

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

---

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

Audit Period  
January 1, 2006 through December 31, 2006

Report No. 74668

Issue Date  
June 2, 2008



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

June 2, 2008

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

***Report on Financial Statements***

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

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

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

# Table of Contents

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i> .....	1
Independent Auditor's Report on Financial Statements .....	3
Financial Section.....	5

# 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 Cowlitz County January 1, 2006 through December 31, 2006**

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

We have audited the financial statements of each major fund of Public Utility District No. 1 of Cowlitz County, Washington, as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 27, 2008. The prior year partial comparative information has been derived from the District's 2005 basic financial statements that we issued our report thereon dated September 29, 2006.

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 opinions on 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 April 23, 2008.

## **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

February 27, 2008

# Independent Auditor's Report on Financial Statements

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

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

We have audited the accompanying financial statements of each major fund of Public Utility District No. 1 of Cowlitz County, Washington, as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed on page 5. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these 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 September 26, 2006, we expressed an unqualified opinion on the basic financial statements.

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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund for Public Utility District No. 1 of Cowlitz 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.

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 9 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

February 27, 2008

# Financial Section

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

### ***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2006

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2006

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

Statement of Cash Flows – 2006

Notes to the Financial Statements – 2006

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the Year Ending December 31, 2006**

This discussion and analysis is designed to provide an overview of the financial activities of PUD No. 1 of Cowlitz County, Washington (The District) for the year ended December 31, 2006. This supplementary information is to be read in conjunction with the District's financial statements.

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

**ELECTRIC DISTRIBUTION SYSTEM**

The Electric Distribution System provides electric service throughout Cowlitz County, to 47,423 customers, and encompasses approximately 1,144 square miles. Power supplies are provided to the District through a combination of purchased power contracts, with approximately 91.5% of the District's 2006 power supply being purchased from the Bonneville Power Administration (BPA). Weather and economic conditions are the primary influences on electricity sales. Generally, extreme temperatures increase sales to residential customers, who use electricity for cooling and heating, and moderate temperatures decrease sales. Weather in the District's region was mild during 2006 and economic conditions in Cowlitz County, which have not been favorable over the last several years, have begun to return to normal, as evidenced by lower unemployment and increased customer growth.

**Financial Summary and Analysis**

In October 2001, the District put the portion of its load that had been subject to market purchases back under its contract with BPA. This significantly stabilized the District's power supply costs compared to the sharp fluctuations which had occurred in 2000 and 2001, improved the District's financial performance, and restored stability in electric rates following two large rate increases in 2000 and 2001. The District's most recent rate action was in March 2006 when they were increased approximately 3.2% as a result of increased operating costs. No rate changes are anticipated in 2007.

District energy sales were up approximately 283,425 mWh's (6.46%) from 2005 with a 10.5% increase in residential sales and a 6.05% increase in major industrial sales. Operating revenues increased \$12.1 million (6.7%) from 2005 and net operating income increased \$7.2 million, up almost 70% from 2005, as power costs were substantially less than anticipated.

**Selected Financial Data** (\$000)

	<u>2006</u>	<u>2005</u>
Total Assets	226,702	172,420
Total Liabilities	110,316	73,205
Total Net Assets	116,386	99,215
Total Revenues	195,656	182,704
Total Expenses	178,485	172,718
Changes in Net Assets	17,171	9,986
Long-Term Debt	79,045	38,317

**Capital Asset and Long-term Debt Activity**

As of year end, the Electric Distribution System had \$175 million invested in electric system plant in service. Utility plant net of depreciation was \$91.2 million. This represents an increase of \$5.8 million (or 6.77%) from 2005. Capital construction is funded by a combination of aid-to-construction paid by customers and long-term revenue bonds sold in 2001 and 2006.

Total electric distribution system utility plant in service as of December 31, 2006 and 2005 consisted of the following:

(\$000)	<u>2006</u>	<u>2005</u>
Intangible	207	197
Transmission & Distribution	149,750	140,820
General Plant	<u>25,088</u>	<u>23,998</u>
 Total Plant In Service	 <u>175,045</u>	 <u>165,015</u>

The Electric Distribution System issued \$61.5 million in revenue bonds in 2006 in order to provide for the construction needs of the District, to defease a portion of the 2001 bonds, and to pay off \$8 million owing on a line of credit to Bank of America. At the end of 2006, \$79.6 million in revenue bonds remained outstanding.

## **Power Supply**

The Electric Distribution System power supply is provided through contracts with BPA and Grant County PUD, as well as the purchase of the output from the District's Swift No. 2 Hydroelectric Production System on the Lewis River and the power associated with 2 MW of Energy Northwest's Nine Canyon Wind Project. In 2006, approximately 91 per cent of the District's power supply was purchased from BPA. The Grant County PUD contracts provide an entitlement to a share of the output of the Priest Rapids and Wanapum Projects on the mid-Columbia.

### Bonneville Power Administration Power Supply

On October 1, 2001, the District began to take deliveries from BPA under a new long-term Power Sales Contract (2001 Contract) with BPA. This 2001 Contract is for a ten-year term and is take-or-pay in nature. That is, BPA is obligated to serve and the District is obligated to purchase the quantity of power required for service to the District's load over and above what is provided by the District's own Swift resource and the firm power contracts itemized below.

### Purchases From Grant County PUD

Pursuant to contracts with Grant County PUD, the District has rights to purchase predetermined percentage amounts of output from the Priest Rapids and Wanapum Developments. The District also must pay costs and debt service on the Priest Rapids and Wanapum Developments based on a predetermined percentage. The original contract with the Priest Rapids Development terminated October 31, 2005 and the current contract with the Wanapum Development terminates October 31, 2009. Both of these contracts have been extended through September 30, 2011 at 76% of their original output share.

### Purchases From Energy Northwest's Nine Canyon Wind Project

The District entered into a contract with Energy Northwest in December 2003 for the purchase of the output associated with 2 megawatts of the Nine Canyon Wind Project. The District utilizes the power to serve its customers by use of a BPA wind integration product. The "green tags" or "renewable energy credits" associated with the District's share of output are committed for sale to the Bonneville Environmental Foundation and are not used for District load at this time.

### Purchases From Swift No. 2 Hydroelectric Production System

On February 2, 2006, the Swift No. 2 Hydroelectric Production System came back on line after suffering a failure of the power canal embankment in 2002, which led to significant damage to the power canal, powerhouse and switchyard.

## **WATER DISTRIBUTION SYSTEM**

The Water Distribution System provides water service in some portions of Cowlitz County adjacent to the cities of Longview and Kelso. The system served 3,792 water customers in 2006. The source of supply for the water system comes from the Longview Regional Water Treatment Plant (RWTP), a joint venture of the District and the City of Longview.

**Financial Summary and Analysis**

The District raised water service rates 10% on June 1, 2006, and revenues from water sales were up 17%, while capital contributions from new service connections were down nearly 45%. Operating income was down 24.5% from 2005, and the Regional Water Treatment plant suffered a loss. The District's portion of that loss was \$72,813, reducing our net income to \$28,634.

