$ 41,104,154	\$ 1,414,787	\$ 42,518,940	\$ 39,382,371
Operating expenses	30,048,996	1,057,492	31,106,488	30,977,663
Depreciation	3,589,320	482,724	4,072,044	3,942,500
Operating income	7,465,838	(125,429)	7,340,408	4,462,208
Nonoperating revenues (expenses)				
Interest income	471,786	12,038	483,823	1,557,793
Interest expense	(4,520,514)	(25,978)	(4,546,492)	(6,010,371)
Other nonoperating revenue (expense), net	1,369,316	(285)	1,369,031	24,374,450
Capital contributions and grants	12,726,042	871,905	13,597,947	1,890,149
Change in net assets	17,512,468	732,250	18,244,717	26,274,229
Net assets, beginning of year	83,663,898	15,083,110	98,747,008	72,472,779
Net assets, end of year	<u>\$ 101,176,366</u>	<u>\$ 15,815,360</u>	<u>\$ 116,991,725</u>	<u>\$ 98,747,008</u>

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**NOTE 9 – RISK MANAGEMENT AND SELF INSURANCE**

**Unemployment insurance** – The District maintains insurance against most normal hazards, except for unemployment insurance, where the District has elected to become self-insured for all losses. The District reimburses the State Employment Security Department for actual costs upon receipt of any claim. The District does not estimate any future liability as the amount is not significant.

**Public Utility Risk Management Services** – The District, along with seventeen other public utility districts and one joint operating agency, is a member of the Public Utility Risk Management Services self-insurance fund. The program provides members with various liability, property and health insurance coverage in three separate pools.

The District has not accrued a liability for any outstanding claims of the self-insured pools, including incurred-but-not-reported health and welfare claims, as the amount cannot be reasonably estimated. Management believes the claims, for those that are successful, will not have a significant impact on the financial position of the District.

The District is a participant in the liability pool, which maintains a base self-insured retention level of \$1,000,000, funded reserves ranging from \$1,500,000 to \$2,000,000, and individual member deductibles of \$250. The liability pool provides the District with shared excess coverage of \$60,000,000 general liability, \$10,000,000 professional liability, and \$10,000,000 per occurrence Directors and Officers liability.

The District is also a participant in the property pool, which maintains a self-insured retention level of \$250,000, funded reserves ranging from \$500,000 to \$750,000, and varying deductibles of \$250 on most property and \$75,000 on the H. W. Hill Landfill Gas project. The property pool provides the District with \$175,000,000 shared excess coverage, attaching at the self-insured retention level for all property risks excepting flood and earthquake, which attach at 2% of total insured value. Any gap between the self-insured level and excess insurance is funded half by the property pool and half by the affected member.

The District also participates in the health and welfare pool. Participating members are billed each month for shared costs (administration costs to operate the pool, mail order prescription plan costs, and stop loss carrier costs), claims by the members covered employees and dependents, and any shared claims for members who exceeded stop loss limits.

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**NOTE 10 – JOINT VENTURES**

**Conservation and Renewable Energy System (CARES)** – The District, along with seven other public utility districts, is a member of CARES, a municipal corporation and joint operating agency of the State of Washington. CARES was formed pursuant to RCW Chapter 43.52. The purpose of CARES is to develop and acquire conservation, renewable and high efficiency resources consistent with the Northwest Conservation and Electric Power Plan. CARES issued Conservation Project Revenue Bonds which are tax-exempt and unconditionally guaranteed by the Bonneville Power Administration (BPA). The District has not contributed any money to CARES for several years. The District has no equity interest or liability for CARES operations.

**McNary North Fishway Hydroelectric Project** – On August 14, 1995, the District and Northern Wasco County PUD entered into an Ownership Agreement to jointly construct and operate the McNary North Fishway Hydroelectric Project. The project was completed in September 1997 and is generating approximately ten megawatts (10 MW) of electricity. Both the District and Northern Wasco County PUD share equally in the output, as well as the construction and operation costs of the Project. In 2009 the District contributed \$450,000.

