2012
Annual Report

People with energy...
working for you.

BENTON P·U·D

Comprehensive Annual Financial Report

Public Utility District No.1 Benton County, Washington
For the Fiscal Year Ended December 31, 2012

Prepared by: Finance & Business Services and Communication & Government Relations of Benton PUD

Our Values

- excellence
- forward focus
- integrity
- mutual respect
- teamwork

BENTON P·U·D

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Our Purpose

To improve the quality of life in our community through leadership, cooperation and stewardship.

Our Mission

We contribute high value to our community and customers by providing energy and related services using reliable and efficient delivery systems.

2012

Introductory Section

BENTON P·U·D

Comprehensive Annual Financial Report

2012

BENTON P·U·D

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public Utility District No. 1 of Benton County, Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

2012 Commission & Management

...Developing electricity from this Bonneville Dam, from the Grand Coulee Dam and from other dams to be built on the Columbia and its tributaries, the policy of the widest use ought to prevail. The transmission of electricity is making such scientific strides today that we can well visualize a date, not far distant, when every community in this great area will be wholly electrified.

President Franklin D. Roosevelt
Bonneville Dam Dedication, 1937

On August 2, 1937, President Franklin D. Roosevelt signed the Bonneville Power Act creating the Bonneville Power Administration to market the power generated from federal hydroelectric projects to the Pacific Northwest. This year, 75 years later, the Bonneville Power Administration and utilities across the region celebrated the many attributes of the dams that have served the region with low-cost, reliable power.

President Roosevelt had both the vision and courage to invest in our vast network of hydroelectric power. At the time, his vision was controversial. No one grasped the size of the return on investment that would be generated from these dams. No one knew how these dams would help win a world war. No one knew to what extent these dams would power our economy and contribute to our quality of life.

On a smaller scale, but in the same tradition of President Roosevelt's grand vision, public utilities in the Northwest continue to make investments in our infrastructure that increase efficiencies, protect the environment and improve the quality of life. This past year, Benton PUD completed the installation of advanced meters which provide improved system performance as well as access to more detailed usage information we can share with our customers to empower them to make wiser choices in controlling their energy use. Additionally, by using grant dollars secured through our partnership with NoaNet, Benton PUD's broadband was expanded to Paterson, in the south part of the county and West Richland. Similar to the investment into the Bonneville Dam in the 1930's, these investments in technologies and infrastructure prepare our communities for the future.

Today, we have sound governance, committed employees, our financial condition is strong, our retail rates are competitive, and we are driving efficiency and reliability through prudent use of technology. Customer and employee surveys show a high-degree of satisfaction for both.

2012 ended with the retirement of Jim Sanders, after 35 years of dedication to Benton PUD's customers and employees. Chad Bartram was appointed General Manager effective January 2, 2013. Additionally, Barry Bush replaced Bob Bertsch on the Board of Commissioners effective January 1, 2013. The Commissioners and employees of Benton PUD wish Jim a happy and healthy retirement.

2012 Board of Commissioners

James W. Sanders
General Manager

Lori Kays-Sanders, Secretary — Jeff Hall, Vice President — Bob Bertsch, President

Chad B. Bartram
Assistant General Manager
Director of Finance & Business Services

April 1, 2013

To the Board of Commissioners and Customers
Public Utility District No. 1 of Benton County, Washington

The Comprehensive Annual Financial Report (CAFR) of the Benton County Public Utility District (District) for the year ended December 31, 2012 is hereby submitted. The report is designed to assess the District's financial position, educate readers about District services, examine current challenges facing the District, and fulfill legal reporting requirements.

State law requires that every local government submit financial reports to the State Auditor within 150 days after the close of each fiscal year. The District's bond covenants require financial information be provided to each nationally recognized municipal securities information repository in accordance with Section(b)(5) of Securities and Exchange Commission Rule 15c2-12 under the Securities and Exchange Act of 1934. This report is published to fulfill both requirements for the fiscal year ended December 31, 2012.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The certified public accounting firm of Moss Adams has issued an unqualified ("clean") opinion on the District's financial statements for the years ended December 31, 2012 and 2011. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this transmittal letter and should be read in conjunction with it.

Profile of the District

The District is a municipal corporation of the State of Washington established in 1934 for the purpose of engaging in the purchase, generation, transmission, distribution and sale of electric energy. Additionally, the District is authorized under state law to provide wholesale telecommunication services. The District is governed by an elected three-member board and maintains its administrative offices in the City of Kennewick.

The District is a statutory preference customer of the Bonneville Power Administration (BPA) and purchases most of its power from BPA. The District's remaining power supply requirements are supplied by various contract purchases (see Note 9). The District's contracted power supply is projected to be surplus for most months of the year. The District purchases and sells power within the wholesale markets to balance resources to loads.

The District's properties include 37 substations, approximately 91 miles of 115kV transmission line, 1,596 miles of distribution lines, and other buildings, equipment, stores and related facilities.

The District is located in southeastern Washington, encompassing approximately 939 square miles of Benton County and includes the incorporated cities of Kennewick, Benton City, and Prosser (the Benton County seat). The District's largest city, Kennewick, as well as the City of Richland in Benton County (outside the District service territory), and the City of Pasco in adjacent Franklin County, make up what is known as the Tri-Cities.

The District records financial transactions within a single proprietary fund. The District has no governmental funds with legally adopted budgets that carry the force of law. Accordingly, the District's budget is not contained within this report.

The District adopts an annual budget for purposes of planning and management control. The budget process involves preparation of a proposed operating and capital budget by District staff for the ensuing year that is presented to the Board of Commissioners. During workshop sessions that are open to the public, the staff and Board review and revise the proposed budget. A public hearing is conducted to obtain ratepayer comments. The budget is approved by the Board and becomes the basis for operations for the next calendar year.

Local Economy

Benton County's economy is based on four major industries: agriculture, food processing, manufacturing, and nuclear-related technology. Farmland comprises the majority of Benton County's land area. Many corporate farms are located in the District encompassing over 100,000 acres of irrigated and dry land crops. Irrigation has led to increased production of a wide variety of crops including potatoes, apples, corn, cherries, wine grapes, hops, wheat, onions, concord grapes, hay, and hard and soft fruits. These crops are shipped to both domestic and export markets.

With the strength of farm production throughout the county, food processing has become a major factor in the Benton County economy. Production and processing of wine grapes is of significant importance to the County's economy. Other food processing industries include frozen potato products, frozen peas and cut corn. Fruit packing and cold storage also provide significant employment.

Manufacturing activities within the County include a large fertilizer and agricultural products plant which distributes its products throughout the Northwest and California. The Tri-Cities is home to the world's largest crane manufacturer, as well as a manufacturer of zirconium and titanium alloy tubing used for the aerospace industry (hydraulic landing gear), the medical industry (human bone surgery), golf clubs, bicycles, ski poles and tennis rackets. Other industries in the region include paper and cardboard container plants and production of nuclear fuel pellets and rods.

The Hanford Reservation, encompassing 560 square miles within Benton County, has evolved into one of the largest nuclear industrial centers in the United States. Today the focus is on energy research, environmental cleanup and related technology. The major employers in Benton County are the Department of Energy and its contractors associated with the Hanford Project.

While the Tri-Cities is not immune to the country's economic struggles, it has weathered the national recession better than many areas, however additional factors are now leading to a decline in employment. The federal economic stimulus package that provided $2 billion in funding to Hanford came to an end in late 2011 resulting in layoffs. In addition, other spending decreases at Hanford contributed to additional layoffs. As a result, the overall Tri-Cities employment was down 2.2 percent in December 2012 as compared to December 2011.

The Tri-Cities lost 2,300 jobs during the year primarily as a result of loss of jobs at Hanford. However, industries such as education and health services, manufacturing and natural resources continued to be strong. The Tri-Cities continues to be a regional shopping destination for communities throughout southeastern Washington and northeastern Oregon leading to continued growth in the retail service industry. Although housing construction employment is down, the real estate market is stable compared to other communities nationwide.

Long-Term Financial Planning

The Financial Planning Committee, consisting of the General Manager and Directors, meets quarterly to review an updated five-year financial forecast. The forecast includes both operating and capital activity with a focus on reserve levels, debt service coverage levels, and potential rate action. The forecast is then reviewed with the Board of Commissioners on a quarterly basis.

The District has adopted a comprehensive set of financial policies for purposes of managing the District's finances. The policies cover such issues as liquidity, debt service coverage, debt financing, retail rates, power supply risk, credit risk, investment policies and practices, insurance, integrated planning, budgetary and procurement controls, and financial reporting.

The financial policies call for the development of financial plans to achieve a minimum debt service coverage of 2.0 times annual debt service including capital contributions and 1.75 times annual debt service excluding capital contributions and provide for maintaining a debt ratio at 38% or less.

The financial policies related to reserve levels call for developing financial plans to maintain minimum end-of-year unrestricted reserves sufficient to provide funding for the sum of: 1) 15% of budgeted operating expenses; 2) the difference between the 75% and 95% probability of attainment of net power expense (the District budgets at the 75% probability of attainment); 3) 2% of the historical investment in assets as recorded in the prior year for catastrophic losses; 4) 83.3% of the annual debt service payment required in the following year; and 5) 30% of the average projected capital requirements based on the projected five-year capital plan. The Commission periodically reviews these policies.

Relevant Financial Policies

As a result of rising wholesale net power costs in future years, the District increased retail rates an average of 8% effective January 1, 2011, and an average of 6% effective January 1, 2012. The District will continue to evaluate the need for future retail rate increases in order to meet targets established in financial policies.

Major Initiatives

The District completed the implementation of an advanced metering infrastructure (AMI) system in 2012. The project involved installing meters that can communicate remotely at all service points. The project started in 2009 with all of the residential meters installed at the end of 2011. By installing these meters, the District is able to read meters and perform certain meter functions remotely. These meters allow the District to achieve cost savings, as well as provide a foundation for future smart utility initiatives.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended December 31, 2011. This was the tenth consecutive year the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the Finance and Business Services and the Communications and Governmental Relations departments. We wish to express our appreciation to these staff members for their contributions to the development of this report. Further appreciation is extended to the Board of Commissioners for their leadership and support in planning and conducting the financial operations of the District in a responsible and enterprising manner.

