

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

AUDIT REPORT

Years Ended December 31, 2013, and 2012

KENNETH KUHNS & CO.

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TABLE OF CONTENTS

	<u>Page</u>
Board of Directors, Administrative Staff and Registered Agent	1
Independent Auditor's Report	2 to 3
Management's Discussion and Analysis	4 to 8
Financial Statements:	
Balance Sheet	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11 to 12
Notes to Financial Statements	13 to 28
Required Supplementary Information:	
Schedule of Funding Progress for Retiree Health Plan	29
Other Supplementary Information:	
Schedule of Revenues and Expenses	30 to 31
Schedule of Bond and Revenue Obligations Debt Service Transactions	32
Schedule of Future Bond and Revenue Obligations Debt Service Requirements	33
Independent Auditor's Comments Required By Oregon State Regulations	34 to 35

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

December 31, 2013

Board of Directors

Howard Gonser	391 Summit Ridge Drive E The Dalles, Oregon	President
Barbara Nagle	917 Myrtle Street West The Dalles, Oregon	Vice-President
Dan Williams	2805 Three Mile Road The Dalles, Oregon	Secretary
Clay Smith	3463 West 13th Street The Dalles, Oregon	Treasurer
Milton Skov	1811 Montana Street The Dalles, Oregon	Director

Administrative Staff

Dwight D. Langer	General Manager
Paul Titus	Assistant General Manager and Director of Engineering
Kelly A. Ingraham	Controller

Registered Agent

Dwight D. Langer
2345 River Road
The Dalles, Oregon 97058-3551

INDEPENDENT AUDITOR'S REPORT

March 31, 2014

Board of Directors
Northern Wasco County People's Utility District
The Dalles, Oregon

Report on the Financial Statements

We have audited the financial statements of Northern Wasco County People's Utility District, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Wasco County People's Utility District as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 8 and the schedule of funding progress for retiree health plan on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated March 31, 2014 on our consideration of Northern Wasco County People's Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. 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.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section is referred to as the Management's Discussion and Analysis (MD&A). The MD&A section is meant to help the reader understand better, through the eyes of management, the financial activities based on current known facts, decisions and other conditions. Please read this with the understanding that it is a summary of the past two years' activities and some expected future conditions. Be sure to review the financial statements and accompanying notes that follow this report as well.

FINANCIAL HIGHLIGHTS

- In March 2013, the District completed a debt defeasance and contracted with US Bank for the entire defeasance of the Series 2004A revenue obligations and a partial defeasance of the Series 2005 revenue obligations. The District's total debt was reduced by \$5,540,000 from \$8,600,000 to \$3,060,000 and annual debt service requirements was reduced from approximately \$2,000,000 in 2013 & 2014 (2015 and beyond approximates \$820,000) to just under \$400,000 per year through 2022.
- In February 2013, the district adopted a new rate design based on a cost of service study. The objective was for each customer class to pay for their allocated cost of service. The District's customer classes are defined by their load characteristics: residential, small commercial (three phase), large commercial (three phase, demand), industrial, irrigation and street/security lights. The costs were allocated to each customer class based on their load characteristics to determine rates that include: **demand charges**, that recover the fixed cost of providing electricity to their meter based on peak demand; **energy charges**, that recover the cost of the volume of electrical energy (generation or purchased); and **customer charges**, that recover the cost of maintaining the meter, billing, meter reading, and account collections. The new rates were implemented in April 2013 with additional increases scheduled for April 2015 for residential and irrigation classes. The new rates are to cover a four year period and have taken into account BPA rate increases for FY 14-15 and FY 16-17.
- The District continued its efforts to develop a second generating unit at The Dalles North Fishway that would restore fish ladder attraction flows to historical levels and increase the generating capacity of the powerplant by 5 MW. This new, renewable source of energy will directly benefit the District's customers. Costs associated with this effort are found under other deferred charges.
- The District's total assets decreased \$5.2 million. Changes included a net increase in total electric plant of \$800,000. With the addition of an increase in accumulated depreciation of \$1.6 million the end result was an overall decrease of \$800,000 in net electric plant, (see Note 2 to the financial statements). There was also a decrease in restricted assets of \$317,000. Our OPEB (Other Post-Employment Benefit) reserve fund increased \$31,000, while our Fisheries Mitigation Trust Fund decreased by \$250,000. Our current Annual OPEB cost calculation is \$39,820 (see Note 7 to the financial statements). We continue to see a decrease in other assets and deferred charges as the Bonneville Power Administration (BPA) continues to pay its obligation on the 2012 (Refunded 1993) McNary Project bonds, (See Notes 4 and 5 to the financial statements).
- The District's net income was \$1.4 million, which represents a 3% increase in total net position. The decrease in net electric plant of \$800,000 and a decrease in related debt of \$5.7 million represent the increase in net investment in capital assets of \$4.9 million.
- Energy sales to our electric customers and generation sales decreased slightly in 2013: 0.3% or \$100,000. Actual kilowatt hours sold also decreased slightly by 199,735 hours as a result of our conservation measures. We have saved approximately 2,068,000 kwh due to these measures. This revenue change included a 6.1% increase in Residential; a 1.4% increase in Three Phase Service; a 9.1% increase in Demand Service; and a 2.3% decrease in Industrial Service customers' kilowatt hour sales. A new 17 year contract with BPA, our power purchase supplier, went into effect October 1, 2011 with the first rate change effective October 1, 2015. (see Note 10 to the financial statements).
- Operating expenses were \$525,000 more than 2012. This included an increase in purchased power costs of \$650,000. The District's largest operating expense is the cost of purchased power, which represents \$17.7 million (or 66.8%) of the total operating costs. This year we purchased approximately 86.9% of our energy needs from BPA and the remainder was generated from the District's own resources. Under the tiered rate methodology, BPA's October 2011 through September 2013 rates resulted in stable wholesale energy prices within the estimated 3% increase with no mid-term cost adjustments for fish and wildlife cost recovery, for the period ending September 2013. On October 1, 2013, the BPA FY 2014-2015 rate proposal went into effect with an expected increase in purchased power and transmission costs of over

8.5%. These increased costs were included in the cost of service and rate increase implemented in April 2013. Cost recovery adjustments remain a risk in the future under current and proposed BPA rate schedules.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Annual Audit Report includes Management's Discussion and Analysis, Basic Financial Statements with accompanying notes, Supplementary Information, Independent Auditor's Comments and the Independent Auditor's Report.

The financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to a private-sector business. They have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer short and long-term financial information about the District's activities.

The *Balance Sheet* presents information on all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position*. This statement provides a measurement of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its rates and other charges and to analyze profitability and credit worthiness.

The *Statement of Cash Flows* provides relevant information about the District's cash receipts and cash payments during the reporting period. This statement reports cash receipts and cash payments resulting from operating, financing and investment activities. When used with related disclosures and information, a statement of cash flows should provide insight into (a) the District's ability to generate future net cash flows; (b) the District's ability to meet its obligations as they come due; (c) the District's needs for external financing; (d) the reasons for differences between operating income and associated cash receipts and payments; and (e) the effects on the District's financial position of both its cash and its noncash investing, capital and financing transactions during the period. The changes in cash balances are an important indicator of the District's liquidity and financial condition.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. This includes, but is not limited to, significant accounting policies, significant financial statement balances and activities, material risks, commitments and obligations and subsequent events, as applicable.