The District received advances for a fourth Public Works Trust Fund Loan project during 2003. That project is to replace leaking and deteriorated water mains and was completed during 2006. Following a full Cost of Service Analysis, the District instituted an additional 15% rate increase effective March 1, 2007. Due to silt deposits in the Cowlitz River near the intake for the Regional Water Treatment Plant, the District and the City of Longview are seeking a Public Works Trust Fund Loan to replace the treatment facility with a series of wells and treatment facilities at the City's Mint Farm industrial complex. The cost of the facility will be \$27.5 million, with the District's portion being \$3.78 million.

<b>Selected Financial Data</b>	(\$000)	<u>2006</u>	<u>2005</u>
Total Assets		6,544	6,650
Total Liabilities		2,015	2,157
Total Net Assets		4,529	4,493
Total Revenues		1,013	913
Total Expenses		976	848
Changes in Net Assets		37	65
Long-Term Debt		1,839	1,972

**Capital Asset and Long-term Debt Activity**

As of year-end, the Water Distribution System had \$8.08 million invested in a variety of capital assets. Utility Plant net of depreciation was \$4.74 million. This represents an increase of \$135,039 (or 2.94%) from 2005. Capital construction for this year was funded by a combination of aid-to-construction paid by customers, current revenues, and Public Works Trust Fund Loans through the State of Washington.

Total water system utility plant in service as of December 31, 2006 and 2005 consisted of the following:

(\$000)	<u>2006</u>	<u>2005</u>
Intangible	6	3
Source of Supply	40	40
Pumping Plant	337	281
Transmission & Distribution	7,605	6,930
General Plant	<u>89</u>	<u>87</u>
 Total Plant In Service	 <u>8,077</u>	 <u>7,341</u>

At year-end, the Water Distribution System had \$1,161,896 in loans outstanding from the Electric Distribution System and \$752,664 in Public Works Trust Fund Loans from the State of Washington. The debt has been incurred over the years to provide for the construction of capital facilities.

**SWIFT NO. 2 HYDROELECTRIC PRODUCTION SYSTEM**

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

Swift No. 2 is operated under contract by PacifiCorp. The operating agreement provides that the District is entitled to 26% of the combined output of Swift No. 1 and Swift No. 2. The District's share of the output is

purchased by the Electric Distribution System at the cost of production of the energy, whether it is producing energy or not.

On April 21, 2002, the Swift No. 2 Hydroelectric Production System suffered a failure of the power canal embankment, which led to significant damage to the powerhouse and transmission switchyard. The casualty insurance carrier, Lloyds of London, agreed that coverage exists under the policy, and paid the \$70 million policy limit. On February 3, 2004, the property insurance carriers, Federated Rural Electric Insurance Exchange and TIG Specialty Insurance denied coverage, and on the same day filed a motion in Federal District Court in Tacoma, Washington seeking a judicial declaration that there is no coverage under these insurance policies for the PUD's claimed loss. The U.S. District Court granted the District's motion for summary judgment on March 3, 2006 agreeing with the District that Federated and TIG were obligated to provide coverage. On August 14, 2006, the District received \$13.9 million as its portion of a \$25 million settlement from Federated. Later the court required an appraisal to be performed regarding TIG's coverage, which remains in litigation.

Swift No. 2 repair and reconstruction and business interruption costs incurred through 2006 were more than \$150 million. While Swift No. 2 was not producing power, market power was purchased on a forward block basis. With construction substantially completed in February 2006, Swift No. 2 began to produce energy. Final acceptance of the operation and renewal of the agreement with PacifiCorp occurred October 1, 2006.

In the years following the failure the District incurred extraordinary losses of \$2,000,820 for the write-off of equipment destroyed in the power house and the switchyard. In 2005 the District recognized an extraordinary gain of \$27,758,257 from insurance proceeds that were applied to the new construction at the project, after cleanup and replacement power costs were eliminated.

In August 2004, the District issued Production System bonds for \$42.2 million to cover the costs of the embankment rehabilitation not covered by insurance. The bonds mature serially over a 30-year period and have interest rates varying from 3.00% to 5.00%. Principal payments on these bonds began in 2006. In August 2006, the District issued Production System bonds for \$27.5 million. These bonds are to finance continuing expenditures for project reconstruction and to provide for capital expenditures associated with FERC licensing.

**Selected Financial Data** (\$000)

	<u>2006</u>	<u>2005</u>
Total Assets	164,358	111,054
Total Liabilities	73,982	52,083
Total Net Assets	90,376	58,971
Total Revenues	8,382	19,530
Total Expenses	5,578	2,669
Income Before Extraordinary Items	2,804	16,861
Extraordinary Items	28,601	27,758
Change in Net Assets	31,405	44,619
Long-Term Debt	69,466	42,533

Total Production System plant in service as of December 31, 2006 and 2005 consisted of the following:

(\$000)	<u>2006</u>	<u>2005</u>
Production Plant	122,938	15,267
Transmission Plant	<u>3,756</u>	<u>1,478</u>
Total Plant In Service	<u>126,694</u>	<u>16,745</u>

## PUBLIC UTILITY DISTRICT NO 1 OF COWLITZ COUNTY, WASHINGTON

## STATEMENT OF NET ASSETS

December 31, 2006

	Electric System	Water System	Lewis River Swift No 2	Totals 2006	Totals 2005
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents (Note 1-F)	\$ 41,241,064	\$ 564,753	\$ 5,521,212	\$ 47,327,029	\$ 52,891,785
Working funds (cash and cash equivalents)	15,000	-	-	15,000	15,000
Temporary cash investments (Note 2)	3,263,988	-	-	3,263,988	974,901
Customer accounts receivable and unbilled revenues (Note 1-L)	21,992,055	143,703	-	22,135,758	21,270,016
Other accounts receivable	19,206,951	4,202	1,710,994	20,922,147	2,223,475
Less - accum. prov. for uncollectibles (Note 1-H)	(658,736)	(3,510)	-	(662,246)	(748,821)
Accounts receivable from assoc. companies (Note 16)	1,967,313	-	-	1,967,313	5,310,320
Materials and supplies (Note 1-I)	3,111,101	57,423	-	3,168,524	2,138,216
Prepayments	490,898	2,056	43,548	536,502	1,824,412
Interest receivable	155,022	2,407	734,828	892,257	304,665
Other current assets	215,715	-	-	215,715	139,930
<b>TOTAL CURRENT ASSETS</b>	<b>91,000,371</b>	<b>771,034</b>	<b>8,010,582</b>	<b>99,781,987</b>	<b>86,343,899</b>
<b>RESTRICTED ASSETS</b>					
Cash and cash equivalents (Note 1-F)	3,626,576	-	9,000,000	12,626,576	10,459,795
Temporary cash investments (Note 2)	25,442,976	-	24,348,039	49,791,015	25,099
Bond reserve account	2,373,256	-	2,958,974	5,332,230	-
Interest receivable	398,949	-	-	398,949	-
<b>TOTAL RESTRICTED ASSETS</b>	<b>31,841,757</b>	<b>-</b>	<b>36,307,013</b>	<b>68,148,770</b>	<b>10,484,894</b>
<b>NONCURRENT ASSETS</b>					
<b>UTILITY PLANT</b>					
Plant in service	175,044,860	8,076,789	126,694,065	309,815,714	189,101,690
Construction in progress (Note 4)	2,718,976	26,083	-	2,745,059	87,955,472
<b>TOTAL UTILITY PLANT</b>	<b>177,763,836</b>	<b>8,102,872</b>	<b>126,694,065</b>	<b>312,560,773</b>	<b>277,057,162</b>
Less - accum. prov. for dep'n. and amortization	(86,584,115)	(3,367,600)	(12,027,477)	(101,979,192)	(96,981,476)
<b>NET UTILITY PLANT (Notes 3 &amp; 4)</b>	<b>91,179,721</b>	<b>4,735,272</b>	<b>114,666,588</b>	<b>210,581,581</b>	<b>180,075,686</b>
<b>OTHER PROPERTY &amp; INVESTMENTS</b>					
Non-utility property	516	-	-	516	516
Investment in assoc. companies (Note 1-N and 8-A )	1,161,896	1,038,096	-	2,199,992	2,257,414
Other special funds (Note 1-M)	1,352,359	-	-	1,352,359	1,425,096
<b>TOTAL OTHER PROPERTY &amp; INVESTMENTS</b>	<b>2,514,771</b>	<b>1,038,096</b>	<b>-</b>	<b>3,552,867</b>	<b>3,683,026</b>
<b>DEFERRED DEBITS (Note 1-O)</b>					
Clearing accounts	20,980	-	-	20,980	12,148
Unamortized bond issue costs	965,688	-	1,021,265	1,986,953	371,381
Unamortized loss on reacquired debt	365,047	-	-	365,047	-
Preliminary Survey & Investigation	8,416,455	-	4,352,537	12,768,992	3,390,020
Miscellaneous deferred debits	397,688	-	-	397,688	5,762,674
<b>TOTAL DEFERRED DEBITS</b>	<b>10,165,858</b>	<b>-</b>	<b>5,373,802</b>	<b>15,539,660</b>	<b>9,536,223</b>
<b>TOTAL ASSETS</b>	<b>\$ 226,702,478</b>	<b>\$ 6,544,402</b>	<b>\$ 164,357,985</b>	<b>\$ 397,604,865</b>	<b>\$ 290,123,728</b>