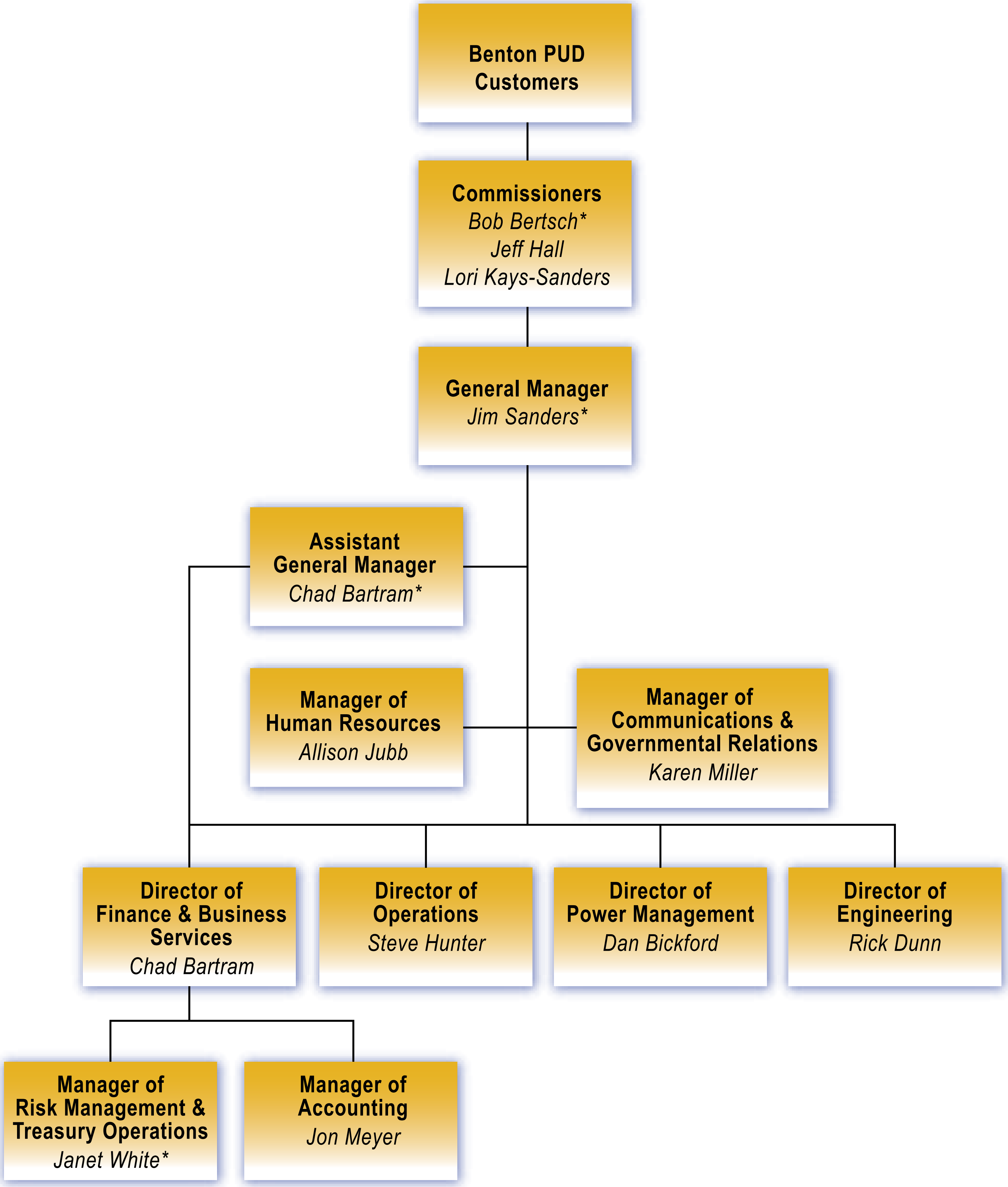
Respectfully submitted,

Chad B. Bartram   Janet S. White

Chad B. Bartram*	Janet S. White*
General Manager	Director of Finance and Business Services

*Chad Bartram moved from Assistant General Manager / Director of Finance & Business Services to General Manager effective January 2, 2013. Janet White moved from Manager of Risk Management & Treasury Operations to Director of Finance & Business Services effective January 2, 2013.

2012 Organizational Chart



*Commissioner Barry Bush replaced Commissioner Bob Bertsch effective January 1, 2013. Chad Bartram moved from Assistant General Manager / Director of Finance & Business Services to General Manager effective January 2, 2013. Janet White moved from Manager of Risk Management & Treasury Operations to Director of Finance & Business Services effective January 2, 2013.

2012 Benton PUD Code of Ethics

As stewards of the public's assets we, the Commission and employees of Benton PUD, have the high duty and responsibility to assure that our actions and deeds are consistent with the trust placed in us. To further these objectives we agree to adhere to legal, moral and professional standards of conduct in the fulfillment of our responsibilities.

This ethical code is designed to uphold our values and enhance the performance of all persons engaged in the business of the District.

PERSONAL AND PROFESSIONAL INTEGRITY

- We abide by approved professional practices and standards and act in accordance with the law.
- We demonstrate our values of mutual respect, forward focus, integrity, teamwork, and excellence.
- We respect the rights, responsibilities and integrity of our customers, colleagues, and public officials with whom we work and associate.

RESPONSIBILITIES TO OUR CUSTOMERS AND COMMUNITY

- We fully dedicate our skills and energy to provide value to our customers.
- We abide by the laws, regulations, and governmental standards to protect the public and the environment.

RESPONSIBILITIES AS EMPLOYEES

- We promote equal employment opportunities and oppose any discrimination, harassment, and other unlawful practices.
- We value the contributions of every employee and treat each individual with respect.
- We maintain a work environment free from pressures that would encourage departure from ethical behavior or acceptable standards of conduct.
- We encourage good faith questioning of our practices and provide a structure within which we report unethical behavior or unacceptable standards of conduct free from retaliation.
- We maintain a work environment that enhances the safety of our employees and customers.
- We maintain confidentiality when required and limit the disclosure to lawful or generally accepted practices.

BUSINESS RESPONSIBILITIES

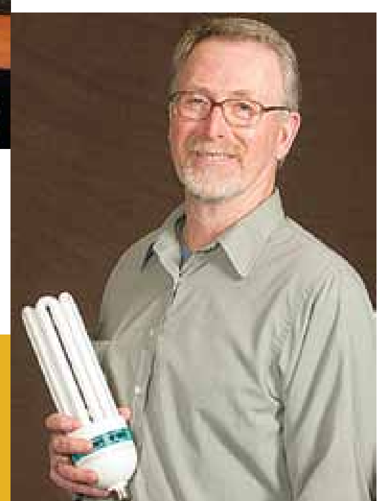
- We openly provide information to our constituents, allowing them to measure the effectiveness of our performance.
- We ensure financial reports and records are an accurate reflection of the transactions of the District in accordance with generally accepted standards.
- We exercise prudence and integrity in the management of funds in our custody.
- We adhere to all laws applicable to public agencies and exercise good stewardship of public assets.
- We are responsive to public information requests and our Commission meetings are open to the public with opportunities for input.

CONFLICT OF INTEREST

- We refrain from engaging in any outside matters of financial or personal interest incompatible with the impartial, objective, and effective performance of our duties.
- We do not seek or accept favors or items resulting in personal gain, which would influence or appear to influence the conduct of our official duties.
- We do not use District property or resources for personal or political gain.

2012

Financial Section



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Comprehensive Annual Financial Report

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Commissioners
Public Utility District No. 1
of Benton County, Washington

Report on Financial Statements

We have audited the accompanying financial statements of Public District No. 1 of Benton County, Washington (the District), which comprise the statements of net position as of December 31, 2012, and the related combined statements of revenues, expenses, and changes in net position and cash flows for the year ended December 31, 2012, and the related notes to the financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 the District as of December 31, 2012, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the District adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which resulted in the restatement of previously reported amounts for the year ended December 31, 2011. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements as of and for the year ended December 31, 2011, prior to the restatement described in Note 14, were audited by other auditors, whose report, dated April 30, 2012, expressed an unqualified opinion on those financial statements.

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis preceding the basic financial statements and the Retiree Medical Insurance Benefit Schedule of Funding Progress subsequent to the notes to the financial statements 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 audit 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of Statement of Revenues, Expenses, and Changes in Net Position (10 years), Revenues and Consumption by Customer Class (10 years), Retail Rates (10 years), Principal Ratepayers (2012 & 2003), Ratios of Outstanding Debt (10 years), Debt Service Coverage (10 years), Principal Employers – Tri-Cities Metropolitan Statistical Area (2012 & 2003), Demographic Statistics (10 years), and Operating Indicators (10 years) are not a required part of the basic financial statements, but are supplemental information presented for the purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Moss Adams LLP

Portland, Oregon
March 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides an overview and analysis of key data presented in the basic financial statements for the years ended December 31, 2012 and 2011, with additional comparative data for 2010. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

Public Utility District No. 1 of Benton County (District) accounts for its financial activities within a single proprietary fund titled the Electric System. The Electric System is used to account for the purchase, generation, transmission, distribution and sale of electric energy, as well as the sale of wholesale telecommunication services.

In accordance with requirements set forth by the Governmental Accounting Standards Board (GASB), the District's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses incurred during the year, regardless of when cash is received or paid.

The basic financial statements, presented on a comparative format for the years ended December 31, 2012 and 2011, are comprised of:

Statement of Net Position: The District presents its statement of net position using the balance sheet format. The Statement of Net Position reflects the assets, liabilities and net position (equity) of the District at year-end. The net position section is separated into three categories: net investment in capital assets, net position - restricted and net position - unrestricted.

Statement of Revenues, Expenses, and Changes in Net Position: This statement reflects the transactions and events that have increased or decreased the District's total economic resources during the period. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.

Statement of Cash Flows: The Statement of Cash Flows reflects the sources and uses of cash separated into four categories of activities: operating, noncapital financing, capital and related financing, and investing.

The notes to the financial statements, presented at the end of the basic financial statements, are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flows.

Restatement of 2011: With the implementation of GASB Statements No. 63 & 65, the District's 2011 financial statements have been restated to conform with the new reporting and accounting requirements. In part, GASB 63 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In part, GASB 65 required debt issuance costs, except any portion related to prepaid insurance costs, to be recognized as an expense in the period incurred.