FINANCIAL ANALYSIS

Condensed Balance Sheet (\$000's)

	2013	2012	2011
Assets			
Current assets	\$ 21,922	\$ 24,687	\$ 24,751
Restricted assets	9,089	9,406	9,516
Net utility electric plant	28,716	29,536	30,377
Other assets and deferred charges	17,632	18,780	19,500
Deferred Outflows of Resources			
Unamortized loss on refunding	131	304	335
Total assets and deferred outflows of resources	<u>\$ 77,490</u>	<u>\$ 82,713</u>	<u>\$ 84,479</u>
Liabilities and Net Position			
Current liabilities	\$ 8,285	\$ 8,594	\$ 9,815
Long-term debt	19,815	25,902	28,330
Other liabilities and deferred credits	2,189	2,429	2,533
Total liabilities	<u>30,289</u>	<u>36,925</u>	<u>40,678</u>
Net Position			
Net investment in capital assets	25,940	21,028	20,343
Restricted for rate stabilization fund	7,000	7,000	7,000
Restricted for bond debt service	22	133	128
Unrestricted	14,239	17,627	16,330
Total net position	<u>47,201</u>	<u>45,788</u>	<u>43,801</u>
Total liabilities and net position	<u>\$ 77,490</u>	<u>\$ 82,713</u>	<u>\$ 84,479</u>

In review of the balance sheet, we look at the District's financial position at the beginning and ending of the year. Assets include electric plant, segregated funds, current assets, other assets and deferred charges. Electric plant is property owned by the District. Segregated funds are restricted assets held for a specific purpose such as rate stabilization and trust funds. Current assets include cash, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted to cash. Other assets and deferred charges include long-term prepaid expenses and future debt payments due from BPA. Liabilities include long-term debt, current liabilities, and other liabilities and deferred credits. Long-term debt represents outstanding bonds and revenue obligations with a maturity date longer than one (1) year. Current liabilities are debts of the District that should be due in less than one (1) year. Other liabilities and deferred credits are OPEB liabilities and funds held by the District for the Fisheries Mitigation Irrevocable Trust Fund. Net position, which is similar to equity, represents the District's ownership in its total assets.

In review of the liabilities and net assets section of the balance sheet, comparing 2013 and 2012, we find current liabilities decreased \$300,000. This is largely related to an increase in Accounts payable of \$1.1 million offset by a decrease in Current Maturities of long-term debt of \$1.3 million. Outstanding power bills, due post 2013, were \$2.2 million, or 78% of accounts payable and outstanding power bills, due post 2012, were \$1.3 million, or 87% of accounts payable. Long-term debt decreased \$6.0 million due to the defeasance which occurred in March 2013 (see Note 5 to the financial statements). No new debt was issued. Other liabilities and deferred credits decreased \$240,000. The District's total net position increased from \$45.8 million in 2012 to \$47.2 million. Net position is 61% of the total assets. Net position includes 55% investment in capital assets (e.g., land, buildings, utility plant and equipment) less that portion of related debt used to acquire those assets which is still outstanding. These capital assets are used to provide services to our customers; consequently, these assets are not available for future spending, nor can they be used to liquidate any liabilities. The investment in these assets increased \$4.9 million.

**Condensed Statement of Operations
and Changes in Net Position
(\$000's)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues			
Sales of electricity to customers	\$ 26,252	\$ 25,645	\$ 26,191
Generation sales	1,774	2,479	2,497
Other	316	150	151
Investment income	175	179	147
BPA contract obligation - 2012/1993 bonds	419	1,045	1,124
Total revenues	<u>28,936</u>	<u>29,498</u>	<u>30,110</u>
Expenses			
Operating expenses	(26,527)	(26,003)	(24,464)
Interest and debt expense	(633)	(1,183)	(1,656)
Other deductions	(363)	(325)	14
Total expenses	<u>(27,523)</u>	<u>(27,511)</u>	<u>(26,106)</u>
Net income	1,413	1,987	4,004
Net position - beginning of year	<u>45,788</u>	<u>43,801</u>	<u>39,797</u>
Net position - end of year	<u>\$ 47,201</u>	<u>\$ 45,788</u>	<u>\$ 43,801</u>

The statement of revenues, expenses and changes in net position provides answers as to the nature and source of these changes. Revenues include the District's sale of electricity, which increased \$607,000 due primarily to the rate increase. Generation sales decreased \$705,000 due to the expiration of a long-term power sale agreement and declining wholesale power prices. See Note 4 and Note 5 to the financial statements for more detail on the BPA contract obligation for the 2012A and 2012B bonds. Expenses included an increase in operating expenses of \$524,000. Of these operating expenses Cost of Purchased Power increased \$654,000; Distribution expenses decreased \$17,000; Customer Service and Informational expenses decreased \$227,000; and the remainder was due to small changes in other areas.

BUDGET HIGHLIGHTS

**Budget vs Actual 2013
\$(000's)**

	Budget	Actual	over/(under)	%
Total revenues	\$ 28,495	\$ 28,541	\$ 46	0.2%
Total operating expenses	21,242	20,736	(506)	-2.4%
Total operating expenses less cost of power	4,922	5,000	78	1.6%
Capital Additions	3,669	1,649	(2,020)	-55.1%

This year's total revenues were slightly over budget by \$46,000 or 0.2%. The new retail rate structure and increase in BPA purchased power and transmission rates were the main contributors to this result. The operating expenses were under budget by \$506,000, or 2.4%. Total operating expenses less cost of power was over budget by only \$78,000, or 1.6%. Capital additions were under budget by \$2 million because we did not install the planned Overhead Additions to the Distribution System. We estimated \$2.6 million in improvements to the Distribution System and only expensed \$850,000.

CAPITAL ASSETS

As of December 31, 2013 the District had \$62.7 million invested in capital assets. A summary of plant in service is shown in the following schedule.

Hydroelectric generation	\$25,268,157
Transmission	2,334,174
Distribution	24,716,625
General plant	10,305,840
Intangible	<u>71,081</u>
	<u>\$62,695,877</u>

The increase in Electric plant in service was \$990,000. This does not include the customer's contribution-in-aid of construction of \$163,000. Based on FERC accounting standards we do not capitalize contribution-in-aid of construction. Net utility electric plant (additions less retirements and depreciation) decreased \$821,000, (see Note 2 to the financial statements).

LONG-TERM DEBT

Total debt of the District includes bonds and obligations with a principal payable amount of \$19,825,000, of which BPA is obligated to pay the Series 2012A and Series 2012B Bonds in the amount of \$17,010,000. Total principal payable decreased \$7,150,000, including \$5,540,000 to defease the Series 2004A revenue obligations and partially defease the Series 2005 revenue obligations (see Note 5 to the financial statements and the Schedule of Future Bond and Revenue Obligations Debt Service Requirements in the supplementary information section of the Audit Report, for a more detailed analysis of the District's debt). Also, see the first bullet under Financial Highlights, to learn about the revenue obligation issues that were defeased in March 2013.

REQUEST FOR INFORMATION

Any questions or additional information needed in regards to this report may be received by addressing Northern Wasco County PUD, Controller, 2345 River Road, The Dalles, Oregon 97058.