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

PUBLIC UTILITY DISTRICT NO 1 OF COWLITZ COUNTY, WASHINGTON

STATEMENT OF NET ASSETS

December 31, 2006

	Electric System	Water System	Lewis River Swift No 2	Totals 2006	Totals 2005
<u>LIABILITIES</u>					
<u>CURRENT LIABILITIES</u>					
Warrants outstanding	\$ 528,938	\$ 2,499	\$ 9,760	\$ 541,197	\$ 1,442,761
Current portion of long-term debt	3,160,000	75,827	785,000	4,020,827	5,925,827
Other accounts payable	14,449,574	46,284	378,762	14,874,620	20,604,187
Accounts payable to assoc. companies (Note 16)	-	39,649	1,927,664	1,967,313	5,310,320
Salaries payable	212,528	-	-	212,528	239,991
Customer deposits	1,982,405	-	-	1,982,405	956,685
Taxes payable	4,041,296	3,703	36,352	4,081,351	3,791,533
Interest payable	23,722	2,419	-	26,141	645,167
Accrued bond interest payable	1,500,196	-	1,161,471	2,661,667	598,683
Other current liabilities	646,654	-	216,800	863,454	756,902
<b>TOTAL CURRENT &amp; ACCRUED LIABILITIES</b>	<b>26,545,313</b>	<b>170,381</b>	<b>4,515,809</b>	<b>31,231,503</b>	<b>40,272,056</b>
<u>LONG-TERM LIABILITIES</u>					
Bank note payable (Notes 5 & 6)	-	-	-	-	8,000,000
Bonds payable (Notes 5, 6 & 9)	76,400,000	-	68,175,000	144,575,000	71,150,000
Premium on bonds payable	2,645,402	-	1,291,235	3,936,637	1,699,680
Advances from assoc. companies (Note 1-N and 8-A)	-	1,161,896	-	1,161,896	1,219,191
Public works trust fund loan (Note 8-B)	-	676,837	-	676,837	752,664
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>79,045,402</b>	<b>1,838,733</b>	<b>69,466,235</b>	<b>150,350,370</b>	<b>82,821,535</b>
<u>OTHER LIABILITIES</u>					
Deferred insurance reserves	211,267	-	-	211,267	207,337
Deferred vacation (Note 14)	761,236	-	-	761,236	715,194
Deferred retirement (Note 7)	591,124	-	-	591,124	709,902
Other deferred credits (Note 1-P)	3,162,190	5,723	-	3,167,913	2,718,831
<b>TOTAL OTHER LIABILITIES</b>	<b>4,725,817</b>	<b>5,723</b>	<b>-</b>	<b>4,731,540</b>	<b>4,351,264</b>
<b>TOTAL LIABILITIES</b>	<b>110,316,532</b>	<b>2,014,837</b>	<b>73,982,044</b>	<b>186,313,413</b>	<b>127,444,855</b>
<u>NET ASSETS</u>					
Unappropriated	116,385,946	4,529,565	90,375,941	211,291,452	162,678,873
<b>TOTAL NET ASSETS</b>	<b>116,385,946</b>	<b>4,529,565</b>	<b>90,375,941</b>	<b>211,291,452</b>	<b>162,678,873</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 226,702,478</b>	<b>\$ 6,544,402</b>	<b>\$ 164,357,985</b>	<b>\$ 397,604,865</b>	<b>\$ 290,123,728</b>

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

PUBLIC UTILITY DISTRICT NO 1 OF COWLITZ COUNTY, WASHINGTON  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Year Ended December 31, 2006

	Electric System	Water System	Lewis River Swift No 2	Totals 2006	Totals 2005
OPERATING REVENUES (Note 1-L)	\$ 193,449,237	\$ 1,048,553	\$ 7,159,196	\$ 201,656,986	\$ 200,629,466
OPERATING EXPENSES					
Operations expense	155,722,950	536,214	3,980,141	160,239,305	155,609,613
Maintenance expense	3,559,376	154,200	73,950	3,787,526	3,280,539
Depreciation and amortization (Note 3)	5,487,964	176,422	320,652	5,985,038	5,801,157
Plan recovery gains and losses	-	-	-	-	(45,000)
Taxes	10,738,405	50,306	36,358	10,825,069	9,811,991
TOTAL OPERATING EXPENSE	175,508,695	917,142	4,411,101	180,836,938	174,458,300
TOTAL OPERATING INCOME	17,940,542	131,411	2,748,095	20,820,048	26,171,166
OTHER INCOME					
Income from mdse., jobbing & contract work	50,168	482	-	50,650	1,037
Interest and dividend income	2,153,887	36,451	1,221,651	3,411,989	2,585,082
Miscellaneous non-operating income	3,036	-	-	3,036	2,294
Gain (loss) from joint venture (Note 8-A)	-	(72,813)	-	(72,813)	(70,149)
TOTAL OTHER INCOME	2,207,091	(35,880)	1,221,651	3,392,862	2,518,264
INCOME BEFORE INTEREST CHARGES & OTHER DEDUCTIONS	20,147,633	95,531	3,969,746	24,212,910	28,689,430
INTEREST CHARGES					
Interest on debt to assoc. companies	35,857	54,305	-	90,162	56,212
Bond interest expense	2,553,131	-	1,166,518	3,719,649	1,707,990
Other interest expense	387,365	4,595	-	391,960	13,000
TOTAL INTEREST CHARGES	2,976,353	58,900	1,166,518	4,201,771	1,777,202
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	17,171,280	36,631	2,803,228	20,011,139	26,912,228
EXTRAORDINARY ITEMS (Note 9)	-	-	28,601,440	28,601,440	27,758,257
CHANGE IN NET ASSETS	17,171,280	36,631	31,404,668	48,612,579	54,670,485
TOTAL NET ASSETS, January 1	99,214,666	4,492,934	58,971,273	162,678,873	108,008,388
TOTAL NET ASSETS, December 31	\$ 116,385,946	\$ 4,529,565	\$ 90,375,941	\$ 211,291,452	\$ 162,678,873