Condensed Comparative Financial Information

Provided below is a three year comparison of key financial information:

Statement of Net Position *(in thousands)*

	2012	2011 Restated	Increase (Decrease) 2012-2011	% Change 2012-2011	2010 Restated
Current & Noncurrent Assets	$85,316	$79,545	$5,771	7%	$65,058
Utility Plant	122,002	121,789	213	0%	120,303
Deferred Outflows of Resources	314	637	(323)	-51%	107
Total Assets and Deffered Outflows of Resources	207,632	201,971	5,661	3%	185,468
Current Liabilities	18,208	16,832	1,376	8%	13,660
Non-Current Liabilities	64,468	67,106	(2,638)	-4%	58,882
Deferred Inflows of Resources	796	628	168	27%	3,507
Total Liabilities and Deferred Inflows of Resources	83,472	84,566	(1,094)	-1%	76,049
Net Investment in Capital Assets	58,086	59,837	(1,751)	-3%	60,685
Restricted for Debt Service	140	140	-	0%	706
Unrestricted	65,934	57,428	8,506	15%	48,028
Total Net Position	$124,160	$117,405	$6,755	6%	$109,419

Statement of Revenues, Expenses, and Changes in Net Position *(in thousands)*

	2012	2011 Restated	Increase (Decrease) 2012-2011	% Change 2012-2011	2010 Restated
Operating Revenues					
Sales of Electric Energy - Retail	$110,800	$105,228	$5,572	5%	$94,138
Energy Sales for Resale	14,847	26,170	(11,323)	-43%	30,353
Other	3,500	3,043	457	15%	2,585
Nonoperating Revenues					
Interest Income	248	201	47	23%	171
Other Income	440	401	39	10%	318
Total Revenues	129,835	135,043	(5,208)	-4%	127,565
Operating Expenses					
Power Supply	80,318	86,560	(6,242)	-7%	89,880
Operations, Maintenance and A&G	19,132	16,965	2,167	13%	17,073
Taxes/Depreciation/Amortization	23,456	21,660	1,796	8%	19,264
Nonoperating Expenses					
Interest Expense	3,002	2,958	44	1%	2,704
Debt Discount/Premium Amortization & Bond Issue Costs	(459)	238	(697)	N/A	675
Assessments to Joint Venture	-	70	(70)	-100%	130
Total Expenses	125,449	128,451	(3,002)	-2%	129,726
Income (Loss) before Contributions	4,386	6,592	(2,206)	N/A	(2,161)
Capital Contributions	2,369	1,394	975	70%	1,272
Change in Net Position	$6,755	$7,986	($1,231)	N/A	($889)

Financial Analysis

During 2012, the District's overall financial position and results of operations improved. The District's net position increased by $6.8 million compared to an increase in net position of $8.0 million in 2011. Provided below is a year-over-year analysis of the change in net position by major component of income, with a primary focus on changes between 2012 and 2011.

Operating Revenues

2011 to 2012:

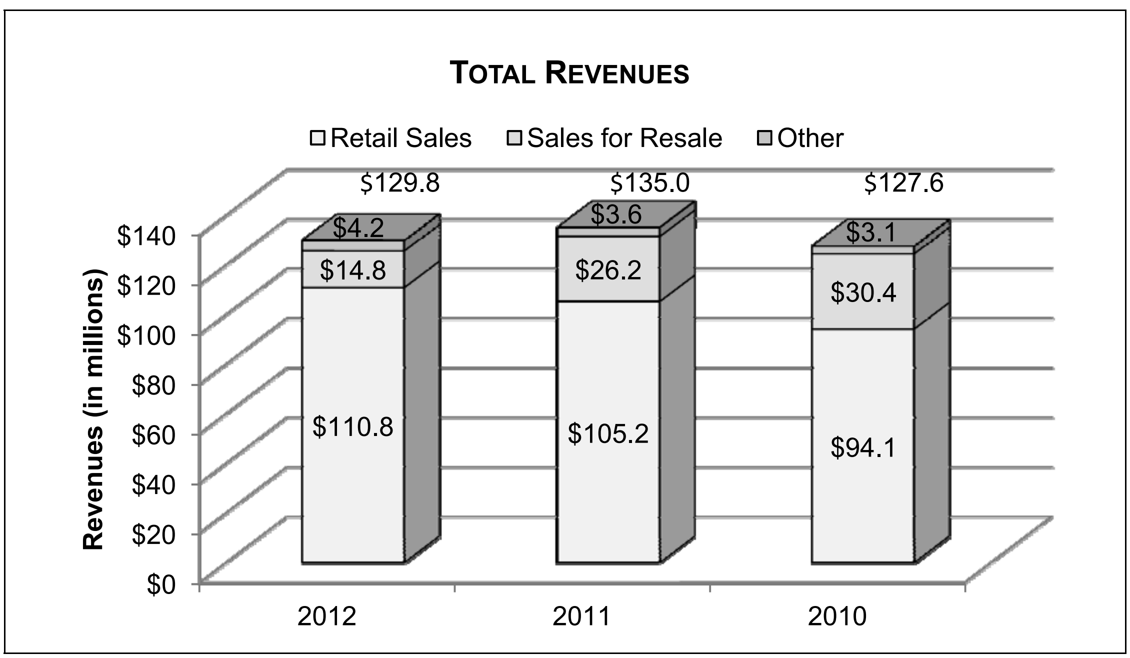
Revenues from sales to retail customers (Retail Energy Sales) in 2012 increased $5.6 million (5%) from 2011. This was primarily a result of a 6% average retail rate increase effective January 1, 2012 and a slight decrease in kilowatt hours sold to customers in 2012 compared to 2011.

Revenues from wholesale energy and natural gas sales (Sales for Resale) decreased by $11.3 million (43%) primarily as a result of reduced excess power for resale due to less power available from Bonneville Power Administration (BPA) (see Note 9) and reduced wholesale prices. In addition to a reduction in surplus power to sell, the average annualized price for Sales for Resale decreased from $27.72 per MWh in 2011 to $20.45 per MWh in 2012, a 26% decline in price.

2010 to 2011:

Retail Energy Sales in 2011 increased $11.1 million (12%) from 2010. This was primarily a result of an 8% average retail rate increase effective January 1, 2011 and a 3% increase in kilowatt hours sold to customers in 2011 compared to 2010.

Sales for Resale decreased by $4.2 million (14%) primarily as a result of reduced wholesale prices. Despite an increase in surplus power to sell, the average annualized price for Sales for Resale decreased from $43.40 per MWh in 2010 to $27.72 per MWh in 2011, a 36% decline in price.



Operating Expenses
2011 to 2012:
Power supply expense decreased by $6.2 million (7%), primarily as a result of a reduction of available power to purchase from BPA (see Note 9). In addition, net power expense (power supply expense less sales for resale) increased by $5.1 million (8%) primarily attributable to an increase in BPA rates and a decline in the price received for Sales for Resale in 2012 as compared to 2011. The District uses net power expense as a means to measure overall financial performance related to power supply management.

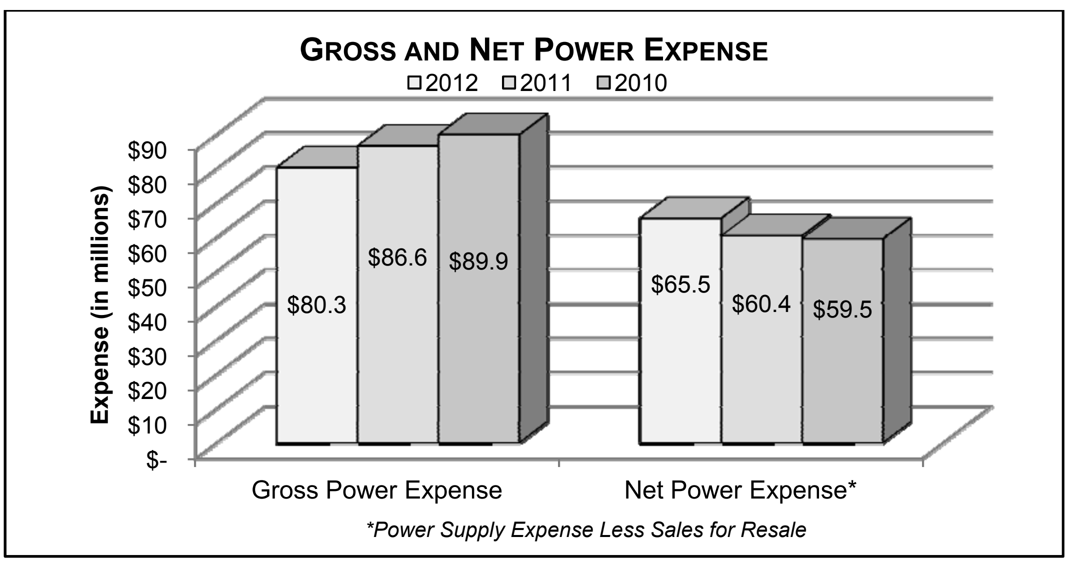
Total operations and maintenance expense increased by $2.2 million (13%). The District charges internal labor to operations and maintenance activities and capital projects. In 2012, the internal labor required for capital projects decreased $0.3 million from 2011, while internal labor performed on operations and maintenance activities increased $0.8 million. In addition, there were reductions and deferrals of operating expenses in 2011.

Taxes assessed by state and municipal governments increased by $0.9 million (8%) primarily as a result of higher retail sales. Depreciation and amortization increased $0.9 million as a result of capital additions.

2010 to 2011:
Power supply expense decreased by $3.3 million (4%), primarily as a result of a reduction of $4.7 million of expense related to the Frederickson combustion turbine plant. Frederickson operates when market wholesale prices are favorable resulting in higher sales for resale. With the reduction of wholesale market prices in 2011 as compared to 2010, there were fewer opportunities for Frederickson to run and generate sales for resale. In addition, net power expense (gross power supply expense less sales for resale) increased by $0.9 million (1%) primarily attributable to a decline in the price received for Sales for Resale in 2011 as compared to 2010.

Total operations and maintenance expense decreased by $0.1 million (1%). The District charges internal labor to operations and maintenance activities and capital projects. In 2011, the internal labor required for capital projects increased $0.2 million from 2010, while internal labor performed on operations and maintenance activities decreased $0.3 million.

Taxes assessed by state and municipal governments increased by $1.4 million (14%) primarily as a result of higher retail sales. Depreciation and amortization increased $1.0 million as a result of capital additions.



Other Income & Expense

During 2012, interest income increased by $47,000 due to higher cash and investment balances and diversification of the investment portfolio. However, the average investment rate of the Washington State Treasurer's Local Government Investment Pool (LGIP) decreased from 0.17% in 2011 to 0.14% in 2012. Assessments to Joint Venture decreased by $70,300 due to no assessments by NoaNet (see Note 11).

From 2010 to 2011, interest income increased by $30,000 due to higher cash and investment balances resulting from bond issue proceeds and diversification of the investment portfolio. However, the average investment rate of the LGIP decreased from 0.26% in 2010 to 0.17% in 2011. Assessments to Joint Venture decreased by $59,000 due to reductions in assessments by NoaNet (see Note 11).

Capital Contributions

During 2012, capital contributions increased by $1 million (70%) primarily due to an increase in broadband projects and capital activities requested by developers.

From 2010 to 2011, capital contributions increased by $0.1 million (10%) primarily due to an increase in capital activities requested by developers.

Summary of Financial Position

The overall financial position of the District improved during 2012 with an increase in net position of $6.8 million. The financial condition of the District remained stable as the District maintained solid cash and investment reserves and achieved a debt service coverage ratio well above policy limits (see below). The District implemented an 8% average rate increase effective January 1, 2011 and a 6% average rate increase effective January 1, 2012.

District financial policies require that financial plans be developed to maintain minimum end-of-year cash and investment balances contained within unrestricted accounts sufficient to provide funding for a specified amount of operating expenses, power supply expenses, catastrophic loss, debt service, and capital improvements. The District's unrestricted cash and investment balances totaled $56.5 million, $44.3 million, and $32.6 million at December 31, 2012, 2011 and 2010, respectively. Actual balances exceeded the minimum required level per District financial policies for each year.