FINANCIAL STATEMENTS

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Assets</u>	December 31,	
	<u>2013</u>	<u>2012</u>
Electric plant: (Notes 1 and 2)		
In service - at cost	\$ 62,695,877	\$ 61,868,555
Acquisition adjustment	1,390,337	1,390,337
Construction work in progress	280,141	284,572
Total electric plant	<u>64,366,355</u>	<u>63,543,464</u>
Less:		
Accumulated provision for depreciation	(34,260,528)	(32,616,764)
Accumulated provision for amortization of acquisition adjustment	<u>(1,390,337)</u>	<u>(1,390,337)</u>
Net electric plant	<u>28,715,490</u>	<u>29,536,363</u>
Segregated funds (including cash and cash equivalents totaling \$39,057 in 2013 and \$0 in 2012): (Notes 1 and 3)		
Rate stabilization fund	7,000,000	7,000,000
Post-employment health care benefits reserve fund	163,214	132,311
Transmission funds with trustee	355	93,776
Fisheries Mitigation Irrevocable Trust Fund	1,925,337	2,180,036
Total segregated funds	<u>9,088,906</u>	<u>9,406,123</u>
Current assets:		
Cash and investments (including cash and cash equivalents totaling \$16,837,767 in 2013 and \$18,250,717 in 2012): (Notes 1 and 3)		
Unrestricted cash and investments	16,804,434	20,359,033
Segregated for payment of current debt service	33,333	166,265
Bond funds held by trustee	-	22,874
Accounts receivable (net of allowance for doubtful accounts of \$90,376 in 2013 and \$98,262 in 2012)	2,171,050	1,427,426
Other receivables	670,908	520,668
Due from the Bonneville Power Administration - current (Note 4)	1,424,883	1,388,987
Materials and supplies (Note 1)	599,598	573,944
Prepayments	218,015	227,868
Total current assets	<u>21,922,221</u>	<u>24,687,065</u>
Other assets and deferred charges:		
Due from the Bonneville Power Administration (Note 4)	17,168,343	18,689,260
Patronage capital	7,645	-
Other deferred charges	456,021	90,375
Total other assets and deferred charges	<u>17,632,009</u>	<u>18,779,635</u>
Total assets	<u>77,358,626</u>	<u>82,409,186</u>
<u>Deferred Outflows of Resources</u>		
Unamortized loss on refunding (Notes 1 and 5)	<u>130,978</u>	<u>304,186</u>
Total assets and deferred outflows of resources	<u><u>\$77,489,604</u></u>	<u><u>\$82,713,372</u></u>

The accompanying notes are an integral part of this statement.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Net Position and Liabilities</u>	December 31,	
	<u>2013</u>	<u>2012</u>
Net position:		
Net investment in capital assets	\$25,939,769	\$21,027,585
Restricted for rate stabilization fund	7,000,000	7,000,000
Restricted for bond and revenue obligations debt service	22,010	133,334
Unrestricted	<u>14,239,430</u>	<u>17,626,890</u>
Total net position	<u>47,201,209</u>	<u>45,787,809</u>
Long-term debt: (Note 5)		
Bonds and revenue obligations payable, less current maturities	<u>19,815,042</u>	<u>25,902,224</u>
Current liabilities:		
Current maturities of long-term debt (Note 5)	1,640,000	2,965,000
Accounts payable	2,876,799	1,715,532
Accrued payroll and related liabilities	80,939	76,209
Customer deposits	3,197,201	3,192,513
Accrued interest	56,206	79,792
Accrued compensated absences (Note 1)	352,293	414,779
Other accruals	<u>81,251</u>	<u>150,218</u>
Total current liabilities	<u>8,284,689</u>	<u>8,594,043</u>
Other liabilities and deferred credits:		
Fisheries Mitigation Irrevocable Trust Fund	1,925,337	2,180,036
Post-employment health care benefits (Note 7)	<u>263,327</u>	<u>249,260</u>
Total other liabilities and deferred credits	<u>2,188,664</u>	<u>2,429,296</u>
Total net position and liabilities	<u><u>\$77,489,604</u></u>	<u><u>\$82,713,372</u></u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,	
	<u>2013</u>	<u>2012</u>
Operating revenues:		
Sales of electricity	\$28,026,621	\$28,123,703
Other operating revenues	<u>316,292</u>	<u>149,404</u>
Total operating revenues	<u>28,342,913</u>	<u>28,273,107</u>
Operating expenses:		
Cost of purchased power	17,729,534	17,075,380
Power production expense	1,214,970	1,141,980
Transmission expense	7,155	13,551
Distribution expense	1,784,470	1,801,954
Customer accounts expense	571,773	519,219
Customer service and informational expense	613,570	840,184
Administrative and general expense	1,749,068	1,688,292
Depreciation and amortization of electric plant	1,831,516	1,884,803
Taxes	<u>1,025,017</u>	<u>1,037,611</u>
Total operating expenses	<u>26,527,073</u>	<u>26,002,974</u>
Net operating revenues	<u>1,815,840</u>	<u>2,270,133</u>
Nonoperating revenues-(expenses):		
Investment income	175,076	179,092
Contractual obligation from the Bonneville Power Administration	419,439	1,045,079
Patronage capital credits	9,788	-
Gain on disposition of property	13,715	187
Interest on debt	(768,403)	(1,267,672)
Bond issuance costs	-	(324,988)
Loss on defeasance of revenue obligations	(387,368)	-
Amortization of debt premium and loss on refunding	<u>135,313</u>	<u>84,745</u>
Total nonoperating revenues-(expenses)	<u>(402,440)</u>	<u>(283,557)</u>
Net income	1,413,400	1,986,576
Net position - beginning of year	<u>45,787,809</u>	<u>43,801,233</u>
Net position - end of year	<u>\$47,201,209</u>	<u>\$45,787,809</u>

The accompanying notes are an integral part of this statement.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Statement of Cash Flows

	Years Ended December 31,	
	2013	2012
Cash flows from operating activities:		
Cash received from customers	\$27,453,737	\$28,564,750
Cash payments for purchased power	(16,928,523)	(18,587,385)
Cash payments to suppliers for goods and services	(3,261,413)	(3,649,120)
Cash payments to employees for services	(3,838,457)	(3,410,552)
Net cash provided by operating activities	<u>3,425,344</u>	<u>2,917,693</u>
Cash flows from capital and related financing activities:		
Construction and acquisition of plant	(1,291,654)	(1,409,553)
Proceeds from sale of equipment	14,600	2,550
Contributions in aid of construction	280,126	338,590
Proceeds from issuance of refunding bonds	-	19,735,000
Premium on issuance of refunding bonds	-	1,773,205
Bond issuance costs	-	(324,988)
Amounts deposited by BPA with Trustee for payment of bond debt service	1,904,460	1,701,198
Net decrease-(increase) in bond funds held by Trustee	22,874	(22,874)
Principal payments on bonds and revenue obligations	(7,150,000)	(23,540,000)
Interest payments on bonds and revenue obligations	(791,989)	(1,315,397)
Additional amounts paid into escrow to defease revenue obligations	(341,029)	-
Net cash used in capital and related financing activities	<u>(7,352,612)</u>	<u>(3,062,269)</u>
Cash flows from investing activities:		
Net decrease in temporary cash investments with original maturities greater than three months	2,376,156	540,071
Investment income	175,076	179,092
Payments received for patronage capital credits	2,143	-
Net cash provided by investing activities	<u>2,553,375</u>	<u>719,163</u>
Net increase-(decrease) in cash and cash equivalents	(1,373,893)	574,587
Cash and cash equivalents - beginning of year	<u>18,250,717</u>	<u>17,676,130</u>
Cash and cash equivalents - end of year	<u><u>\$16,876,824</u></u>	<u><u>\$18,250,717</u></u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows