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

## PUBLIC UTILITY DISTRICT NO 1 OF COWLITZ COUNTY, WASHINGTON

## STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2006

	Electric System	Water System	Lewis River Swift No 2	Totals 2006	Totals 2005
<b>CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>					
Cash from customers	\$ 192,932,786	\$ 1,045,042	\$ 8,936,308	\$ 202,914,136	\$ 195,558,991
Cash paid for power and water supply	(145,534,245)	(171,221)	-	(145,705,466)	(143,259,613)
Cash paid for goods and services	(9,279,398)	(350,627)	(8,524,121)	(18,154,146)	(7,259,978)
Cash paid to employees for services	(7,817,193)	(174,558)	-	(7,991,751)	(7,072,347)
Taxes paid	(10,247,378)	(52,559)	(235,314)	(10,535,251)	(9,419,397)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>20,054,572</b>	<b>296,077</b>	<b>176,873</b>	<b>20,527,522</b>	<b>28,547,656</b>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital construction	(11,269,392)	(310,272)	4,394,675	(7,184,989)	(73,217,504)
Proceeds from issuance of long-term debt	51,080,110	-	27,759,833	78,839,943	245,831
Principal paid on long-term debt	(5,090,000)	(133,123)	(760,000)	(5,983,123)	(4,962,557)
Proceeds from note payable	70,000,000	-	-	70,000,000	8,000,000
Principal paid on note payable	(78,000,000)	-	-	(78,000,000)	-
Interest paid on long-term debt and note payable	(3,122,178)	(59,210)	(1,999,876)	(5,181,264)	(3,877,310)
Investment in associated companies	57,295	(72,687)	-	(15,392)	361
Advances to White Creek LLC	(94,325,871)	-	-	(94,325,871)	(3,153,356)
Reimbursement from White Creek LLC	71,799,867	-	-	71,799,867	-
Deferred debits	1,058,947	-	(472,808)	586,139	464,344
Deferred credits	374,553	-	-	374,553	1,887,840
Proceeds from sale of mdse., jobbing and contract work	53,204	482	-	53,686	3,331
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>2,616,535</b>	<b>(574,810)</b>	<b>28,921,824</b>	<b>30,963,549</b>	<b>(74,609,020)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Other special funds	-	-	-	-	30,593
Purchase of investment securities	(60,224,353)	-	(29,807,012)	(90,031,365)	(38,707,841)
Proceeds from maturity of investment securities	30,144,133	-	2,500,000	32,644,133	52,661,772
Interest and dividends on investments	1,836,592	36,232	552,625	2,425,449	2,638,643
Deferred charges	72,737	-	-	72,737	-
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(28,170,891)</b>	<b>36,232</b>	<b>(26,754,387)</b>	<b>(54,889,046)</b>	<b>16,623,167</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(5,499,784)</b>	<b>(242,501)</b>	<b>2,344,310</b>	<b>(3,397,975)</b>	<b>(29,438,197)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>50,382,424</b>	<b>807,254</b>	<b>12,176,902</b>	<b>63,366,580</b>	<b>92,804,777</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>\$ 44,882,640</b>	<b>\$ 564,753</b>	<b>\$ 14,521,212</b>	<b>\$ 59,968,605</b>	<b>\$ 63,366,580</b>

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

PUBLIC UTILITY DISTRICT NO 1 OF COWLITZ COUNTY, WASHINGTON

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2006

	Electric System	Water System	Lewis River Swift No 2	Totals 2006	Totals 2005
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income	\$ 17,940,542	\$ 131,411	\$ 2,748,095	\$ 20,820,048	\$ 26,171,166
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Depreciation	5,487,964	176,422	320,652	5,985,038	5,801,157
Accounts receivable and unbilled revenue	(953,008)	691	-	(952,317)	(2,027,617)
Other accounts receivable	(589,163)	(4,202)	318,270	(275,095)	(1,672,397)
Accounts receivable from associated companies	1,884,165	-	1,458,842	3,343,007	(918,620)
Materials and supplies	(1,032,358)	2,050	-	(1,030,308)	(684,695)
Prepayments	376,532	(200)	911,578	1,287,910	(117,165)
Other current assets	(75,785)	-	-	(75,785)	8,401
Warrants outstanding	(912,910)	1,586	9,760	(901,564)	(3,069,906)
Accounts payable	(2,143,361)	(14,385)	(3,567,285)	(5,725,031)	3,545,632
Accounts payable to associated companies	(1,458,842)	4,957	(1,889,123)	(3,343,008)	918,620
Salaries payable	(27,463)	-	-	(27,463)	29,715
Customer deposits	1,025,720	-	-	1,025,720	88,381
Taxes payable	491,027	(2,253)	(198,956)	289,818	392,594
Other accrued liabilities	41,512	-	65,040	106,552	82,390
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 20,054,572	\$ 296,077	\$ 176,873	\$ 20,527,522	\$ 28,547,656

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

**PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

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

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governmental electric utilities. Pursuant to Statement 20 of the Governmental Accounting Standards Board (GASB) "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the District uses as guidance Financial Accounting Standards Board (FASB) pronouncements except those that are in conflict with or contradict GASB pronouncements.

A. Reporting Entity

Public Utility District No. 1 of Cowlitz County, Washington (District) was created by vote of the qualified electors of Cowlitz County on November 3, 1936 and operates under the laws of the State of Washington applicable to a Municipal Corporation. The District is governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District's financial statements include the financial position, results of operations and cash flows of all systems which the District manages.

The District operates separate systems named the Electric Distribution System, the Water System, and the Lewis River Swift Plant No. 2 Hydroelectric System (Production System).

The financial statements also include the assets and liabilities of all funds for which the District has a custodial or trust responsibility except that the financial statements do not include the financial position or results of operations for the Regional Water Treatment Plant (RWTP) in which the District participates. (Note 8A)

B. Basis of Combined Financial Statements

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts for Public Utilities and Licensees.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Fixed asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

C. Comparative Total Data

Comparative total data for the prior year has been presented in the financial statements in order to provide an understanding of changes in the District's financial position and operations. However, comparative data (presentation of prior year totals by fund type) has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

D. 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 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.

E. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. Such reclassifications do not effect changes in total net assets previously reported. However, cash and cash equivalents as of December 31, 2005, have been reduced by \$1,000,000 to conform to the definition contained in Note 1F.

F. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the District considers highly liquid, short-term investments with original maturities of three months or less to be cash equivalents.

G. Utility Plant and Depreciation

Refer to Note (3).

H. Bad Debts

The bad debt expense is debited and the accumulated provision for uncollectible accounts is credited monthly with a budgeted amount that provides for losses on accounts receivable which may become uncollectible. Actual losses between twelve and fifteen months old are then charged against the provision for uncollectible accounts quarterly.