In accordance with District financial policies and covenants established within the District's bond resolutions, the District is required to maintain and collect rates and charges sufficient to provide Net Revenues (defined as net position less depreciation, amortization, and interest expense) in each fiscal year in an amount at least equal to 1.25 times the Annual Debt Service. For the years ended 2012, 2011 and 2010, the District was in compliance with such policies and covenants.

Capital Asset and Long-Term Debt Activity

During 2012, gross capital additions totaled $12.5 million. Capital contributions associated with these additions totaled $2.4 million. Major capital additions included completion of the Advanced Metering Infrastructure Project, implementation of other major technology projects, as well as capital additions associated with improvements to existing distribution infrastructure, a 1.2% growth in customers served by the District, and internal capital expenditures to meet District needs. Construction work-in-progress totaled $2.8 million at year-end, a net increase of $0.8 million over 2011.

During 2011, gross capital additions totaled $12.6 million. Capital contributions associated with these additions totaled $1.4 million. Major capital additions included continued implementation of the Advanced Metering Infrastructure Project, implementation of a new customer care and billing system, implementation of other major technology projects, as well as capital additions associated with improvements to existing distribution infrastructure, a 1.0% growth in customers served by the District, and internal capital expenditures to meet District needs. Construction work-in-progress totaled $2.0 million at year-end, a net decrease of $4.0 million over 2010.

In October 2011, the District issued $38.5 million of Electric Revenue and Refunding Bonds, Series 2011. The bond proceeds were used to fund $10 million of capital improvements (with $5.2 million unspent at the end of 2011, Restricted Construction Account, and the remaining spent in 2012) and to defease $16.6 million of the 2001A bonds and $16.1 million of the 2002 bonds.

During 2010, Standard & Poor's and Fitch Ratings upgraded the District's credit rating to A+ from A, and Moody's recalibrated the District's rating to Aa3 on its Global Ratings Scale from A2. In 2011, Standard & Poor's, Fitch, and Moody's all affirmed the District's ratings and in 2012 the ratings remained unchanged.

Debt service payments totaled $6.0 million in 2012, $5.0 million in 2011, $5.4 million in 2010.

Additional information about the District's capital assets and long-term debt is presented in Notes 2 and 5.

OTHER SIGNIFICANT MATTERS

BPA developed a Prepay Program to help fund hydro system infrastructure and as a means to allow customers to prepay for the future delivery of power consistent with the existing power supply agreements, except that payment provisions would be revised to reflect the prepayment. In December 2012, the District submitted an offer for one block in the amount of $6.8 million that was accepted and in return will receive a total of $9.3 million in credits resulting in a net present value savings of $1.1 million. The District made a lump sum up-front payment in March 2013, and will receive a $50,000 credit each month on its power bill beginning April 2013 through September 2028.

In February 2012, the District approved a three-year extension through May 15, 2015 of its $10.0 million line of credit (see Note 5).

STATEMENT OF NET POSITION

As of December 31, 2012 and 2011

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2012	2011 as restated
ASSETS		
CURRENT ASSETS		
Cash & Cash Equivalents		
Unrestricted Cash & Cash Equivalents	$27,292,501	$16,440,251
Restricted Construction Account	-	5,178,706
Investments (Note 3)	29,158,932	27,902,446
Accounts Receivable, net	8,792,890	11,088,309
Accrued Interest Receivable	80,140	70,990
Wholesale Power Receivable	1,272,111	494,264
Accrued Unbilled Revenues	3,997,000	3,885,000
Inventory - Materials & Supplies	4,728,498	4,143,348
Prepaid Expenses & Option Premiums	326,732	264,372
Total Current Assets	**75,648,804**	**69,467,686**
NONCURRENT ASSETS		
Restricted Bond Reserve Fund	140,017	140,017
Other Receivables (Note 1)	103,017	102,558
Other Charges (Note 4)	9,423,961	9,835,016
Subtotal Noncurrent Assets	9,666,995	10,077,591
Utility Plant (Note 2)		
Land and Intangible Plant	3,245,009	3,220,735
Electric Plant in Service	262,234,601	252,929,905
Construction Work in Progress	2,832,092	2,020,433
Less: Accumulated Depreciation	(146,309,444)	(136,382,026)
Net Utility Plant	122,002,258	121,789,047
Total Noncurrent Assets	**131,669,253**	**131,866,638**
TOTAL ASSETS	**207,318,057**	**201,334,324**
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Defeased Debt	256,297	333,503
Accumulated Decrease in Fair Value of Hedging Derivatives	57,593	303,448
Total Deferred Outflows of Resources	**313,890**	**636,951**
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$207,631,947**	**$201,971,275**

NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	2012	2011 as restated
LIABILITIES		
CURRENT LIABILITIES		
Warrants Outstanding	$264,759	$153,939
Accounts Payable	8,752,417	7,838,436
Customer Deposits	1,250,753	963,713
Accrued Taxes Payable	3,093,811	3,049,651
Other Accrued Liabilities	1,464,433	1,514,556
Accrued Interest Payable	441,573	556,747
Revenue Bonds, Current Portion (Note 5)	2,940,000	2,755,000
Total Current Liabilities	**18,207,746**	**16,832,042**
NONCURRENT LIABILITIES		
Revenue Bonds (Note 5)	56,635,000	59,575,000
Unamortized Premium & Discount	4,597,935	5,134,338
Other Credits & Liabilities (Note 4)	3,235,428	2,396,382
Total Noncurrent Liabilities	**64,468,363**	**67,105,720**
Total Liabilities	**82,676,109**	**83,937,762**
DEFERRED INFLOWS OF RESOURCES		
Accumulated Increase in Fair Value of Hedging Derivatives	795,693	628,083
Total Deferred Inflows of Resources	**795,693**	**628,083**
NET POSITION		
Net Investment in Capital Assets	58,085,620	59,836,918
Restricted for Debt Service	140,017	140,017
Unrestricted	65,934,508	57,428,495
Total Net Position	**124,160,145**	**117,405,430**
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**$207,631,947**	**$201,971,275**

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the years ended December 31, 2012 and 2011

	2012	2011 as restated
OPERATING REVENUES		
Sales of Electric Energy - Retail	$110,799,843	$105,228,051
Energy Sales for Resale	14,048,971	25,773,429
Transmission of Power for Others	797,837	397,063
Broadband Revenue	1,620,054	1,617,919
Other Revenue	1,879,829	1,424,566
Total Operating Revenues	**129,146,534**	**134,441,028**
OPERATING EXPENSES		
Power Supply (Includes Prepaid Power Amortization See Note 9)	80,318,211	86,560,230
Transmission Operation & Maintenance	12,684	17,575
Distribution Operation & Maintenance	8,191,232	7,499,422
Broadband Expense	696,415	674,581
Customer Accounting, Collection and Information	3,954,421	3,388,582
Administrative & General Expense	6,276,795	5,384,210
Taxes	11,814,545	10,890,913
Depreciation & Amortization	11,642,052	10,769,424
Total Operating Expenses	**122,906,355**	**125,184,937**
OPERATING INCOME	**6,240,179**	**9,256,091**
NONOPERATING REVENUES & EXPENSES		
Interest Income	248,627	201,408
Other Income	440,009	400,667
Interest Expense	(3,001,895)	(2,958,273)
Debt Discount/Premium Amortization & Bond Issue Costs	459,198	(237,799)
Assessments to Joint Venture	-	(70,300)
Total Nonoperating Revenues & Expenses	**(1,854,061)**	**(2,664,297)**
INCOME BEFORE CONTRIBUTIONS	**4,386,118**	**6,591,794**
CAPITAL CONTRIBUTIONS	**2,368,597**	**1,394,438**
CHANGE IN NET POSITION	**6,754,715**	**7,986,232**
TOTAL NET POSITION, BEGINNING OF YEAR	**117,405,430**	**110,123,139**
CUMULATIVE EFFECT OF RESTATEMENT (see Note 14)		**(703,941)**
TOTAL NET POSITION, BEGINNING OF YEAR AS RESTATED		**109,419,198**
TOTAL NET POSITION, END OF YEAR	**$124,160,145**	**$117,405,430**

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

STATEMENT OF CASH FLOWS

For the years ended December 31, 2012 and 2011

	2012	2011 as reclassified
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Counterparties	$131,329,953	$131,994,908
Cash Paid to Suppliers and Counterparties	(85,293,948)	(87,287,811)
Cash Paid to Employees for Services	(12,592,409)	(11,970,218)
Taxes Paid	(11,770,385)	(10,462,769)
Net Cash Provided by Operating Activities	**21,673,211**	**22,274,110**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other Interest Expense	(35,583)	(42,489)
Net Cash Used by Noncapital Financing Activities	**(35,583)**	**(42,489)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(11,835,324)	(12,097,003)
Proceeds from Sale of Revenue Bonds	-	10,010,353
Cash Defeasance Principal and Interest	-	(840,541)
Bond Principal Paid	(2,755,000)	(2,735,000)
Bond Interest Paid	(2,837,994)	(1,891,150)
Capital Contributions	2,368,597	1,394,438
Proceeds from Sale of Assets	112,646	134,863
Net Cash Used by Capital and Related Financing Activities	**(14,947,075)**	**(6,024,040)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	218,179	206,550
Proceeds from Sale of Investments	31,044,825	13,000,000
Purchase of Investments	(32,280,013)	(27,043,900)
Net Cash Used by Investing Activities	**(1,017,009)**	**(13,837,350)**
NET INCREASE IN CASH	**5,673,544**	**2,370,231**
CASH BALANCE, BEGINNING OF YEAR	**21,618,957**	**19,248,726**
CASH BALANCE, END OF YEAR	**$27,292,501**	**$21,618,957**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	$6,240,179	$9,256,091
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation & Amortization	11,642,052	10,769,424
(Increase) Decrease in Unbilled Revenues	(112,000)	(185,000)
Misellaneous Other Revenue & Receipts	63,939	24,597
Assessments to Joint Venture	-	(70,300)
Decrease (Increase) in Accounts Receivable	2,295,419	(2,261,120)
Decrease (Increase) in Inventories	(585,150)	(634,251)
Decrease (Increase) in Wholesale Power Receivable	(777,847)	1,652,796
Decrease (Increase) in Miscellaneous Assets	(194)	(895)
Decrease (Increase) in Prepaid and Other Purchased Power Expense	348,429	3,350,094
Decrease (Increase) in Deferred Derivative Outflow	245,855	(195,883)
Increase (Decrease) in Deferred Derivative Inflow	167,610	(2,878,871)
Increase (Decrease) in Warrants Outstanding	110,820	(61,184)
Increase (Decrease) in Accounts Payable	913,980	2,476,234
Increase (Decrease) in Accrued Taxes Payable	44,160	428,144
Increase (Decrease) in Customer Deposits	287,039	(23,381)
Increase (Decrease) in Other Current Liabilities	(50,123)	231,059
Increase (Decrease) in Other Credits	839,044	396,556
Net Cash Provided by Operating Activities	**$21,673,211**	**$22,274,110**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

During 2011, the District issued $38,545,000 of Electric Revenue and Refunding Bonds and retired various outstanding bonds (see Note 5).