	Years Ended December 31,	
	2013	2012
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenues	\$ 1,815,840	\$ 2,270,133
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation and amortization of electric plant	1,831,516	1,884,803
Decrease-(increase) in:		
Accounts receivable	(743,624)	345,862
Other receivables	(150,240)	(79,372)
Materials and supplies	(25,654)	(30,094)
Prepayments	9,853	3,030
Other deferred charges	(365,646)	(84,482)
Increase-(decrease) in:		
Accounts payable	1,161,267	(1,492,428)
Accrued payroll and related liabilities	4,730	17,924
Customer deposits	4,688	25,153
Accrued compensated absences	(62,486)	(21,985)
Other accruals	(68,967)	42,613
Post-employment health care benefits	14,067	49,434
Other deferred credits	-	(12,898)
Total adjustments	1,609,504	647,560
Net cash provided by operating activities	\$ 3,425,344	\$ 2,917,693
Noncash investing, capital and financing activities:		
Due from the Bonneville Power Administration	\$ (419,439)	\$ (1,045,079)
Income on contractual obligation from the Bonneville Power Administration	419,439	1,045,079
Segregated funds - Fisheries Mitigation Irrevocable Trust Fund	254,699	140,521
Other liabilities and deferred credits - Fisheries Mitigation Irrevocable Trust Fund	(254,699)	(140,521)
Unamortized debt premium	(262,182)	(115,421)
Unamortized loss on refunding	173,208	30,676
Loss on defeasance of revenue obligations	(46,339)	-
Amortization of debt premium and loss on refunding	135,313	84,745
Patronage capital	(9,788)	-
Patronage capital credits	9,788	-
Book value of equipment sold	885	2,363
Gain on disposition of property	(885)	(2,363)
Total noncash investing, capital and financing activities	\$ -	\$ -

The accompanying notes are an integral part of this statement.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General

Northern Wasco County People's Utility District is a people's utility district organized under Oregon Revised Statutes Chapter 261. The District was created by vote in 1939 and began operation in 1949. The District is a power generation and distribution utility primarily serving customers in Wasco County, and also selling electric output of the District's hydroelectric generating project at the North Fishway of The Dalles Dam to an investor-owned electric utility company. The District is governed by an elected five member Board of Directors which has the authority to set rates and charges for commodities and services furnished. Substantially all revenues are derived from the sale of electric power to residential, commercial and industrial customers and the investor-owned electric utility company.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Additionally, although the District is not subject to the regulations of the Federal Energy Regulatory Commission (FERC), its accounting policies generally conform to the accounting requirements of the FERC. Significant policies are described below.

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Description of Reporting Entity

The financial statements of the District include all accounts of the District, and the Board of Directors is not financially accountable for any other governmental entity. Financial accountability is determined in accordance with criteria set forth in generally accepted accounting principles, primarily on the basis of authority to appoint voting majority of an organization's governing board, ability to impose its will on that organization, the potential for that organization to provide specific financial benefits or impose specific financial burdens and that organization's fiscal dependency.

Basis of Accounting

The District uses the accrual basis of accounting for financial reporting purposes. Revenues are recognized when earned and expenses are recognized when incurred. Revenues related to the District's principal operations are considered to be operating revenues. All other revenues are considered to be nonoperating.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

Electric Plant

Electric plant is stated substantially at cost. Cost includes materials, labor, payments to contractors and indirect costs, such as transportation and construction equipment use, employee benefits and an allowance for funds used during construction. An acquisition adjustment is recorded for any difference between the cost of plant to the original user and the purchase price to the District.

Other than general plant assets, the costs of additions, renewals and betterments with a useful life exceeding one year are capitalized regardless of dollar amount. General plant additions of approximately \$1,000 or more with a useful life exceeding one year are capitalized. Repairs and minor replacements are charged to operating expenses. The cost of property retired, together with removal cost less salvage, is charged to accumulated depreciation when property is removed.

Contributions in Aid of Construction (CIAC)

Payments are received from customers for construction costs primarily relating to the expansion of the electric system. FERC guidelines are followed in recording CIAC, which direct the reduction of utility plant assets by the amount of contributions received toward the construction of utility plant. CIAC of \$280,126 in 2013, and \$338,590 in 2012, was recorded as a reduction of utility plant assets.

Depreciation and Amortization

Provision for depreciation of electric plant is computed using annual straight-line rates over the following estimated useful lives:

Production plant	20 - 45 years
Transmission plant	20 - 33 years
Distribution plant	20 - 33 years
General plant	5 - 33 years

Investments

Investments are reported both as segregated funds and current assets and are stated at fair value.

Cash and Cash Equivalents

For purposes of the cash flows statement, the District considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Fisheries Mitigation Irrevocable Trust Fund is not considered to be a cash equivalent.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

Materials and Supplies

Materials and supplies are carried at average cost.

Unamortized Debt Premium and Unamortized Loss on Refunding

Debt premium and loss on reacquired debt are being amortized over the lives of the related debt issues using the straight-line method.

Compensated Absences

Accumulated unpaid vested personal time (vacation and sick leave) is accrued as earned by employees.

Restricted Net Position

Restricted net position reported in the balance sheet represent amounts for which constraints were imposed by creditors, grantors, contributors or laws or regulations. The District's policy is to first use restricted resources when an expense is incurred for which both restricted and unrestricted net position is available.

Revenue Recognition

Utility revenues are generally recognized on the basis of cycle billings and are recorded when customers are billed.

The entire net electrical output of the District's hydroelectric generating project at the North Fishway of The Dalles Dam was sold to an investor-owned electric utility company. These sales represented approximately 6.3% and 8.8% of the District's 2013 and 2012 operating revenues, respectively. Approximately 40% and 41% of operating revenues in 2013 and 2012, respectively, were the result of sales to one customer.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

2 - ELECTRIC PLANT:

Electric plant activity for the year ended December 31, 2013 was as follows:

	Balance January 1, 2013	Increases	Decreases	Balance December 31, 2013
Electric plant not being depreciated:				
Land	\$ 463,073	\$ 107,160	\$ -	\$ 570,233
Intangible plant	71,081	-	-	71,081
Construction in progress	284,572	517,462	521,893	280,141
Total electric plant not being depreciated	<u>818,726</u>	<u>624,622</u>	<u>521,893</u>	<u>921,455</u>
Electric plant being depreciated:				
Production	25,262,335	6,286	464	25,268,157
Transmission	2,284,966	-	-	2,284,966
Distribution	23,964,470	728,180	105,955	24,586,695
General	9,822,630	208,266	116,151	9,914,745
Acquisition adjustment	1,390,337	-	-	1,390,337
Total electric plant being depreciated	<u>62,724,738</u>	<u>942,732</u>	<u>222,570</u>	<u>63,444,900</u>
Less accumulated depreciation:				
Production	12,580,725	706,699	7,443	13,279,981
Transmission and distribution	15,725,634	814,641	213,683	16,326,592
General	4,310,405	403,838	60,288	4,653,955
Less accumulated provision for amortization of acquisition adjustment	<u>1,390,337</u>	<u>-</u>	<u>-</u>	<u>1,390,337</u>
Total electric plant being depreciated, net	<u>28,717,637</u>	<u>(982,446)</u>	<u>(58,844)</u>	<u>27,794,035</u>
Electric plant, net	<u>\$ 29,536,363</u>	<u>\$ (357,824)</u>	<u>\$ 463,049</u>	<u>\$ 28,715,490</u>

Electric plant activity for the year ended December 31, 2012 was as follows:

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012
Electric plant not being depreciated:				
Land	\$ 463,073	\$ -	\$ -	\$ 463,073
Intangible plant	71,081	-	-	71,081
Construction in progress	380,251	899,766	995,445	284,572
Total electric plant not being depreciated	<u>914,405</u>	<u>899,766</u>	<u>995,445</u>	<u>818,726</u>
Electric plant being depreciated:				
Production	24,740,480	522,335	480	25,262,335
Transmission	2,284,291	2,346	1,671	2,284,966
Distribution	23,722,044	330,406	87,980	23,964,470
General	9,479,654	362,453	19,477	9,822,630
Acquisition adjustment	1,390,337	-	-	1,390,337
Total electric plant being depreciated	<u>61,616,806</u>	<u>1,217,540</u>	<u>109,608</u>	<u>62,724,738</u>
Less accumulated depreciation:				
Production	11,891,218	690,658	1,151	12,580,725
Transmission and distribution	14,928,524	903,919	106,809	15,725,634
General	3,943,898	382,951	16,444	4,310,405
Less accumulated provision for amortization of acquisition adjustment	<u>1,390,337</u>	<u>-</u>	<u>-</u>	<u>1,390,337</u>
Total electric plant being depreciated, net	<u>29,462,829</u>	<u>(759,988)</u>	<u>(14,796)</u>	<u>28,717,637</u>
Electric plant, net	<u>\$ 30,377,234</u>	<u>\$ 139,778</u>	<u>\$ 980,649</u>	<u>\$ 29,536,363</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

2 - ELECTRIC PLANT: (Contd)

As allowed by FERC guidelines, the District has charged depreciation expense applicable to transportation equipment totaling \$93,662 in 2013 and \$92,725 in 2012 to overhead clearing accounts.

The electric plant acquisition adjustment is the excess cost over the established value of electric plant purchased from Pacific Power and Light Company in 1976.

3 - CASH AND INVESTMENTS:

Cash and investments are comprised of the following as of December 31, 2013, and 2012:

	<u>2013</u>	<u>2012</u>
Working funds	\$ 700	\$ 700
Deposits with financial institutions	1,175,872	722,961
Investments	<u>24,750,101</u>	<u>29,230,634</u>
Total cash and investments	<u>\$ 25,926,673</u>	<u>\$ 29,954,295</u>

Deposits

Deposits with financial institutions include bank demand deposits. The total bank balance, as shown on the banks' records, was \$1,205,055 at December 31, 2013, and \$912,123 at December 31, 2012. Of these deposits, the total covered by federal depository insurance was \$321,900 at December 31, 2013, and \$250,116 at December 31, 2012.

The Oregon State Treasurer is responsible for monitoring public funds held by bank depositories in excess of FDIC insured amounts, and for assuring that public funds on deposit are collateralized to the extent required by Oregon Revised Statutes (ORS) Chapter 295. ORS Chapter 295 requires depository banks to place and maintain on deposit with a third-party custodian bank securities having a value of 10%, 25% or 110% of public funds on deposit depending primarily on the capitalization level of the depository bank.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District follows State law with respect to custodial credit risk and has not adopted a separate policy. Of the District's bank balance, \$883,155 was exposed to custodial credit risk as of December 31, 2013, and \$662,007 was exposed to custodial credit risk as of December 31, 2012, because deposits in excess of FDIC insurance were uncollateralized and/or were collateralized but not held by the third-party custodian bank in the District's name.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

3 - CASH AND INVESTMENTS: (Contd)

Investments

State statutes authorize the District to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the Oregon Local Government Investment Pool, among others. The District has no investment policy that would further limit its investment choices.

The composition of the District's investments as of December 31, 2013, and 2012, follows:

	2013		2012	
	Fair Value	Percent	Fair Value	Percent
Corporate bonds:				
JP Morgan Chase	\$ 1,017,970	4.1%	\$ 1,020,300	3.5%
Deutsche Bank	-	0.0%	1,020,452	3.5%
GE Capital Corp.	1,038,091	4.2%	-	0.0%
Credit Suisse	-	0.0%	913,341	3.1%
HSBC	1,028,559	4.1%	1,306,864	4.5%
UBS	-	0.0%	1,014,695	3.5%
Bank of America	834,255	3.4%	1,387,211	4.7%
Barclays Bank	1,213,423	4.9%	1,231,298	4.2%
Bank of Nova Scotia	735,890	3.0%	-	0.0%
Bank One Corp.	-	0.0%	256,311	0.9%
Wells Fargo & Co.	1,256,324	5.1%	1,256,420	4.3%
U.S. Treasury Bills	-	0.0%	93,776	0.3%
Investment in Oregon Local Government				
Investment Pool	17,625,589	71.2%	19,707,092	67.4%
Other	-	0.0%	22,874	0.1%
Total investments	<u>\$ 24,750,101</u>	<u>100.0%</u>	<u>\$ 29,230,634</u>	<u>100.0%</u>

The Oregon Local Government Investment Pool is an open-ended, no-load diversified portfolio pool. The fair value of the District's position in the pool is substantially the same as the value of the District's participant balance.

The Oregon Local Government Investment Pool is an external investment pool which is part of the Oregon Short-Term Fund. Investment policies are governed by the Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council. Investments are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board. The Oregon Short-Term Fund does not receive credit quality ratings from nationally recognized statistical rating organizations.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

3 - CASH AND INVESTMENTS: (Contd)

Investments (Contd)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Oregon Short-Term Fund manages this risk by limiting the maturity of the investments held by the fund. Weighted average maturities of investments in the Oregon Short-Term Fund at December 31, 2013 were: 63% mature within 93 days, 14% mature from 94 days to one year, and 23% mature from one to three years. Weighted average maturities of investments in the Oregon Short-Term Fund at December 31, 2012 were: 70% mature within 93 days, 15% mature from 94 days to one year, and 15% mature from one to three years.

As of December 31, 2013, and 2012, maturities for the District's other investments are as follows:

	2013		2012	
	Less than One Year	One to Two Years	Less than One Year	One to Two Years
Corporate bonds	\$ 3,376,308	\$ 3,748,204	\$ 6,252,632	\$ 3,154,260
U.S. Treasury Bills	-	-	93,776	-
Other	-	-	22,874	-
Total	<u>\$ 3,376,308</u>	<u>\$ 3,748,204</u>	<u>\$ 6,369,282</u>	<u>\$ 3,154,260</u>

The District's investments in corporate bonds are rated A- or higher by Standard & Poor's and/or Baa2 or higher by Moody's. U.S. Treasury Obligations are rated AA+ by Standard & Poor's and Aaa by Moody's.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The securities underlying the District's investment in corporate bonds and U.S. Treasury Bills are held by the District's counterparty, not in the District's name.

Cash and investments as of December 31, 2013, and 2012, are presented on the balance sheet as follows:

	2013	2012
Segregated funds:		
Rate stabilization fund	\$ 7,000,000	\$ 7,000,000
Post-employment health care benefits reserve fund	163,214	132,311
Transmission funds with trustee	355	93,776
Fisheries Mitigation Irrevocable Trust Fund	1,925,337	2,180,036
Unrestricted cash and investments	16,804,434	20,359,033
Segregated for payment of current debt service	33,333	166,265
Bond funds held by Trustee	-	22,874
Total cash and investments	<u>\$25,926,673</u>	<u>\$29,954,295</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

3 - CASH AND INVESTMENTS: (Contd)

The District created a rate stabilization fund as permitted by the District's System Bond Resolution and is funding it from unrestricted cash and investments. The Resolution allows the District to use amounts in this fund for its debt service coverage calculation as defined in the District's System Bond Resolution.

The District, acting as both the trustor and trustee, established the Fisheries Mitigation Irrevocable Trust Fund for the purpose of providing compensation for unmitigatable losses to juvenile anadromous fish caused by McNary Dam. This trust fund is being held by the District as the trustee and is being disbursed solely as directed by the Fishery Compensation Committee after it has reviewed and selected mitigation activities.