I. Inventories

Inventories of materials and supplies are valued at cost. The inventory consists of expendable supplies held for construction and maintenance on the District's Electric Distribution System and Water System. Unit cost is determined by the average cost method.

J. Investments

See Note (2).

K. Compensated Absences

The District accrues accumulated unpaid vacation benefits as the obligation is incurred. See Note (14).

L. Operating Revenues

The District recognizes revenues based on cyclical billings to customers. After March 1, 2006 all customers are billed monthly. Revenues are recognized as earned and include an estimate of revenue earned but not billed to customers as of year end.

M. Other Special Funds

Special funds for the Electric Distribution System include the District's Banked Personal Leave Fund and the Retirement Reserve Fund, which are explained in Notes (7) and (14).

N. Advances to Other Funds

Long-term fund advances to the Water System and the Swift No. 2 Hydroelectric Production System are recorded as investments in associated companies in the Electric Distribution System statement.

O. Deferred Debits

Deferred debits in the Electric Distribution System totaled \$10,165,858 on December 31, 2006. Of that amount, \$397,688 represented contract-work-in-progress accounts

receivable, and \$8,416,455, represents the cost of the BPA Rock Creek substation (\$7,135,782), which will be given back to the District in the form of transmission credits on the BPA bill over a five year period, and the amount of assets still residing with White Creek Project LLC (\$1,280,673), which are being held to make sure the costs of the project and its sale are covered. The remaining amounts include \$20,980 in clearing account charges to be allocated to the appropriate accounts, \$965,688 in unamortized bond issue costs and \$365,047 in unamortized loss on reacquired debt.

Deferred debits in the Swift Plant No. 2 Hydroelectric Production System totaled \$4,763,545 on December 31, 2006. \$411,008 was for unamortized bond issuance costs and \$4,352,537 was for deferred relicensing charges and compliance with the Federal Endangered Species Act.

P. Deferred Credits

Electric Distribution System deferred credits totaled \$3,162,190 on December 31, 2006. This was made up of \$3,046,593 in contract retentions, \$104,650 in reserves for obsolete material losses, and \$10,947 in deposits and interest.

**(2) DEPOSITS AND INVESTMENTS**

The District's deposits and investments are entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). As required by state law, all investments of the District's funds are obligations of the U. S. Government or deposits with Washington State banks and savings and loan institutions.

Disclosure requirements have investments categorized to give an indication of the risk assumed at year-end. Category 1 includes investments that are either insured, registered or held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or their trust department or agent but not in the District's name. Investments held at December 31, 2006 include obligations of the U. S. Government that total \$24,385,686 that are all Category 1 and are carried at cost.

District investments have not been recorded at fair market value, as the District's investments are all short-term and the analyzed difference between cost and fair market value is immaterial.

The District has temporary cash investments in the Electric Distribution System and the Swift Plant No. 2 Hydroelectric Production System. Investments in the Electric Distribution System are in the Electric Revenue Fund, 2006 Bond Construction Fund, Banked Personal Leave Fund, and the Retirement Reserve Fund. Notes (7) and (14) give further detail on the Banked Personal Leave Fund and the Retirement Reserve Fund. Investments in the Swift Plant No. 2 Hydroelectric Production System are in the Swift No. 2 Revenue Fund and the Swift No. 2 Reserve and Contingency Fund.

**(3) UTILITY PLANT AND DEPRECIATION**

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

Utility plant in service and other fixed assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated cost. Contributions by developers and customers are recorded at contract price or cost as contributions in aid-of-construction. The District records depreciation on assets acquired by contributions.

Cost of assets retired are removed from the asset accounts and charged to the accumulated depreciation accounts, together with removal costs less any proceeds from sales.

Depreciation is computed on the straight-line method with useful lives of 3 to 50 years. Estimated useful lives for the Lewis River - Swift Plant No. 2 Hydroelectric System properties are as follows: Production Plant - 55 to 70 years; Transmission Plant - 45 years; Water Rights - 50 years.

The following is a summary of the utility plant in service and other fixed assets as of December 31, 2006 and 2005.

<b><u>Electric Utility Plant</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Intangible	\$ 207,274	\$ 197,061
Transmission	13,690,760	12,540,614
Distribution	136,059,085	128,279,409
General Plant	<u>25,087,741</u>	<u>23,997,922</u>
Plant in Service	175,044,860	165,015,006
Construction in Progress	<u>2,718,976</u>	<u>2,468,760</u>
Total Utility Plant	177,763,836	167,483,766
Less Accumulated Depreciation	<u>(86,584,115)</u>	<u>(82,085,473)</u>
Net Electric Utility Plant	<u>\$ 91,179,721</u>	<u>\$ 85,398,293</u>

<b><u>Water Utility Plant</u></b>		
Intangible	\$ 6,016	\$ 2,619
Source of Supply	40,151	40,151
Pumping	336,741	280,384
Distribution	7,604,828	6,930,745
General Plant	<u>89,053</u>	<u>87,293</u>
Plant in Service	8,076,789	7,341,192
Construction in Progress	<u>26,083</u>	<u>450,219</u>
Total Utility Plant	8,102,872	7,791,411
Less Accumulated Depreciation	<u>(3,367,600)</u>	<u>(3,191,178)</u>
Net Water Utility Plant	<u>\$ 4,735,272</u>	<u>\$ 4,600,233</u>

<b><u>Swift Plant No. 2 Utility Plant</u></b>		
Production	\$ 122,937,948	\$ 15,268,046
Transmission	<u>3,756,117</u>	<u>1,477,446</u>
Plant in Service	126,694,065	16,745,492
Construction in Progress	<u>-</u>	<u>85,036,493</u>
Total Utility Plant	126,694,065	101,781,985
Less Accumulated Depreciation	<u>(12,027,477)</u>	<u>(11,704,825)</u>
Net Swift No. 2 Utility Plant	<u>\$ 114,666,588</u>	<u>\$ 90,077,160</u>

**(4) CONSTRUCTION IN PROGRESS**

Construction work in progress represents expenditures to date on projects whose 2006 authorizations totaled \$2,718,976 for the Electric Distribution System and \$26,083 for the Water Distribution System. Also see Note 1-O.

**(5) DISTRIBUTION SYSTEM LONG-TERM DEBT**

On December 20, 2005, the District obtained a \$10 million line of credit with Bank of America and borrowed \$8 million. The expiration date for the line of credit is January 15, 2008. When the Distribution System bonds were issued for capital expenditures in August 2006, the line of credit balance was paid off.

During 2001, the District issued \$48.675 million in Electric Distribution System Revenue Bonds. These bonds were used to pay off the existing lines of credit and to provide for capital requirements. The bonds mature serially in varying amounts and have annual interest rates ranging from 5.00% to 5.25%.

Pursuant to the bond resolution, the District elected to purchase municipal bond insurance in lieu of the maintenance of bond reserve funds to guarantee the principal and interest payments to the bondholders.