**Last Mile Electrical Cooperative (LMEC)** – The District, along with seven other public utility districts and two other organizations, is a member of LMEC, a non-profit cooperative. LMEC was formed pursuant to RCW Chapter 24.06. The purpose of LMEC is to develop wind and other renewable energy projects. At this time, LMEC has not issued any debt and is solely funded by its members. In 2009 the District contributed \$0. The District has no equity interest or liability for the LMEC operations at this time.

**White Creek Public, LLC & White Creek Project, LLC** – The District, along with Cowlitz PUD, formed White Creek Public, LLC to participate in White Creek Project, LLC which also includes as members Tanner Electric Co-op and Lakeview Light & Power. Early development of the project was done by the utilities involved, but prior to the end of 2007 the project was sold to Prudential and Lehman Brothers. Energy purchase agreements were signed by the utilities for 20 years of power that began commercial operation on November 21, 2007 (See Note 4). The percentage owned by each utility was determined based upon their contribution made during the original development stage. Phases 1 and 2 of White Creek Wind I have a total of 89 2.3 MW wind turbines for an anticipated output of 205 MW. Both phases were in production as of November 21, 2007. In 2009 and 2008, the District's investment in the project of \$(1,863) and \$113,502 consisted of a share of the remaining assets as transmission credits previously held in White Creek Public, LLC were distributed to the District in 2008. These amounts have been shown on the balance sheet as other investments and transmission deposits.

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**NOTE 11 – CONTINGENCIES**

**Lawsuits** – The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of District management that resolution of these matters will not have a material adverse effect on the financial condition of the District.

**Construction financing** – On April 17, 2001 the District entered into a thirty (30) year agreement with the Goldendale Energy, Inc. in order to provide for the transmission of the electric energy to be produced at Goldendale Energy Inc. generating facility from the E.E. Clouse Substation to Bonneville’s Harvalum Substation. The generating facility was sold through bankruptcy auction in February 2007 to Puget Sound Energy. The District established a new letter of credit for the transmission line service, which the District built and operates for the generation facility. The letter of credit covers the net present value of the remaining contract amount including the debt outstanding.

The District established a new letter of credit on August 16, 2006 for the White Creek transmission line service, which the District built and operates at a cost of \$17.7 million, for the generation facility. The letter of credit covers the net present value of the remaining 20 year contract amount including the debt outstanding.

**Grants** – Grants received by the District are subject to audit by the granting agency and may result in certain costs being disallowed and required to be returned. Management believes it has complied with grant guidelines and the likelihood of disallowed costs is remote.

**NOTE 12 – POWER CONTRACTS**

The District purchases power from the Bonneville Power Administration (BPA) under contracts which expire on September 30, 2011. The District’s contract is a partial requirements contract that provides the District the option to provide a portion of customer load with existing generation from the McNary Hydroelectric facility, approximately 5 MW. The balance of the District’s load requirement is supplied by BPA at the public preference customer rate.

The White Creek Wind I facility energy purchase agreement for 13% of the 205 MW project is currently sold under contract to other utilities (See Note 4).

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**NOTE 13 – GENERATION ASSETS**

H. W. Hill Landfill Gas project is rated a 10.5 MW plant that takes methane gas from the regional landfill and produces electricity from five 2.1 MW reciprocating combustion engines. The majority of the output from this project is sold to two public utilities and the balance sold on the spot market.

McNary Dam Hydroelectric project is a 10 MW plant that the District shares joint ownership with Northern Wasco Peoples Utility District in The Dalles, Oregon. The facility is located on the north shore fish bypass area of McNary Dam and received a 50-year license on September 30, 1991. Of the 5 MW's the District receives, 4.5 MW's are declared to load.

**NOTE 14 – UNION CONTRACTS**

The District has a contract with the International Brotherhood of Electrical Workers which covers the electrical line workers employed by the District. The District signed a new contract with the union in early April 2008. The contract is for three years starting April 1, 2008 and expiring on March 31, 2011.