4 - DUE FROM THE BONNEVILLE POWER ADMINISTRATION:

On February 15, 1995, the District received Notice to Cease and Desist Work on the McNary Dam Fishway Hydroelectric Project from the Bonneville Power Administration (BPA) and on March 16, 1995, the District suspended construction after completing certain work necessary to rewater the fish ladder. Subsequently, the District and the BPA negotiated a termination of a Power Purchase Agreement pursuant to a Settlement and Termination Agreement (Settlement Agreement) dated April 25, 1995. Except as provided in the Settlement Agreement for demobilization and site restoration, the BPA declined to allow the District to use Series 1993 Bond proceeds to complete the McNary Project.

Following termination of the McNary Project by the BPA, the District solicited interest from other utilities in developing all or part of the McNary Project. As a result of this process, the District and Klickitat County Public Utility District entered into a series of agreements to jointly pursue the McNary Project with each utility having a 50 percent ownership share. In October 1995, both the District and Klickitat issued bonds to fund completion of the McNary Project and construction was restarted on October 23, 1995.

Agreements with the Bonneville Power Administration do not change the BPA's obligation to pay debt service on the Series 2012A and Series 2012B Bonds which refunded the Series 1993 Bonds. Accordingly, the amount due from the Bonneville Power Administration at December 31, 2013, and 2012, represents the principal amount payable on the outstanding bonds plus unamortized bond premium and accrued interest. The BPA deposits amounts directly into a bond trust account and these amounts are used to pay principal and interest on the bonds.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

5 - LONG-TERM DEBT:

Bonds and Obligations Payable

Bonds and obligations principal and interest transactions for 2013 are as follows:

	Principal Transactions			Outstanding 12/31/2013	Interest Matured and Paid
	Outstanding 1/1/2013	2013 Issues	2013 Retirements		
Series 2004A Revenue Obligations	\$ 2,210,000	\$ -	\$ 2,210,000	\$ -	\$ 29,467
Series 2005 Revenue Obligations	6,390,000	-	3,575,000	2,815,000	200,189
Series 2012A Bonds	7,520,000	-	-	7,520,000	376,000
Series 2012B Bonds	10,855,000	-	1,365,000	9,490,000	186,333
Total	<u>\$ 26,975,000</u>	<u>\$ -</u>	<u>\$ 7,150,000</u>	<u>\$ 19,825,000</u>	<u>\$ 791,989</u>

Bonds and obligations principal and interest transactions for 2012 are as follows:

	Principal Transactions			Outstanding 12/31/2012	Interest Matured and Paid
	Outstanding 1/1/2012	2012 Issues	2012 Retirements		
Series 1993 Bonds	\$ 20,645,000	\$ -	\$ 20,645,000	\$ -	\$ 515,343
Series 2004A Revenue Obligations	3,250,000	-	1,040,000	2,210,000	130,000
Series 2005 Revenue Obligations	6,885,000	-	495,000	6,390,000	327,813
Series 2012A Bonds	-	7,520,000	-	7,520,000	226,644
Series 2012B Bonds	-	12,215,000	1,360,000	10,855,000	115,597
Total	<u>\$ 30,780,000</u>	<u>\$ 19,735,000</u>	<u>\$ 23,540,000</u>	<u>\$ 26,975,000</u>	<u>\$ 1,315,397</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

5 - LONG-TERM DEBT: (Contd)

Bonds and Obligations Payable (Contd)

At December 31, 2013, and 2012, bonds and obligations payable consist of the following:

	<u>2013</u>	<u>2012</u>
Bonds and obligations payable:		
Series 2004A	\$ -	\$ 2,210,000
Series 2005	2,815,000	6,390,000
Series 2012A	7,520,000	7,520,000
Series 2012B	<u>9,490,000</u>	<u>10,855,000</u>
Total principal payable	19,825,000	26,975,000
Unamortized premium - Series 2012A	1,538,343	1,679,260
Unamortized premium - Series 2005	<u>91,699</u>	<u>212,964</u>
Net long-term debt	21,455,042	28,867,224
Less current maturities of principal	<u>1,640,000</u>	<u>2,965,000</u>
Due after one year	<u><u>\$ 19,815,042</u></u>	<u><u>\$ 25,902,224</u></u>

Series 2004A Electric System Revenue Obligations - These obligations were used to provide funds for construction. Principal is payable annually on December 1. Interest at 4.00% per annum is payable semi-annually on June 1 and December 1 of each year. The obligations are not subject to early redemption.

Series 2005 Electric System Revenue Refunding Obligations - These obligations were used to defease \$9,445,000 of Series 1995 Bonds. Principal is payable annually on December 1. Interest at 4.50% - 5.00% per annum is payable semi-annually on June 1 and December 1 of each year. Obligations maturing on and after December 1, 2015, are subject to redemption in whole or in part at 100% of the principal amount plus accrued interest to the redemption date.

During March 2013, the District provided for the payment of \$2,210,000 of Series 2004A Revenue Obligations and \$3,330,000 of Series 2005 Revenue Obligations through an in-substance defeasance. The in-substance defeasance was accomplished by placing \$5,963,784 of existing District resources in an irrevocable trust. At December 31, 2013, \$1,125,000 of Series 2004A Revenue Obligations and \$3,060,000 of Series 2005 Revenue Obligations outstanding were considered defeased.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

5 - LONG-TERM DEBT: (Contd)

Bonds and Obligations Payable (Contd)

Series 2004A and Series 2005 Obligations are special limited obligations of the District and are not general obligations of the District. Accordingly, obligation principal and interest is payable from the net revenues of the District's electric system. The District's bond and obligation resolutions provide for the establishment of reserve accounts to be maintained in amounts equal to the lesser of: the maximum annual debt service on each outstanding issue of system bonds and obligations, calculated as of the date of computation; the sum of one hundred twenty-five percent (125%) of average annual debt service on each outstanding issue of system bonds and obligations, calculated as of the date of issue of each issue; or the sum of ten percent (10%) of the proceeds of each outstanding issue of system bonds and obligations calculated as of the date of issue of each issue.

The District may fund the reserve accounts with moneys, permitted investments, or reserve equivalents (as defined in the bond and obligation resolutions) with a value equal to the reserve requirement. At December 31, 2013, the District is using reserve equivalents to meet the reserve requirement for all bonds and obligations.

Series 2012A (tax-exempt) and Series 2012B (taxable) McNary Dam Fishway Hydroelectric Project Revenue Refunding Bonds - In April 2012, the District issued 2012 Series A (tax-exempt) and Series B (taxable) McNary Dam Fishway Hydroelectric Project Revenue Refunding Bonds in the amounts of \$7,520,000 and \$12,215,000, respectively, the proceeds of which, along with the bond premium of \$1,773,205, were used to currently refund \$20,645,000 of Series 1993 Bonds plus accrued interest on May 24, 2012 and to pay bond issuance costs. The District currently refunded these bonds to reduce its total debt service payments over the life of the Series 2012A and Series 2012B Bonds by \$3,959,489 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3,429,966. All outstanding Series 1993 Bonds were redeemed on May 24, 2012. Principal on the Series 2012B Bonds is payable annually on December 1 through 2020. Principal on the Series 2012A Bonds is payable annually on December 1 beginning in 2020. Interest on the Series 2012A Bonds, at 5% per annum, is payable semi-annually on June 1 and December 1 of each year. Interest on the Series 2012B Bonds, at 0.978% - 2.962% per annum, is payable semi-annually on June 1 and December 1 of each year. The Series 2012A and Series 2012B Bonds are not subject to early redemption.