In August 2006, the District issued \$61.465 million in Revenue and Refunding Bonds to fund capital improvements, repay \$8 million on the line of credit described above, pay for bond issuance costs, including bond insurance, fund the bond reserve account (\$2,373,256), and to refund \$11.635 million of outstanding 2001 Electric Distribution System Revenue Bonds (Series 2001 Bonds). Of the net proceeds, \$12.080 million was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide future debt service payments on a portion of the Series 2001 Bonds maturing on September 1, 2007 through 2011. As a result, \$11.635 million of Series 2001 Bonds are considered to be defeased and the liability for those bonds is not included in the District's financial statements. The primary purpose for the refunding was to restructure debt maturities. The District recorded an accounting loss of \$445,286 which is being amortized over the remaining life of the Series 2001 Bonds. Principal payments on the 2006 Revenue and Refunding Bonds are scheduled to begin in September 2012, maturing annually in varying amounts through Sept 2026. The bonds have annual interest rates ranging from 4.50 % to 5.00%.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,160,000	\$ 4,075,955	\$ 7,235,955
2008	3,455,000	3,784,231	7,239,231
2009	3,635,000	3,602,844	7,237,844
2010	3,825,000	3,412,006	7,237,006
2011	4,020,000	3,220,756	7,240,756
2012 - 2036	<u>61,465,000</u>	<u>26,110,425</u>	<u>87,575,425</u>
 Total	 <u>\$ 79,560,000</u>	 <u>\$ 44,206,217</u>	 <u>\$ 123,766,217</u>

In 2002, the District elected to place \$6,000,000 in the Rate Stabilization Fund per the bond resolution. During 2006, the District elected to reduce the amount of the Rate Stabilization Fund to \$3,000,000. In 2006, the Distribution System's Debt Service Coverage Ratio was 3.68.

**(6) LONG-TERM DEBT**

Following is a schedule of changes in long-term debt:

<u>System</u>	<u>Purpose</u>	<u>Date of Original Issue</u>	<u>Date of Maturity</u>	<u>Outstanding Debt as of Jan. 1, 2006</u>	<u>Amount Issued Current Year</u>	<u>Amount Redeemed Current Year</u>	<u>Outstanding Debt as of Dec. 31, 2006</u>
Electric	Capital	Aug-06	Aug-26	\$ -	\$ 61,465,000	\$ -	\$ 61,465,000
Electric	Bond Premium	Aug-06	Aug-26	-	2,477,861	205,151	2,272,710
Electric	Capital	Dec-05	Jan 08	8,000,000	-	8,000,000	-
Electric	Capital	May-01	Aug-11	34,820,000	-	16,725,000	18,095,000
Electric	Bond Premium	May-01	Aug-11	<u>586,764</u>	<u>-</u>	<u>214,072</u>	<u>372,692</u>
Total Electric System Long-Term Debt				<u>\$ 43,406,764</u>	<u>\$ 63,942,861</u>	<u>\$ 25,144,223</u>	<u>\$ 82,205,402</u>
Swift	Capital	Aug-06	Aug-36	\$ -	\$ 27,540,000	\$ -	\$ 27,540,000
Swift	Bond Premium	Aug-06	Aug-36	-	219,833	-	219,833
Swift	Capital	Sep-04	Sep-34	42,180,000	-	760,000	41,420,000
Swift	Bond Premium	Sep-04	Sep-34	<u>1,112,916</u>	<u>-</u>	<u>41,514</u>	<u>1,071,402</u>
Total Swift System Long-Term Debt				<u>\$ 43,292,916</u>	<u>\$ 27,759,833</u>	<u>\$ 801,514</u>	<u>\$ 70,251,235</u>
Water	Capital	Apr-81	May-17	\$ 499,280	\$ -	\$ 32,868	\$ 466,412
Water	Capital	Jan-99	May-25	719,911	-	24,427	695,484
Water	Capital - PWTFLL	May-88	Jun-23	<u>828,491</u>	<u>-</u>	<u>75,827</u>	<u>752,664</u>
Total Water System Long-Term Debt				<u>\$ 2,047,682</u>	<u>\$ -</u>	<u>\$ 133,122</u>	<u>\$ 1,914,560</u>

(7)

**PENSION PLAN**

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 (DRS), under cost-sharing multiple employer public employee defined benefit and defined contribution retirement plans. The DRS, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 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 combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges in a judicial retirement system); employees of legislative committees; college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local government. Participants who joined the system by September 30, 1977, are Plan 1 members. Those who

joined on or after October 1, 1977 and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported to Plan 2 until a choice is made. Employees who fail to choose within 90 days default to Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any eligible consecutive 24-month period. If qualified, after reaching age 66 a cost-of-living allowance is granted based on years of service credit and is capped at three percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with 5 years of service, or at 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to age 65 receive reduced benefits. If retirement is at or after age 55 but before age 65 with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. 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.

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. Plan 3 members become eligible for retirement if they have at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at or after age 55 but before age 65 with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. 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.

#### Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. 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.

Effective August 1, 1984, the District established a Retirement Reserve Fund in response to the Washington State Legislature's SHB 843 which was signed into law on March 15, 1984. SHB 843 reduced the maximum days of accrued vacation applied to retirement payable by the State to 30 days, with the balance of the maximum accrued vacation and floating holidays applied to retirement payable by the employer under the average compensation formula for Plan 1 employees. The District has elected to fund

the financial liability for Plan 1 employees for those days in excess of the 30 days funded by the State. When the District pays the lump sum due for days in excess of 30, the District has no future liability for that retiree's payments. The Retirement Reserve Fund has been established in anticipation of amounts that will be needed to fund the excess compensation related to SHB 843. As of December 31, 2006, the amount in the Retirement Reserve Fund was \$591,123.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2006 were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	3.69%	3.69%	3.69%**
Employee	6.00%	3.50%	***

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

\*\*Plan 3 defined benefit portion only.

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

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2006	\$ 44,702	\$228,615	\$13,756
2005	\$ 32,438	\$126,355	\$7,447

**(8) WATER SYSTEM**

A. Joint Ventures

In December 1978, the District entered into an agreement with the City of Longview to construct the Regional Water Treatment Plant (RWTP). The arrangement was organized to acquire and construct a new facility to provide treated water to the residents of the two entities at the lowest reasonable cost consistent with reliability, safety, and expedition. Ownership in this joint venture is based on total historical usage from the plant. The ratio at the end of 2005 is 14.06 percent for the District and 85.94 percent for the City of Longview with operating and capital financing participation accordingly. A three-member board, comprised of two City representatives and one District representative, administer the joint venture. Water wheeling agreements are in effect between the District and the cities of Longview and Kelso providing for the delivery of water from the RWTP to the respective areas of the District's Water System. The Water System has loans with the Electric Distribution System for the RWTP and Water Distribution System projects.

Complete financial statements for the RWTP can be obtained from the City of Longview. The RWTP is a joint venture reported under the equity method. The District's current share of the project at December 31, 2006 is \$1,038,096.

B. Long-Term Debt

In January, 2003, the District completed the third construction project partially funded through Public Works Trust Fund Loans received from the Washington State Department of Community Development. The first was completed in 1989 and the second was completed in 1993. Each of the Trust Fund Loans is to be paid back over a twenty-year period at interest rates from one-half to one percent. The District also received advances for a fourth Public Works Trust Fund Loan project during 2003. That project is to replace leaking and deteriorated water mains and was completed during 2006.