Bond Interest Paid does not include subsidy payments on Series 2010 Revenue Build America Bonds made directly by the US Treasury to the Fiscal Paying agent of $376,070 in 2012 and $376,070 in 2011 (see Note 5).

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

NOTE 1 - SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Benton County, Washington (the District) is a municipal corporation of the State of Washington established in 1934 for the purpose of engaging in the purchase, generation, transmission, distribution and sale of electric energy. Additionally, the District is authorized under state law to provide wholesale telecommunication services.

The District serves Benton County exclusive of most of the City of Richland, U.S. Department of Energy's operations on the Hanford Reservation, City of West Richland and those rural areas of Benton County which are served by the Benton Rural Electric Association. Cities in the District's service area include Kennewick, population 75,160, Prosser, population 5,785, and Benton City, population 3,295. The District maintains its administrative offices in the City of Kennewick. The District is governed by an elected three-member board.

The District's service area comprises approximately 939 square miles of Benton County. The District's properties include 37 substations, approximately 91 miles of 115kV transmission line, 1,596 miles of distribution lines, and other buildings, equipment, stores and related facilities.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity and has no component units.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District applied all applicable GASB pronouncements including GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. In addition, the District has elected to early implement GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. With implementation of GASB 63 and 65, the District restated its 2011 financial statements (see Note 14). In 2011, The District applied Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement. The following is a summary of the more significant policies:

a) Basis of Accounting and Presentation: The accounting and reporting policies of the District are based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC). The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing and investing activities are considered to be non-operating revenues and expenses.

b) Utility Plant and Depreciation: Utility plant is recorded at original cost which includes both direct costs of construction or acquisition and indirect costs. The District's capitalization threshold is $5,000 for non-infrastructure capital. All costs related to infrastructure are capitalized. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and improvements is capitalized.

Property, plant and equipment are depreciated using the straight-line method over these estimated useful lives:

Buildings and Improvements	33 - 40 years
Generation Plant	20 years
Electric Plant - Transmission	25 - 33 years
Electric Plant - Distribution	10 - 33 years
Electric Plant/Equipment - Broadband	5 - 20 years
Transportation Equipment	16 years
General Plant & Equipment	4 - 14 years

Initial depreciation on utility plant is recorded in the month subsequent to purchase or completion of construction. Composite rates are used for asset groups and, accordingly, no gain or loss is recorded on the disposition of an asset unless it represents a major retirement. The composite depreciation rate was approximately 4.59% in 2012 and 4.41% in 2011. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation.

Preliminary survey and investigation costs incurred for proposed projects are deferred pending a final decision to develop the project. Costs relating to projects ultimately constructed are reclassified to utility plant. If the project is abandoned, the costs are expensed.

c) Allowance for Funds Used During Construction (AFUDC): AFUDC represents the estimated costs of financing construction projects and is computed using the District's long-term borrowing rate. The allowance totaled $132,579 and $293,443 in 2012 and 2011, respectively, and is capitalized as part of the cost of the project and reflected as a reduction of interest expense.

d) Restricted Assets: In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. These assets are restricted for specific uses including bond reserve and capital additions and are classified as current or noncurrent assets, as appropriate.

e) Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all short-term highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

f) Accounts Receivable: The percentage-of-sales allowance method is used to estimate uncollectible accounts. The reserve is then reviewed for adequacy against an aging schedule of accounts receivable. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis. The allowance for uncollectible accounts was $616,584 at December 31, 2012 and $666,342 at December 31, 2011.

g) Other Receivables: Other receivables include a $100,000 Rural Economic Development Revolving Fund which was established during 2008 pursuant to Revised Code of Washington (RCW) 82.16.0491. The District contributed $50,000 to the fund in 2008 and an additional $50,000 in 2009. Each contribution to the fund was partially offset by a $25,000 public utility tax credit. The District appointed Benton-Franklin Council of Governments to oversee and direct activities of the fund. As of December 31, 2012, two loans were outstanding with a balance of $28,407. As of December 31, 2011, four loans were outstanding with a balance of $80,196. Total interest, net of administrative fees received through December 31, 2012, of $3,017 has been added to the receivable.

h) Inventory - Materials & Supplies: Inventories are valued at average cost, which approximates the market value.

i) Derivative Instruments: The District has adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Subject to certain exceptions GASB Statement No. 53 requires every derivative instrument be recorded on the statement of net position as an asset or liability measured at its fair value, and changes in the derivative's fair value be recognized in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred.

It is the District's policy to document and apply as appropriate the normal purchase and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity, natural gas and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity and natural gas are considered to be derivatives under GASB Statement No. 53, and do not generally meet the "normal purchases and normal sales" criteria.

As of December 31, 2012, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2012		
	Classification	Amount	Classification	Amount	Notional
Cash Flow Hedges:					
Financial Swap Forward	Deferred Inflow	($700,903)	Derivative Asset	$700,903	163,680 MWh
Financial Swap Forward	Deferred Outflow	$52,711	Derivative Liability	($52,711)	50,200 MWh
Put Option	Deferred Inflow	($94,790)	Derivative Asset	$94,790	33,950 MWh
Put Option	Deferred Outflow	$4,882	Derivative Liability	($4,882)	16,800 MWh

As of December 31, 2011, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2011		
	Classification	Amount	Classification	Amount	Notional
Cash Flow Hedges:					
Financial Swap Forward	Deferred Inflow	($615,231)	Derivative Asset	$615,231	104,240 MWh
Financial Swap Forward	Deferred Outflow	$283,186	Derivative Liability	($283,186)	81,175 MWh
Put Option	Deferred Inflow	($12,852)	Derivative Asset	$12,852	10,800 MWh
Put Option	Deferred Outflow	$20,262	Derivative Liability	($20,262)	25,175 MWh

The fair values of the financial swap contracts were based on the futures price curve for the Mid-Columbia Intercontinental Exchange for electricity and the Sumas index for natural gas. The fair value of the options was calculated using the Black-Scholes-Merten options pricing model.

Objective & Strategies:

The District enters into derivative energy transactions to hedge its known or expected positions within its approved Risk Management policy. Decisions are made to enter into forward transactions to protect its financial position, specifically to deal with expected long and short positions as determined by projected load and resource balance positions. Generally, several strategies are employed to hedge the District's resource portfolio, including:

- *Combustion Turbine* – The District purchases gas for future periods to generate electricity when the Frederickson Plant (See Note 9) is economically viable on a marginal basis for that period based on parameters set by the Risk Management Committee. If load projections indicate the District does not require the electricity to serve its customers, an equivalent quantity of power will concurrently be sold or otherwise hedged for the same period.

- *Surplus Purchased Power Resources* – The District hedges projected surpluses in future periods by selling power or by purchasing put options. Surplus power is generally sold forward at a fixed-price, either physically or financially, when the probability of surplus is very high; surplus power is hedged through the purchase of physical or financial put options when the projected surplus is less certain, but nevertheless expected to be available under expected scenarios. From time to time the District will sell physical power forward in the next calendar month at a price based on the Mid-Columbia index to perfect financial forward sales which settle based on the same index.

- *Deficit Power Resources* – The District hedges projected power resource deficits in future periods by purchasing power or by purchasing power call options (or if the Frederickson Project is economically viable for the period, by buying gas). Power is generally purchased to cover projected deficits at a fixed price, either physically or financially, when the probability of the deficit position is very high; such deficit positions are hedged through the purchase of physical or financial call options when the projected deficits are less certain, but nevertheless expected under the approved planning conditions.

Derivatives authorized under the Risk Management policy by the District include:

- Physical power and natural gas forward purchases and sales
- Monthly and daily power and gas physical calls and puts
- Power and natural gas fixed for floating swaps
- Currency swaps relating to managing US/Canadian exchange rate risk resulting from transactions denominated in Canadian dollars
- Monthly financial Asian power and gas put and call options
- Financial daily power and gas put and call options
- Monthly power and natural gas swaptions

The following table displays the terms of the District's hedging derivative instruments outstanding at December 31, 2012, along with the credit rating of the associated counterparty or parent company guarantor, as applicable. Counterparty credit ratings provided are from Standard & Poor's and Moody's. All of these instruments presented in the table are commodity forward contracts with the objective to hedge changes in cash flows due to market price fluctuations related to expected sales of electricity. In addition, all of the instruments settle at expiration using the Mid-Columbia Intercontinental Exchange as the index.

Notional Amount	Effective Date	Maturity Date	Counterparty Credit Rating	Settlement Price Received
10,400 MWh	11/08/11	1/31/2013	A-/A2	$36.25
8,200 MWh	12/21/12	1/31/2013	A3*	$25.50
8,200 MWh	12/21/12	1/31/2013	A-/Baa1	$27.00
10,400 MWh	12/21/12	1/31/2013	A-/Baa1	$31.50
9,600 MWh	11/08/11	2/28/2013	A-/A2	$36.25
10,400 MWh	11/08/11	3/31/2013	A-/A2	$36.25
7,600 MWh	11/08/11	4/30/2013	A+/A2	$14.10
10,400 MWh	08/15/12	4/30/2013	A3*	$23.10
10,400 MWh	10/09/12	4/30/2013	AAA/Aaa	$26.40
8,200 MWh	11/08/11	5/31/2013	A+/A2	$14.10
10,400 MWh	08/15/12	5/31/2013	A3*	$23.10
10,400 MWh	10/09/12	5/31/2013	AAA/Aaa	$26.40
8,200 MWh	11/06/12	5/31/2013	A3*	$8.00
8,000 MWh	11/08/11	6/30/2013	A+/A2	$14.10
10,000 MWh	08/15/12	6/30/2013	A3*	$23.10
6,480 MWh	08/15/12	10/31/2013	A3*	$38.45
6,000 MWh	08/15/12	11/30/2013	A3*	$38.45
6,000 MWh	08/15/12	12/31/2013	A3*	$38.45
10,400 MWh	09/25/12	4/30/2014	A3*	$28.50
7,600 MWh	12/12/12	4/30/2014	A3*	$13.15
10,400 MWh	09/25/12	5/31/2014	A3*	$28.50
8,200 MWh	12/12/12	5/31/2014	A3*	$13.15
10,000 MWh	09/25/12	6/30/2014	A3*	$28.50
8,000 MWh	12/12/12	6/30/2014	A3*	$13.15

*Only one rating available

In addition, the District had six put options outstanding at December 31, 2012 with the objective to hedge changes in cash flows due to market price fluctuations related to expected sales of electricity. All of the instruments settle at expiration using the Mid-Columbia Intercontinental Exchange as the index.