The Series 2012A and Series 2012B Bonds are special limited obligations of the District, payable from and secured by a lien and charge on the Bonneville payments to be made by the Bonneville Power Administration pursuant to the Bonneville Agreement. The Bonneville payments are defined as the amounts required to pay bond principal, interest and any redemption premium.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

5 - LONG-TERM DEBT: (Contd)

Bonds and Obligations Payable (Contd)

Until the District and the Bonneville Power Administration entered into a Settlement and Termination Agreement (Settlement Agreement) (See Note 4) negotiating termination of a Power Purchase Agreement, the Series 1993 Bonds were being used to finance the McNary Dam Fishway Hydroelectric Project. Under the Power Purchase Agreement executed as of August 27, 1993, the District had agreed to sell the net output of the project to the BPA for a term of thirty years following the completion date of the project. In return, the BPA had agreed to pay during each operating year an amount equal to the annual debt service on the Series 1993 Bonds.

Scheduled maturities of bonds and obligations payable for all outstanding issues are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,640,000	\$ 687,971	\$ 2,327,971
2015	1,665,000	662,774	2,327,774
2016	1,690,000	633,553	2,323,553
2017	1,730,000	598,849	2,328,849
2018	1,765,000	558,031	2,323,031
2019-2023	9,480,000	1,815,307	11,295,307
2024	1,855,000	92,750	1,947,750
Totals	<u>\$ 19,825,000</u>	<u>\$ 5,049,235</u>	<u>\$ 24,874,235</u>

The unamortized loss on refunding at December 31, 2013, shown in deferred outflows of resources represents the excess of the unamortized reacquisition price of defeased debt over its carrying value for the Series 1995 Bond issue which was refunded. This unamortized loss on reacquired debt is being amortized over the life of the Series 2005 refunding issue.

6 - RETIREMENT PLAN:

The District provides pension benefits for all of its qualified employees through a defined contribution plan (Internal Revenue Code Section 401(k)) administered by the District.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. For employees choosing to opt out of the District's Post-Employment Health Care Benefits Plan, the PUD agrees to contribute to the 401(k) plan an amount equal to the employee's voluntary contribution to either or both the 401(k) plan and a IRC 457 Plan up to a maximum amount of 12% of the employee's straight time wage. For employees that elect to retain the Post-Employment Health Care Benefits Plan, the District matches employee contributions to the IRC 401(k) plan and an IRC 457 plan up to a maximum of 10% of the straight-time wage for each eligible employee with the District match going into the 401(k) plan. Contributions for each employee (and earnings allocated

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

6 - RETIREMENT PLAN: (Contd)

to the employee's account) are fully vested after fifty months of continuous service. Contributions for, and earnings forfeited by, employees who leave employment before fifty months of service are used to reduce the District's current-period contribution requirement.

The total employer contribution was \$267,392 in 2013, and \$253,978 in 2012, equal to the required employer contribution.

7 - POST-EMPLOYMENT HEALTH CARE BENEFITS:

Plan Description

The District administers a single-employer defined benefit healthcare plan. The plan provides post-employment benefits options for medical insurance to eligible retirees. Benefit provisions are established through District policy. The criteria to determine eligibility includes employee age and years of service. The District's post-employment healthcare plan does not issue a publicly available financial report. The District follows the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Funding Policy

Contribution requirements are established through District policy. Eligible retirees are required to pay set premiums established by the insurer equal to 100% of the premium cost up to age 65 with the District contributing \$350, prorated based on retirement age plus years of service (increased annually by 3%) toward the total premium cost starting at age 65. Funding is on a pay-as-you-go basis. During 2013, the District contributed \$25,753 and three participants receiving benefits contributed \$18,524 to the plan. During 2012, the District contributed \$12,461 and three participants receiving benefits contributed \$13,025 to the plan.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over the 30 year average life expectancy of covered employees. The following table shows the components of the District's annual OPEB cost for the year, amounts actually contributed to the plan, and changes in the District's net OPEB obligation:

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

7 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (Contd)

Annual OPEB Cost and Net OPEB Obligation (Contd)

Annual required contribution	\$ 41,250
Interest on net OPEB obligation	7,478
Adjustment to annual required contribution	<u>(8,908)</u>
Annual OPEB cost	39,820
Contributions made	<u>(25,753)</u>
Increase in net OPEB obligation	14,067
Net OPEB obligation - beginning of year	<u>249,260</u>
Net OPEB obligation - end of year	<u><u>\$ 263,327</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013, 2012 and 2011 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2013	\$ 39,820	64.7%	\$ 263,327
12/31/2012	\$ 61,895	20.1%	\$ 249,260
12/31/2011	\$ 61,895	15.7%	\$ 199,826

Funded Status and Funding Progress

As of December 31, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$573,813 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$573,813. The covered payroll (annual payroll of active employees covered by the plan) was \$400,000 for 2013 and the ratio of the UAAL to the covered payroll was 143%.

The projection of future benefit payments for an ongoing plan involves 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 revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

7 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (Contd)

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the valuation conducted as of December 31, 2013, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll over the 30 year average life expectancy of covered employees on an open basis. Life expectancies were based on the most recent mortality tables published by the National Center for Health Statistics. Non-group specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid. Based on the historical and expected returns of the District's short-term investment portfolio, a discount rate of 3% was used. The expected long-term payroll growth rate of 2.5% was used. The expected rate of increase in health care insurance premiums was set at 3%, which is based on the Board approved policy for annual increases.

8 - RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District is a member of Special Districts Insurance Services (SDIS) and pays an annual premium to SDIS for risks of loss including general liability, automobile liability, public official liability, workers compensation and property coverage. Under the membership agreement with SDIS, SDIS is to be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. The District purchases additional coverage for its hydroelectric projects through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

9 - INCOME TAX STATUS:

The District is a people's utility district organized under Oregon Revised Statutes Chapter 261. As a political subdivision of the State of Oregon, the District is exempt from taxation under the provisions of Section 115 of the Internal Revenue Code.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2013, and 2012

10 - POWER PURCHASE AGREEMENTS:

The District executed a Power Sales Agreement with the Bonneville Power Administration for the period October 1, 2011 through September 30, 2028. Wholesale power rates under this agreement are not fixed.

The District generates electricity from The Dalles Dam which it sells to an investor-owned electric utility company, and generates electricity from McNary Dam which it sells to its residential, commercial and industrial customers.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Funding Progress for Retiree Health Plan

	Actuarial Valuation Date		
	<u>12-31-13</u>	<u>12-31-10</u>	<u>12-31-08</u>
Actuarial value of assets (a)	\$ -	\$ -	\$ -
Actuarial accrued liability (b)	<u>573,813</u>	<u>819,914</u>	<u>614,336</u>
Unfunded actuarial accrued liability (b-a)	<u>\$ 573,813</u>	<u>\$ 819,914</u>	<u>\$ 614,336</u>
Funded ratio (a/b)	<u>0%</u>	<u>0%</u>	<u>0%</u>
Covered payroll (c)	<u>\$ 400,000</u>	<u>\$ 1,122,811</u>	<u>\$ 1,015,229</u>
Unfunded actuarial accrued liability as a percentage of covered payroll ((b-a)/c)	<u>143%</u>	<u>73%</u>	<u>61%</u>