Scheduled principal maturities and interest requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 75,827	\$ 4,362	\$ 80,189
2008	75,827	3,802	79,629
2009	49,172	3,242	52,414
2010	49,172	2,949	52,121
2011	49,172	2,656	51,828
2012 - 2023	<u>453,494</u>	<u>13,380</u>	<u>466,874</u>
Total	<u>\$ 752,664</u>	<u>\$ 30,391</u>	<u>\$ 783,055</u>

**(9) SWIFT PLANT NO. 2 - POWER CONTRACT**

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

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

On April 21, 2002, the Swift No. 2 Hydroelectric Production System suffered a failure of the power canal embankment, which led to significant damage to the powerhouse and transmission switchyard. The casualty insurance carrier, Lloyds of London, agreed that coverage exists under the policy, and paid the \$70 million policy limit. On February 3, 2004, the property insurance carriers, Federated Rural Electric Insurance Exchange and TIG Specialty Insurance denied coverage, and on the same day filed a motion in Federal District Court in Tacoma, Washington seeking a judicial declaration that there is no coverage under these insurance policies for the PUD's claimed loss. The U.S. District Court granted the District's motion for summary judgment on March 3, 2006 agreeing with the District that Federated and TIG were obligated to provide coverage. On August 14, 2006, the District received \$13.9 million as its portion of a \$25 million settlement from Federated. Later the court required an appraisal to be performed regarding TIG's coverage, which remains in litigation.

Swift No. 2 repair and reconstruction and business interruption costs incurred through 2006 were more than \$150 million. While Swift No. 2 was not producing power, market power was purchased on a forward block basis. With construction substantially completed in February 2006, Swift No. 2 began to produce energy. Final acceptance of the operation and renewal of the agreement with PacifiCorp occurred October 1, 2006.

In the years following the failure The District incurred extraordinary losses of \$2,000,820 for the write-off of equipment destroyed in the power house and the switchyard. In 2005 the District recognized an extraordinary gain of \$27,758,257 from insurance proceeds that were applied to the new construction at the project, after cleanup and replacement power costs were eliminated.

In August 2004, the District issued Production System bonds for \$42.2 million to cover the costs of the embankment rehabilitation not covered by insurance. The bonds mature serially over a 30-year period and have interest rates varying from 3.00% to 5.00%. Principal payments on these bonds began in 2006. In August 2006, the District issued Production System bonds for \$27.5 million. These bonds are to finance continuing expenditures for project reconstruction and to provide for capital expenditures associated with FERC licensing.

Scheduled principal maturities and interest requirements on the 2004 and 2006 Production Revenue Bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 785,000	\$ 3,372,759	\$ 4,157,759
2008	805,000	3,293,381	4,098,381
2009	830,000	3,269,231	4,099,231
2010	855,000	3,242,256	4,097,256
2011	885,000	3,212,331	4,097,331
2012 - 2036	<u>64,800,000</u>	<u>53,844,725</u>	<u>118,644,725</u>
 Total	 <u>\$ 68,960,000</u>	 <u>\$ 70,234,683</u>	 <u>\$ 139,194,683</u>

The District has reached an agreement with PacifiCorp, assigning the capital expenditure payments to be made by the District for fish passage and other aquatic measures which would be required under the Lewis River Settlement Agreement and likely under the new FERC License for Swift No. 2. The agreement requires these payments to be made according to the following schedule, assuming that the license would be issued in mid-2007, with the amounts listed to be paid in 2003 dollars, indexed for inflation. The first payment will be due within 90 days of the issuance of the license, with the schedule for the subsequent payments tied to pre-determined anniversaries of the license issuance.

2007	\$ 2,750,000
2008	2,750,000
2009	3,000,000
2010	3,000,000
2015	200,000
2020	2,000,000
2021	2,000,000
2022	2,000,000
2035	<u>400,000</u>
 Total	 <u>\$ 18,100,000</u>

**(10) WHITE CREEK WIND PROJECT**

The District has entered into a partnership with Klickitat PUD and two Washington Electric Co-ops to participate in a wind generating facility in eastern Klickitat County. The development name is White Creek. Early development of the project was done by the utilities involved, but the project was sold to Prudential Insurance and Lehman Brothers in December 2006. Power Purchase Agreements have been signed by the utilities for 20 years of power that will begin to be delivered at the end of 2007. The percentage allocation of the power among the utilities is still under discussion, but Cowlitz PUD's percentage is expected to be 46%.

Phases I and II of the White Creek Wind Farm will have a total of 89 2.3MW wind turbines for an expected output of 205MW. Both phases are expected to be completed and in production by December 31, 2007.

The District's continued investment in the project lies in two areas: 1) the cost of the BPA Rock Creek substation (\$7,135,782), which will be refunded to the District in the form of transmission credits on the BPA bill over a five year period, and 2) the amount of assets still residing with White Creek Project LLC (\$1,280,673), which are being held to make sure the costs of the project and its sale are covered. These amounts are shown as deferred debits on the balance sheet.

In 2006 the District advanced White Creek Project LLC \$94,325,871 to cover project costs. Upon sale of the project in December 2006, the District received \$71,799,867 and on December 31, 2007, Other Accounts Receivable includes \$18,423,577 which represents the remaining amount owing on the sale.

**(11) ELECTRIC RATES**

Following two large rate increases totaling over 88% in 2000 and 2001, the District's electric rates were stable in 2002. The District's Board of Commissioners authorized an increase in rates by 4.5% to 5.12 cents per kilowatt-hour in October 2003. In October 2004, following a reduction in BPA's wholesale power rates, the District lowered its rates 3.0%, bringing the residential rate to 4.96 cents per kilowatt-hour. On March 1, 2006 the District raised rates 3.2%, bringing the rates back to where they were before the October 2004 decrease.

**(12) PURCHASED POWER**

Bonneville Power Administration Power Supply

On October 1, 2001, the District began to take deliveries from BPA under a new long-term Power Sales Contract (2001 Contract) with BPA. This 2001 Contract is for a ten-year term and is take-or-pay in nature. That is, BPA is obligated to serve and the District is obligated to purchase the quantity of power required for service to the District's load over and above what is provided by the District's own Swift resource and the firm power contracts itemized below. In August 2006, the District entered into BPA's Flexible PF Rate Program, allowing BPA to request prepayment of up to \$15 million when it needs cash to maintain liquidity. The prepayment is covered by a letter of credit from Bank of America, and all costs of the letter of credit are paid by BPA.

Purchases From Grant County PUD

Pursuant to contracts with Grant County PUD, the District has rights to purchase predetermined percentage amounts of output from the Priest Rapids and Wanapum Developments. The District also must pay costs and debt service on the Priest Rapids and Wanapum Developments based on a predetermined percentage. The original contract with the Priest Rapids Development terminated October 31, 2005 and the current contract with the Wanapum Development terminates October 31, 2009. Both of these contracts have been extended through September 30, 2011 at 76% of their original output share.

Purchases From Energy Northwest's Nine Canyon Wind Project

The District entered into a contract with Energy Northwest in December 2003 for the purchase of the output associated with 2 megawatts of the Nine Canyon Wind Project. The District utilizes the power to serve its customers by use of a BPA wind integration product. The "green tags" or "renewable energy credits" associated with the District's share of output are committed for sale to the Bonneville Environmental Foundation and are not used for District load at this time.