Notional Amount	Effective Date	Maturity Date	Counterparty Credit Rating	Settlement Price Received
7,200 MWh	08/17/12	2/28/2013	A3*	$25.50
9,600 MWh	08/17/12	2/28/2013	A-/Baa1	$31.50
7,200 MWh	11/07/12	2/28/2013	A-/Baa1	$27.00
8,175 MWh	08/17/12	3/31/2013	A3*	$25.50
10,400 MWh	08/17/12	3/31/2013	A-/Baa1	$31.50
8,175 MWh	11/07/12	3/31/2013	A-/Baa1	$27.00
*Only one rating available				

The following table displays the terms of the District's hedging derivative instruments outstanding at December 31, 2011, along with the credit rating of the associated counterparty or parent company guarantor, as applicable. Counterparty credit ratings provided are from Standard & Poor's and Moody's. All of these instruments presented in the table are commodity forward contracts with the objective to hedge changes in cash flows due to market price fluctuations related to expected sales of electricity. In addition, all of the instruments settle at expiration using the Mid-Columbia Intercontinental Exchange as the index.

Notional Amount	Effective Date	Maturity Date	Counterparty Credit Rating	Settlement Price Received
8,000 MWh	03/09/11	2/29/2012	A3*	$37.50
10,000 MWh	01/14/11	2/29/2012	A3*	$40.50
10,800 MWh	01/14/11	3/31/2012	A3*	$37.50
4,320 MWh	03/09/11	3/31/2012	AAA/Aaa	$33.50
8,000 MWh	10/11/11	4/30/2012	A-/A3	$8.85
8,000 MWh	09/14/11	4/30/2012	A-/A2	$10.00
8,200 MWh	10/11/11	5/31/2012	A-/A3	$8.85
8,200 MWh	09/14/11	5/31/2012	A-/A2	$10.00
7,600 MWh	10/11/11	6/30/2012	A-/A3	$8.85
7,600 MWh	09/14/11	6/30/2012	A-/A2	$10.00
10,000 MWh	10/11/11	7/31/2012	AAA/Aaa	$36.00
10,800 MWh	10/11/11	8/31/2012	AAA/Aaa	$36.00
5,040 MWh	10/11/11	9/30/2012	AAA/Aaa	$29.25
4,680 MWh	10/11/11	10/31/2012	AAA/Aaa	$29.25
10,000 MWh	03/09/11	11/30/2012	A3*	$43.90
4,815 MWh	10/11/11	11/30/2012	AAA/Aaa	$29.25
5,160 MWh	10/11/11	12/31/2012	AAA/Aaa	$29.25
10,400 MWh	11/08/11	1/31/2013	A-/A2	$36.25
9,600 MWh	11/08/11	2/28/2013	A-/A2	$36.25
10,400 MWh	11/08/11	3/31/2013	A-/A2	$36.25
7,600 MWh	11/08/11	4/30/2013	A+/Aa3	$14.10
8,200 MWh	11/08/11	5/31/2013	A+/Aa3	$14.10
8,000 MWh	11/08/11	6/30/2013	A+/Aa3	$14.10
*Only one rating available				

In addition, the District had four put options outstanding at December 31, 2011 with the objective to hedge changes in cash flows due to market price fluctuations related to expected sales of electricity. All of the instruments settle at expiration using the Mid-Columbia Intercontinental Exchange as the index.

Notional Amount	Effective Date	Maturity Date	Counterparty Credit Rating	Settlement Price Received
10,000 MWh	10/12/11	2/29/2012	A/Baa1	$29.50
7,400 MWh	10/12/11	2/29/2012	A3*	$24.00
10,800 MWh	10/12/11	3/31/2012	A/Baa1	$29.50
7,775 MWh	10/12/11	3/31/2012	A3*	$24.00
*Only one rating available				

Risks

Credit Risk – The District has developed a credit policy that establishes guidelines for setting credit limits and monitoring credit exposure on a continuous basis. The policy addresses frequency of counterparty credit evaluations, credit limits per specific counterparty and counterparty credit concentration limits. A summary of counterparty credit exposure related to derivatives is provided in Note 9.

Commodity transactions, both physical and financial, are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness. The District had 48 counterparties with approved credit limits for electric power and natural gas sales and purchases as of December 31, 2012, and 48 counterparties at December 31, 2011. Counterparty credit limits are based on The Energy Authority's (TEA) (See Note 9) proprietary credit rating system and other factors. Credit ratings for counterparties range from "not-rated" to AAA, with a majority of counterparties rated between BBB- and AA. Not-rated counterparties either provide additional security or are assigned credit limits of $25,000 or less.

The District's counterparty credit limits are scaled against TEA credit limits with a maximum credit limit of $3 million. This mitigates the District's credit exposure by netting and setting off the District's sales with purchases made by other TEA members. Credit concentration limits based on market conditions and available qualified counterparties are established by the Risk Management Committee.

The District has entered into master enabling agreements with various counterparties, which enable hedging transactions. Such agreements include the Western Systems Power Pool (WSPP) form of agreement for physical power transactions, various forms of enabling agreements for physical gas transactions and International Swaps and Derivatives Association Agreements (ISDA) for financial transactions. All of the enabling agreements have provisions addressing credit exposure and provide for various remedies to assure financial performance, including the ability to call on additional collateral as conditions warrant, generally as determined by the exposed party. The District also uses netting provisions in the agreements to diffuse a portion of the risk.

Forward transactions under the physical enabling agreements are used to deal with long and short physical positions under the direction of the Risk Management Committee and pursuant to the Risk Management policy. Transactions under the ISDA agreements are used to financially hedge long or short positions so that the District will pay or receive the equivalent of a fixed or known price for energy purchased or sold. The agreements also permit the District to hedge the risk of an underlying physical position by using call options, put options, runoff insurance and weather insurance.

The aggregate fair value of hedging derivative instruments in asset positions was $795,693 and $628,083 at December 31, 2012 and 2011 respectively. There was no collateral held or liabilities included in the netting arrangements.

Although the District executes hedging derivative instruments with various counterparties, three counterparties comprise approximately 85% of the net exposure to credit risk as of December 31, 2012. These counterparties are rated A-/A2 (three contracts comprising 38% of net exposure), A3 (nine contracts comprising 29% of net exposure) and A+/A2 (two contracts comprising 18% of net exposure). At December 31, 2011, three counterparties comprise approximately 87% of the net exposure to credit risk. These counterparties are rated A3 (four contracts comprising 70% of net exposure), A-/A2 (two contracts comprising 11% of net exposure) and A-/A2 (one contracts comprising 6% of net exposure).

Basis Risk - The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. There are no derivative transactions outstanding that carry basis risk as of December 31, 2012 or 2011. As applicable, all power related transactions are to be settled on the relevant Mid-Columbia index, and all gas transactions are to be settled on the relevant Sumas/Huntingdon index. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

Termination Risk - As of December 31, 2012 and 2011, no termination events have occurred, and there are no outstanding transactions with material termination risk. None of the outstanding transactions have early termination provisions except in the event of default by either counterparty. Events of default are generally related to (i) failure to make payments when due, (ii) failure to provide and maintain suitable credit assurances as required, (iii) bankruptcy or other evidence of insolvency, or (iv) failure to perform under any material provision of the agreement. Failure to provide or receive energy or natural gas under physical commodity transactions does generally not fall under the events of default provisions, unless the non-performing party fails to pay the resulting liquidated damages as they become due.

There is no rollover, interest rate, or market access risk for these derivative products at December 31, 2012 or 2011.

j) Debt Premium, Discount and Loss on Refunding: Original issue and reacquired bond premiums and discounts relating to revenue bonds are amortized over the terms of the respective bond issues using the bonds outstanding method. In accordance with *GASB Statement No. 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, losses on debt refundings have been deferred and amortized over the shorter of the remaining life of the old or new debt. Effective with GASB 65, bond issuance costs are expensed in the period incurred.

k) Revenue Recognition: Revenues from retail sales of electricity are recognized when billed and reported net of bad debt expense of $222,000 and $250,000 at December 31, 2012 and 2011, respectively. Revenues include an estimate for energy delivered to customers between the last billing date and the end of the year. This amount is reflected in the accompanying financial statements as Accrued Unbilled Revenue in the amount of $4.0 million at December 31, 2012 and $3.9 million at December 31, 2011.

l) Capital Contributions: Capital contributions for the District consist mainly of line extension fees. Line extension fees represent amounts collected to recover the costs of installing new lines. Capital contributions are recorded as deferred revenues when received and reclassified to revenue when the related project is completed.

m) Compensated Absences: The District consolidated its vacation and sick leave program to a personal leave program May 1, 1993. Accrued unused sick leave balances for active employees as of April 30, 1993 were frozen and converted to a supplemental leave benefit (SLB). The SLB may be used by employees to make up the difference between a short-term disability benefit and 100% of gross pay and on a one-time per Collective Bargaining Agreement Contract cycle (3 years), restore work hours required for short-term disability eligibility. At death, the District is obligated to pay 100% of the SLB cash value to the employee's beneficiary. At retirement, the District is obligated to deposit 30% of the SLB cash value into the retiring employee's Voluntary Employee Beneficiary Association Trust account. The liability for unpaid supplemental leave benefits was $74,338 and $89,529 at December 31, 2012 and 2011, respectively.

Employees earn personal leave in accordance with length of service. The District accrues the cost of personal leave in the year when earned. Personal leave may accumulate to a maximum of 1,200 hours for employees hired prior to April 1, 2011 and is payable upon separation of service, retirement or death. For employees hired on or after April 1, 2011, personal leave may accumulate to a maximum of 700 hours. The liability for unpaid leave, benefits and related payroll taxes was $2,487,843 and $2,438,453 at December 31, 2012 and 2011, respectively. Of the liability for unpaid leave, $1,008,140 and $1,005,303 at December 31, 2012 and 2011, respectively were classified as a current liability and the remainder as a long-term liability (see Note 4).

n) Use of Estimates: The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

o) Significant Risk and Uncertainty: The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include prices on the wholesale market for short-term power, interest rates, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other Endangered Species Act issues, Environmental Protection Agency and other federal government regulations or orders concerning the operation, maintenance, and/or licensing of facilities, other governmental regulations, and the deregulation of the electrical utility industry.

The District's accounts receivable are from a diverse group of customers and counterparties who have purchased energy or other products and services. These customers generally do not represent a significant concentration of credit risk. The District mitigates credit risk by requiring large customers to provide an acceptable means of payment assurance and by an ongoing financial review of counterparties and establishment of credit limits based on the results of that review.

p) Reclassifications: Certain 2011 account balances have been reclassified to conform to the 2012 presentation. Such reclassifications had no effect on previously reported results of operations and cash balances.