OTHER SUPPLEMENTARY INFORMATION

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Revenues and Expenses

	Years Ended December 31,	
	2013	2012
Operating revenues:		
Sales of electricity:		
Residential	\$ 8,641,832	\$ 8,146,705
Commercial and industrial	17,226,367	17,231,165
Irrigation	131,360	95,414
Public street and highway lighting	245,839	164,666
Other sales	6,991	7,311
The Dalles Dam Hydroelectric	1,774,232	2,478,442
Other operating revenues	316,292	149,404
Total operating revenues	<u>28,342,913</u>	<u>28,273,107</u>
Operating expenses:		
Cost of purchased power	<u>17,729,534</u>	<u>17,075,380</u>
Power production expenses:		
License and permit costs	85,368	88,999
Operation and maintenance	876,186	892,096
Transmission	253,416	160,885
Total power production expenses	<u>1,214,970</u>	<u>1,141,980</u>
Transmission expenses:		
Maintenance of station equipment	2,400	12,916
Maintenance of overhead lines	4,755	635
Total transmission expenses	<u>7,155</u>	<u>13,551</u>
Distribution expenses:		
Meter expenses	245,965	191,120
Miscellaneous distribution expenses	206,973	174,122
Rents	13,802	5,299
Maintenance of station equipment	143,399	124,784
Maintenance of overhead lines	1,014,422	1,136,337
Maintenance of underground lines	97,218	106,866
Maintenance of line transformers	28,507	17,142
Maintenance of street lighting and signal systems	19,323	27,799
Maintenance of meters	-	22
Maintenance of miscellaneous distribution plant	14,861	18,423
Maintenance of communication equipment	-	40
Total distribution expenses	<u>1,784,470</u>	<u>1,801,954</u>
Customer accounts expenses:		
Meter reading expenses	177,843	180,265
Customer records and collection expenses	374,649	320,022
Uncollectible accounts	18,000	18,000
Miscellaneous customer accounts expenses	1,281	932
Total customer accounts expenses	<u>571,773</u>	<u>519,219</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Revenues and Expenses

	Years Ended December 31,	
	2013	2012
Operating expenses: (Contd)		
Customer service and informational expenses:		
Customer assistance	\$ 449,377	\$ 636,249
Informational	164,193	203,935
Total customer service and informational expenses	613,570	840,184
Administrative and general expenses:		
Administrative and general salaries	912,134	900,291
Office supplies and expenses	66,654	67,780
Outside services employed	209,068	172,140
Property insurance	180,662	139,673
Injuries and damages	22,429	47,777
Miscellaneous general expenses	358,121	360,631
Total administrative and general expenses	1,749,068	1,688,292
Depreciation and amortization of electric plant	1,831,516	1,884,803
Taxes	1,025,017	1,037,611
Total operating expenses	26,527,073	26,002,974
Net operating revenues	1,815,840	2,270,133
Nonoperating revenues-(expenses):		
Investment income	175,076	179,092
Contractual obligation from the Bonneville Power Administration	419,439	1,045,079
Patronage capital credits	9,788	-
Gain on disposition of property	13,715	187
Interest on debt	(768,403)	(1,267,672)
Bond issuance costs	-	(324,988)
Amortization of debt premium and loss on refunding	135,313	84,745
Loss on defeasance of revenue obligations	(387,368)	-
Total nonoperating revenues-(expenses)	(402,440)	(283,557)
Net income	\$ 1,413,400	\$ 1,986,576

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Bond and Revenue Obligations Debt Service Transactions
Year Ended December 31, 2013

	Principal Transactions			Outstanding 12/31/2013
	Outstanding 1/1/2013	2013 Issues	2013 Retirements	
Series 2004A Revenue Obligations	\$ 2,210,000	\$ -	\$ 2,210,000	\$ -
Series 2005 Revenue Obligations	6,390,000	-	3,575,000	2,815,000
Series 2012A Bonds	7,520,000	-	-	7,520,000
Series 2012B Bonds	10,855,000	-	1,365,000	9,490,000
Totals	<u>\$26,975,000</u>	<u>\$ -</u>	<u>\$ 7,150,000</u>	<u>\$19,825,000</u>

	Interest Transactions			Matured 12/31/2013
	Matured 1/1/2013	2013 Maturities	2013 Payments	
Series 2004A Revenue Obligations	\$ -	\$ 29,467	\$ 29,467	\$ -
Series 2005 Revenue Obligations	-	200,189	200,189	-
Series 2012A Bonds	-	376,000	376,000	-
Series 2012B Bonds	-	186,333	186,333	-
Totals	<u>\$ -</u>	<u>\$ 791,989</u>	<u>\$ 791,989</u>	<u>\$ -</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Future Bond and Revenue Obligations Debt Service Requirements
December 31, 2013

Year	Series 2005 Revenue Obligations			Series 2012A Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 260,000	\$ 135,875	\$ 395,875	\$ -	\$ 376,000	\$ 376,000
2015	275,000	124,175	399,175	-	376,000	376,000
2016	280,000	111,800	391,800	-	376,000	376,000
2017	295,000	98,500	393,500	-	376,000	376,000
2018	305,000	84,488	389,488	-	376,000	376,000
2019	330,000	70,000	400,000	-	376,000	376,000
2020	340,000	53,500	393,500	610,000	376,000	986,000
2021	355,000	36,500	391,500	1,605,000	345,500	1,950,500
2022	375,000	18,750	393,750	1,685,000	265,250	1,950,250
2023	-	-	-	1,765,000	181,000	1,946,000
2024	-	-	-	1,855,000	92,750	1,947,750
Totals	<u>\$ 2,815,000</u>	<u>\$ 733,588</u>	<u>\$ 3,548,588</u>	<u>\$ 7,520,000</u>	<u>\$ 3,516,500</u>	<u>\$11,036,500</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Future Bond and Revenue Obligations Debt Service Requirements
December 31, 2013

Series 2012B Bonds			Total Future Requirements		
Principal	Interest	Total	Principal	Interest	Total
\$1,380,000	\$ 176,096	\$ 1,556,096	\$ 1,640,000	\$ 687,971	\$ 2,327,971
1,390,000	162,599	1,552,599	1,665,000	662,774	2,327,774
1,410,000	145,753	1,555,753	1,690,000	633,553	2,323,553
1,435,000	124,349	1,559,349	1,730,000	598,849	2,328,849
1,460,000	97,543	1,557,543	1,765,000	558,031	2,323,031
1,490,000	65,408	1,555,408	1,820,000	511,408	2,331,408
925,000	27,399	952,399	1,875,000	456,899	2,331,899
-	-	-	1,960,000	382,000	2,342,000
-	-	-	2,060,000	284,000	2,344,000
-	-	-	1,765,000	181,000	1,946,000
-	-	-	1,855,000	92,750	1,947,750
<u>\$9,490,000</u>	<u>\$ 799,147</u>	<u>\$ 10,289,147</u>	<u>\$19,825,000</u>	<u>\$ 5,049,235</u>	<u>\$ 24,874,235</u>

**INDEPENDENT AUDITOR'S COMMENTS REQUIRED BY
OREGON STATE REGULATIONS**

INDEPENDENT AUDITOR'S COMMENTS
REQUIRED BY OREGON STATE REGULATIONS

March 31, 2014

Board of Directors
Northern Wasco County People's Utility District
The Dalles, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Northern Wasco County People's Utility District as of and for the year ended December 31, 2013, and have issued our report thereon dated March 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northern Wasco County People's Utility District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northern Wasco County People's Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern Wasco County People's Utility District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether Northern Wasco County People's Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal

Corporations, 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to, the following:

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

In connection with our testing nothing came to our attention that caused us to believe Northern Wasco County People's Utility District was not in substantial compliance with certain provisions of laws, regulations, contracts and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Board of Directors, management and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these specified parties.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.