**(13) POST-RETIREMENT BENEFITS AND DEFERRED COMPENSATION PLANS**

In addition to the pension benefits described in Note (7), the District provides post-retirement health care benefits, in accordance with the District's Collective Bargaining Agreement, to its retirees from the age of 55 until the age of 65. Currently, forty-one retirees meet those eligibility requirements. The District covers the medical insurance premium for those eligible retirees. The District does not pay for a Medicare supplement for any retiree eligible for Medicare. Employer contributions are financed on a pay-as-you-go basis. Expenditures for post-retirement health benefits are recognized on a monthly basis. During the year, expenditures of \$268,775 were recognized for post-retirement health care.

The District offers its employees a 401(k) Deferred Compensation Plan created in accordance with Internal Revenue Code Section 401(k) which permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets of the plan in 2006 were deposited, as specified by each participating employee, with Fidelity Investments as trustee.

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

**(14) VACATION AND SICK LEAVE**

Pursuant to Governmental Accounting Standards Board Statement No. 16, the District uses the accrual basis of accounting for recognizing earned employee vacation and floating holidays. These employee rights are vested and are attributable to employee services already rendered. Employee sick leave is not accrued because it is not a vested right of the employee. Personal leave is limited to thirty days at the end of any calendar year. Personal leave accruals may be transferred, according to the District's Banked Personal Leave Plan, into the Banked Personal Leave Fund. Employee vacation amounts in the Banked Personal Leave Fund are no longer tied to the employee's wage rate, but accrue interest according to the earnings of the Banked Personal Leave Fund investments. Banked Personal Leave Fund amounts are paid through the payroll system.

The liability recognized for vacation and floating holidays is calculated at 100% of the time earned and payable at current wage rates. Banked Personal Leave amounts reflect the amounts deposited plus interest earned. At December 31, 2006 and December 31, 2005 the values of the accrued liabilities, which reflect a calculation for Social Security and Medicare taxes, were:

	<u>Personal Leave</u>		<u>Banked Personal Leave</u>		<u>Floating Holiday</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Liability	\$ 526,186	\$ 471,374	\$ 761,236	\$ 715,194	\$ 34,219	\$ 30,752
SSI & Medicare @ 7.65%	<u>40,253</u>	<u>36,060</u>	<u>58,235</u>	<u>54,712</u>	<u>2,618</u>	<u>2,353</u>
Total Liability	<u>\$ 566,439</u>	<u>\$ 507,434</u>	<u>\$ 819,471</u>	<u>\$ 769,906</u>	<u>\$ 36,837</u>	<u>\$ 33,105</u>

**(15) BPA/COWLITZ PUD CONSERVATION PROGRAMS**

Cowlitz PUD has promoted energy conservation for 26 years by providing financial incentives to its residential, commercial and industrial customers. Programs have rewarded customers for purchasing and installing energy efficiency measures in their residences, businesses and industrial processes. Some of these measures include insulation and energy efficient windows, and appliances such as water heaters, clothes washers, refrigerators and dish washers, compact fluorescent bulbs, commercial lighting, and many different industrial process applications.

In 2006, the District transitioned the operation of its Conservation and Renewable Discount (C&RD) and Conservation Augmentation (ConAug) Programs into two new three-year BPA program offerings called the Conservation Rate Credit (CRC) and Conservation Acquisition Agreement (CAA) Programs. These programs are scheduled to continue through September 30, 2009. The Conservation Rate Credit (CRC) is funded through BPA as a monthly credit to the District's power bill, to be used against qualified conservation expenditures during that same period of time, and which will be "trued-up" at the end of the three-year rate period. At the end of the period, credits in excess of qualified expenditures during the period, if any, will be added back to the District's power bill from BPA.

The Conservation Acquisition Agreement (CAA) is a BPA pass-through reimbursement of the incentives provided by the District to its customers.

Cowlitz PUD accepted the BPA's Early Start Option offered under its CRC and CAA Programs. In April 2006 and June 2006, the District signed its CAA and CRC Agreements, respectively, with BPA in order to start up its conservation programs early. Expenditures, including incentives and administrative costs, and C&RD credits under this program for 2006 and 2005 were:

	<u>2006</u>	<u>2005</u>
Expenditures	\$ 599,235	\$ 1,291,355
C&RD Credits	\$ (2,021,070)	\$ (1,991,304)

**(16) INTERFUND TRANSACTIONS**

The District's Electric Distribution System makes payments for goods, services, and taxes on behalf of the Water System and the Swift No. 2 Hydroelectric Production System. This is reflected in the balance sheet as "Accounts Receivable from Associated Companies." Alternatively, the amounts due by the Water System and the Swift No. 2 Hydroelectric Production System to the Electric Distribution System are reflected in the balance sheet as "Accounts Payable to Associated Companies." These accounts include only short-term obligations which are paid monthly. They are not interfund loans.

**(17) SUBSEQUENT EVENTS**

Revenue Bond Issue

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

White Creek Wind Project Energy Prepayment

In November 2007, the White Creek Wind Project began energy production and the District paid \$86.355 million under the White Creek Wind Project Energy Purchase Agreement to receive a 46% share of the energy from the Project for 20 years. This payment was made with unrestricted cash and investments held by the Electric System (\$70.355 million) and from Lewis River Swift No. 2 (\$16 million).

**(18) CUSTOMER STATISTICS**

Pursuant to State of Washington Engrossed Substitute Senate Bill No. 6560 (ESSB 6560); retail electric customers have the right to receive specified disclosures from their electric utilities. Based upon those requirements and not including unbilled revenues, customer statistics are as found on the following page:

**Total All Customers Year 2006**

	<u>Customers</u>	<u>kWh</u>	<u>Revenue</u>
<b>Residential</b>	41,818	791,226,558	\$ 41,504,458
Per Unit			0.0525
Per Customer		18,921	993
<b>General Service</b>	5,213	393,523,808	25,222,927
Per Unit			0.0641
Per Customer		75,489	4,838
<b>Small Industrial</b>	62	23,411,551	1,529,534
Per Unit			0.0653
Per Customer		377,606	24,670
<b>Large Industrial</b>	26	3,447,996,453	122,700,798
Per Unit			0.0356
Per Customer		132,615,248	4,719,261
<b>Public Street &amp; Highway Lighting</b>	12	6,323,751	386,467
Per Unit			0.0611
Per Customer		526,979	32,206
<b>Other Sales to Public Authorities</b>	27	5,218,061	325,357
Per Unit			0.0624
Per Customer		193,262	12,050
<b>Sales to Other Electric Utilities</b>	2	137,609	29,807
Per Unit			0.2166
Per Customer		68,805	14,904
<b>Interdepartmental</b>	10	448,161	30,141
Per Unit			0.0673
Per Customer		44,816	3,014
<b>Total</b>	<u>47,170</u>	<u>4,668,285,952</u>	<u>\$ 191,729,489</u>



## **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.

**State Auditor**  
**Chief of Staff**  
**Chief Policy Advisor**  
**Director of Administration**  
**Director of State and Local Audits**  
**Director of Performance Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free hotline for government efficiency**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Jerry Puggetti**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Linda Long, CPA, CGFM**  
**Jim Brittain, CPA**  
**Jan Jutte**  
**Mike Murphy**  
**Mindy Chambers**  
**Mary Leider**  
**(360) 902-0370**  
**(866) 902-3900**

**Web Site**

**[www.sao.wa.gov](http://www.sao.wa.gov)**