NOTE 2 – UTILITY PLANT

Utility plant activity for the years ended December 31 was as follows:

Activity for 2012

Electric Plant Assets	Balance Dec. 31, 2011	Increase	Decrease	Balance Dec. 31, 2012
Capital Assets Not Being Depreciated:				
Land and Intangible Plant	$3,220,735	$24,274	-	$3,245,009
Construction Work in Progress	2,020,433	7,977,659	(7,166,000)	2,832,092
Capital Assets Being Depreciated:				
Transmission	7,717,123	4,714	(3,505)	7,718,332
Generation	1,403,850	-	-	1,403,850
Distribution	182,862,784	6,373,361	(2,202,925)	187,033,220
General	60,946,148	5,255,832	(122,781)	66,079,199
Subtotal	***252,929,905***	***11,633,907***	***(2,329,211)***	262,234,601
Less Accumulated Depreciation for:				
Transmission	(4,743,188)	(278,701)	-	(5,021,889)
Generation	(687,535)	(65,259)	-	(752,794)
Distribution	(104,509,015)	(7,633,554)	2,063,929	(110,078,640)
General	(26,442,288)	(4,058,522)	44,689	(30,456,121)
Total Accumulated Depreciation	**(136,382,026)**	**(12,036,036)**	**2,108,618**	(146,309,444)
Net Utility Plant	***$121,789,047***	***$7,599,804***	***($7,386,593)***	***$122,002,258***

Activity for 2011

Electric Plant Assets	Balance Dec. 31, 2010	Increase	Decrease	Balance Dec. 31, 2011
Capital Assets Not Being Depreciated:				
Land and Intangible Plant	$3,191,816	$28,919	-	$3,220,735
Construction Work in Progress	5,962,631	7,999,277	(11,941,475)	2,020,433
Capital Assets Being Depreciated:				
Transmission	7,730,498	-	(13,375)	7,717,123
Generation	1,403,850	-	-	1,403,850
Distribution	176,738,161	8,590,235	(2,465,612)	182,862,784
General	53,642,596	7,956,699	(653,147)	60,946,148
Subtotal	***239,515,105***	***16,546,934***	***(3,132,134)***	***252,929,905***
Less Accumulated Depreciation for:				
Transmission	(4,472,802)	(279,099)	8,713	(4,743,188)
Generation	(622,712)	(64,823)	-	(687,535)
Distribution	(99,750,744)	(7,238,408)	2,480,137	(104,509,015)
General	(23,520,406)	(3,568,438)	646,556	(26,442,288)
Total Accumulated Depreciation	**(128,366,664)**	**(11,150,768)**	**3,135,406**	**(136,382,026)**
Net Utility Plant	***$120,302,888***	***$13,424,362***	***($11,938,203)***	***$121,789,047***

NOTE 3 – DEPOSITS AND INVESTMENTS

As of December 31, 2012, the District had the following investments:

Investment Type	Maturities	Fair Value
Federal Home Loan Bank	3/27/2013	$1,002,080
Federal Home Loan Bank	8/8/2013	1,000,240
Federal Farm Credit	9/30/2013	1,001,110
Federal Farm Credit	2/5/2014	259,690
Federal Farm Credit	2/27/2014	2,021,250
Federal Farm Credit	5/1/2014	2,000,040
Federal Farm Credit	6/12/2014	2,000,040
Federal Home Loan Mtg Corp	8/28/2014	2,003,520
Federal Home Loan Mtg Assn	10/30/2014	2,002,140
Federal Home Loan Mtg Corp	12/5/2014	2,001,860
Federal Home Loan Mtg Corp	4/17/2015	2,008,179
Federal Home Loan Mtg Corp	5/22/2015	2,003,020
Federal Natl Mtg Assn	8/20/2015	2,001,080
Federal Home Loan Mtg Corp	9/4/2015	2,003,860
Federal Natl Mtg Assn	12/21/2015	1,997,520
Federal Natl Mtg Assn	11/28/2016	1,993,320
Certificate of Deposit	10/10/2013	2,000,000
TOTAL		$29,298,949

Reconciliation to Statement of Net Position	
Investments	$29,158,932
Restricted Bond Reserve Fund	140,017
TOTAL	$29,298,949

As of December 31, 2011, the District had the following investments:

Investment Type	Maturities	Fair Value
Federal Home Loan Bank	11/16/2012	$2,000,780
Federal Home Loan Bank	12/14/2012	1,999,700
Federal Home Loan Bank	12/24/2012	999,820
Federal Home Loan Mtg Corp	4/29/2013	2,000,580
Federal Natl Mtg Assn	11/14/2013	2,000,900
Federal Natl Mtg Assn	12/6/2013	1,999,160
Federal Natl Mtg Assn	12/27/2013	1,998,720
Federal Home Loan Bank	10/27/2014	2,040,453
Federal Home Loan Banks	10/27/2014	2,001,720
Federal Home Loan Mtg Corp	12/23/2014	1,998,080
Federal Home Loan Mtg Corp	1/26/2015	1,003,690
Federal Natl Mtg Assn	5/28/2015	1,998,860
Certificate of Deposit	11/1/2012	2,000,000
Certificate of Deposit	4/10/2012	2,000,000
Certificate of Deposit	10/10/2013	2,000,000
TOTAL		$28,042,463

Reconciliation to Statement of Net Position	
Investments	$27,902,446
Restricted Bond Reserve Fund	140,017
TOTAL	$28,042,463

It is the District's policy to record investments at fair value. Due to the highly liquid nature of these investments, they are all classified as current.

Interest Rate Risk - In accordance with its investment policy, the District manages its exposure to declines in fair values by matching investment maturities to meet anticipated cash flow requirements. The policy limits investment maturities to less than five years from the date of the purchase, unless the maturities coincide as nearly as practicable with the expected use of the funds.

Credit Risk - The District's investment policy conforms with State law which restricts investments of public funds to debt securities and obligations of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), bankers' acceptances, investment-grade general obligation debt of state and local governments and public authorities, and the Washington State Treasurer's Local Government Investment Pool (LGIP). The LGIP is an unrated 2a7-like pool and investments in the LGIP are reported based on the pool's share price. The reported value of the pool is the same as the fair value of the pool shares. The LGIP is governed by the State Finance Committee and is administered by the State Treasurer. The District's investments in the Federal National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation were rated Aaa by Moody's Investor Services and AA+ by Standard & Poor's.

Concentration of Credit Risk - The District's investment policy limits investments at the time of purchase to a percent of the total investment portfolio in the following manner:

- Direct obligations of the U.S. Government, up to 100%
- Washington State Treasurer's Local Government Investment Pool, up to 100%

- U.S. Government agency debt, up to 30% for any single agency
- Certificate of Deposit, up to 50% from any single bank provided they are PDPC approved

Custodial Credit Risk Deposits – For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District's deposits and certificates of deposit are held by public depositaries authorized by the PDPC and are not subject to custodial credit risk. State law requires public depositaries to fully collateralize their uninsured public deposits with approved third-party safekeeping agents and provides for independent oversight of this program.

NOTE 4 – OTHER CHARGES AND OTHER CREDITS

As of December 31, other charges consisted of the following:

Other Charges	2012	2011
Derivative Asset	$795,693	$628,083
White Creek Wind Project	8,628,268	9,206,668
Preliminary Surveys	-	265
Total	**$9,423,961**	**$9,835,016**

During the year ended December 31, 2012, the following changes occurred in other credits:

Other Credits & Other Liabilities	Balance Dec. 31, 2011	Increase	Decrease	Balance Dec. 31, 2012
Unclaimed Property	$21,718	$5,467	$340	$26,845
Derviative Liability	303,448	57,593	303,448	57,593
Deferred Revenue	477,760	2,226,659	1,206,989	1,497,430
Asset Retirement Obligation - Finley CT	141,123	7,056	-	148,179
Other Postemployment Benefits	19,183	10,838	4,344	25,677
Personal Leave and Benefits*	1,433,151	46,553	-	1,479,704
Total	**$2,396,383**	**$2,354,166**	**$1,515,121**	**$3,235,428**

** In addition to this amount, $1,008,140 is recorded as a current liability for personal leave and related benefits at December 31, 2012.*

During the year ended December 31, 2011, the following changes occurred in other credits:

Other Credits & Other Liabilities	Balance Dec. 31, 2010	Increase	Decrease	Balance Dec. 31, 2011
Unclaimed Property	$21,049	$4,708	$4,039	$21,718
Derviative Liability	107,565	303,448	107,565	303,448
Deferred Revenue	341,653	802,706	666,599	477,760
Asset Retirement Obligation - Finley CT	134,403	6,720	-	141,123
Other Postemployment Benefits	18,726	11,137	10,680	19,183
Personal Leave and Benefits*	1,376,431	56,720	-	1,433,151
Total	**$1,999,827**	**$1,185,439**	**$788,883**	**$2,396,383**

** In addition to this amount, $1,005,303 is recorded as a current liability for personal leave and related benefits at December 31, 2011.*

NOTE 5 – LONG-TERM DEBT

During the year ended December 31, 2012, the following changes occurred in long-term debt:

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2002 Revenue Bonds, due in annual installments of $1,220,000 - $2,005,000 through November 1, 2022; interest at 3.60% - 5.25%; Original issue amount: $17,305,000	$1,220,000	-	$1,220,000	-	
2005 Revenue Refunding Bonds, due in annual installments of $90,000 - $1,185,000 through November 1, 2017; interest at 2.9% - 4.0%; Original issue amount: $9,655,000	5,220,000	-	1,075,000	4,145,000	1,105,000
2010 Revenue Build America Bonds, due in annual installments of $1,645,000 - $2,250,000 through November 1, 2030; interest at 5.86% - 6.546%; Original issue amount: $17,345,000	17,345,000	-		17,345,000	-
2011 Revenue and Refunding Bonds, due in annual installments of $460,000 - $4,135,000 through November 1, 2035; interest at 2.0% - 5.0% Original issue amount: $38,545,000	38,545,000	-	460,000	38,085,000	1,835,000
Subtotal	62,330,000	-	2,755,000	59,575,000	2,940,000
Plus: Unamortized discount & premium	5,134,338	-	536,403	4,597,935	
Total Long-Term Debt	**$67,464,338**	-	**$3,291,403**	**$64,172,935**	**$2,940,000**

During the year ended December 31, 2011, the following changes occurred in long-term debt:

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2001A Revenue and Refunding Bonds, due in annual installments of $1,130,000 - $2,900,000 through November 1, 2021; interest at 3.75% - 5.625%; Original issue amount: $33,360,000	$18,245,000	-	$18,245,000	-	-
2002 Revenue Bonds, due in annual installments of $1,220,000 - $2,005,000 through November 1, 2022; interest at 3.60% - 5.25%; Original issue amount: $17,305,000	17,305,000	-	16,085,000	1,220,000	1,220,000
2005 Revenue Refunding Bonds, due in annual installments of $90,000 - $1,185,000 through November 1, 2017; interest at 2.9% - 4.0%; Original issue amount: $9,655,000	6,270,000	-	1,050,000	5,220,000	1,075,000
2010 Revenue Build America Bonds, due in annual installments of $1,645,000 - $2,250,000 through November 1, 2030; interest at 5.86% - 6.546%; Original issue amount: $17,345,000	17,345,000	-	-	17,345,000	-
2011 Revenue and Refunding Bonds, due in annual installments of $460,000 - $4,135,000 through November 1, 2035; interest at 2.0% - 5.0% Original issue amount: $38,545,000	-	38,545,000	-	38,545,000	460,000
Subtotal	59,165,000	38,545,000	35,380,000	62,330,000	2,755,000
Plus: Unamortized discount & premium	638,157	5,117,075	620,894	5,134,338	
Total Long-Term Debt	**$59,803,157**	**$43,662,075**	**$36,000,894**	**$67,464,338**	**$2,755,000**

Future debt service requirements on these bonds are as follows:

Year	Principal	Interest	Total
2013	$2,940,000	$3,025,509	$5,965,509
2014	3,035,000	2,931,784	5,966,784
2015	3,150,000	2,814,944	5,964,944
2016	3,275,000	2,692,499	5,967,499
2017	3,405,000	2,562,387	5,967,387
2018-2022	18,735,000	10,101,436	28,836,436
2023-2027	12,130,000	5,907,007	18,037,007
2028-2032	10,200,000	2,112,644	12,312,644
2033-2035	2,705,000	274,750	2,979,750
Total	**$59,575,000**	**$32,422,960**	**$91,997,960**

The 2010 Revenue Build America Bonds were issued as taxable bonds with the U.S. Treasury subsidizing a portion of the interest debt service payments. The U.S. Treasury makes the subsidy payments directly to the Fiscal Paying agent.

In October 2011, the District issued $38,545,000 of Electric Revenue and Refunding Bonds, Series 2011. The bond proceeds were used to fund $10 million of improvements and replacements in the District's electric utility system and to refund all of the 2001A bonds maturing on or after November 1, 2011 and all of the 2002 bonds maturing on or after November 1, 2012. The portion of bond proceeds for the refunding was placed in an irrevocable trust for future debt service on the refunded bonds. At December 31, 2011, $16,560,000 of the 2001A bonds and $16,085,000 of the 2002 bonds are considered defeased and are no longer reflected in the District's financial statements. The bond refunding resulted in a cash flow savings of $5,535,057, and a net present value savings of $4,616,528. As a result of the bond issue, the District reduced its bond reserve fund from $706,157 to $140,017 in accordance with bond covenants to supplement the bond insurance already in place. The bond construction account had a balance of $5,178,706 at December 31, 2011.

In October 2007, the District purchased a municipal bond debt service reserve insurance policy issued by Financial Security Assurance, Inc. to satisfy the reserve requirement for the outstanding 2001A bonds and a debt service reserve surety bond issued by MBIA Insurance Corporation to satisfy the reserve requirement for the outstanding 2002 and 2005 bonds. These policies continue in place as of December 31, 2012. During 2011, the District established a designated Bond Insurance Replacement account and funded $2 million in anticipation of the retirement of the debt service insurance policy and surety bond during the next five to ten years. The District added $2 million to the designated Bond Insurance Replacement account in 2012 to increase the balance to $4 million.

In March 2008, the District established a three-year $10 million revolving line of credit, the Electric System Revenue Note, 2008, with Bank of America maturing May 15, 2011. In early 2011, the line of credit was extended for an additional one-year term expiring May 15, 2012 and in early 2012, the line of credit was extended for an additional three-year term expiring May 15, 2015. The line of credit was established in support of District financial policies that require additional liquidity be maintained above minimum cash and investment reserve levels for the purpose of meeting unforeseen short-term cash needs. Specifically, the line of credit can be used in support of general District operations or for irrevocable letters of credit as may be required to satisfy collateral posting requirements under contracts and agreements within the ordinary course of business. Draws on the Note will bear interest based on a pricing grid and formula using the bank's prime rate or the LIBOR rate. This Note is a special obligation of the District payable solely out of a special fund and has a lien on revenues junior to the payment of operating expenses of the electric system and outstanding electric system bonds. No draws on the line of credit have been made, and the District does not anticipate any draws on the line of credit for the next twelve months.

NOTE 6 - PENSION PLANS

Substantially all District regular full-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P. O. Box 48380, Olympia, WA 98504-8380 or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and GASB Statement No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

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

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of the AFC. The monthly benefit is subject to a minimum for Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at age 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions; with a benefit that is reduced by 3 percent for each year before age 65 or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost of living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS 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 monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits; if they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65; or if they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by three percent for each year before age 65, or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member’s age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at three percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member’s retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member’s covered employment, if found eligible by the Department of Labor and Industries.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits..................79,363
Terminated Plan Members Entitled to
but not yet Receiving Benefits...29,925
Active Plan Member Vested..105,578
Active Plan Members Non-vested....................................46,839
Total...261,705

<u>Funding Policy</u>
Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2011, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%**	7.25%**	7.25%***
Employee	6.00%*****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** 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:

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$36,135	$787,940	$70,686
2011	$29,182	$616,467	$53,997
2010	$24,607	$521,554	$43,391

Excess Compensation

A cash-out of accrued personal leave at termination in excess of 240 hours qualifies as “excess compensation” for PERS Plan 1 members. Excess compensation is included as part of a participant’s AFC. When a payment is made that qualifies as excess compensation, the employer is billed for the resulting increase to the retiree’s benefit to offset the increased cost to the Department of Retirement Systems. The bill is based on the present value of the increase to the retiree’s benefit. Present value is calculated using actuarial tables developed by the Office of the State Actuary and adopted into Washington Administrative Code by the Department of Retirement Systems. Beginning in 2003, the District accrued a liability for future “excess compensation” bills based on personal leave bank balances of PERS Plan 1 employees and actuarial numbers provided by the Office of the State Actuary. The liability for PERS Plan 1 excess compensation at December 31, 2012 and 2011 was $219,126 and $165,431.

NOTE 7– DEFERRED COMPENSATION PLANS

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(a) permitting employees to defer a portion of their salary until future years. The District match was locked at a maximum rate of 2% on January 1, 2007. The deferred compensation is not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

Effective August 1, 2005, the District contributed 0.5% of an employee’s regular straight-time wages for the pay period into a health reimbursement arrangement (HRA) intended to help employees pay for health insurance premiums upon retirement. Effective August 1, 2008, the District contribution was increased to 1%. In addition, employees may elect to participate in a District provided wellness program and receive an additional 1% contribution of regular straight-time wages each pay period into an HRA. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

The District established the Retirement Health Savings Plan for its non-bargaining employees during 2003, and amended the plan effective August 1, 2005 to include bargaining employees. This plan is an employer-sponsored health benefit saving plan that allows employees to accumulate assets to pay for eligible medical expenses at retirement on a tax-free basis. The District ended employee contributions to this plan in 2007 based on guidance from the administrator of the trust. Assets already contributed by employees to the trust will remain in the trust and can continue to be used for eligible expenses.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The District offers a postemployment benefit plan to pay a portion of medical insurance premiums for certain retirees between the ages of 60 through 64. The plan was established as part of the Collective Bargaining Agreement and is offered to all employee types. The plan may be amended as part of the bargaining process. The plan is administered by the District and no financial report is issued. To be eligible to receive plan benefits, an employee must have worked in a PERS-eligible position while actively employed, must retire between August 1, 2005 and July 31, 2018, must enroll in retiree medical insurance or COBRA from the Central Washington Public Utilities Unified Insurance Trust Program (See Note 10) within the enrollment period following retirement and must remain continuously enrolled in medical insurance from the Trust.

Employees who retired during the initial plan year between August 1, 2005 and July 31, 2006 have monthly contributions equal to the lesser of actual medical premiums or ten dollars for each year of PERS-eligible service at the District paid toward their medical insurance premium during the time they are between the ages of 60 through 64 for each month they remain enrolled in medical insurance from the Trust. For employees who retired between August 1, 2006 and July 31, 2007 the monthly contributions will be equal to the lesser of actual medical premiums or nine dollars for each year of PERS-eligible service. For employees who retired between August 1, 2007 and July 31, 2011 the monthly contributions will be equal to the lesser of actual medical premiums or eight dollars for each year of PERS-eligible service. For each successive year ending July 31, the dollar amount per month for each year of service will be reduced by one dollar until the benefit reaches zero on August 1, 2018.

Funding Policy

The District pays the contributions when required and does prefund the plan based on an actuarial calculation. The District contributed $4,344, $10,680, and $12,218, in 2012, 2011 and 2010, respectively.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The District implemented GASB Statement 45 in 2007 (transition year). 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 (or excess funding) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan for the years ending December 31, 2012 and 2011.

OPEB Cost and Obligation	2012	2011
Annual Required Contribution	$11,127	$11,419
Interest on net OPEB Obligation	959	936
Adjustments to annual required contribution	(1,248)	(1,218)
Annual OPEB cost (expense)	10,838	11,137
Contributions made	(4,344)	(10,680)
Increase in net OPEB Obligation	6,494	457
Net OPEB obligation - beginning of year	19,183	18,726
Net OPEB obligation - end of year	$25,677	$19,183

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2007	$9,723	0.0%	$9,123
12/31/2008	$9,442	21.9%	$16,500
12/31/2009	$14,115	81.0%	$19,185
12/31/2010	$11,759	103.9%	$18,726
12/31/2011	$11,137	95.9%	$19,183
12/31/2012	$10,838	40.1%	$25,677

Funded Status and Funding Progress

The actuarial accrued liability is unfunded. The funded status as of December 31, 2012 using actuarial valuation from December 31, 2010 is as follows:

Actuarial accrued liability (AAL)	$131,567
Actuarial value of the plan	-
Unfunded actuarial accrued liability (UAAL)	**$131,567**

Funded ratio (actuarial value of plan assets/AAL)	0%
Covered regular payroll	$11,671,665
UAAL as a percentage of covered payroll	1.13%

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

Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 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 actuarial valuation of December 31, 2010, the projected unit actuarial cost method was used. The actuarial assumptions include projected ages of retirement by employee based on years of service and pension plan eligibility, a 5.0% investment rate of return, and a 50% participation rate of retired employees. The UAAL is being amortized as a level percentage of projected payroll on a closed basis over thirty years. The remaining amortization period at December 31, 2012 was twenty-four years.

NOTE 9 – LONG-TERM PURCHASED POWER COMMITMENTS

Bonneville Power Administration (BPA)
Contracts Effective October 2011-September 2028
The District has executed a Slice/Block Power Sales Agreement with BPA for the period commencing October 1, 2011 and expiring September 30, 2028. Compared to the previous agreement, the new Slice agreement has changes in operational flexibility and clarification of with-in hour capacity rights as shown below:

- The Slice Product is a system sale of power that includes requirements power, surplus power, and hourly scheduling rights, all of which are indexed to the variable output capability of the FCRPS resources that comprise the Slice System, and to the extent such capability is available to Power Services after System Obligations and Operating Constraints are met. These capabilities are accessed by the District through the Slice Computer Application, which will reasonably represent and calculate the capabilities available to BPA Power Services from such FCRPS resources after System Obligations and Operating Constraints are met, including energy production, peaking, storage and ramping capability, and which the Slice Computer Application applies the District's Selected Slice Percentage to such capabilities.
- No ability to self-supply ancillary services such as operating reserves, energy imbalance, or dynamic scheduling.
- Slice schedules continue to be firm across the hour of delivery.
- The District's new Slice percentage is 1.372%.
- The monthly block amounts range from 70 aMW to 135 aMW.

In conjunction with the new Slice/Block agreement, BPA implemented a Tiered Rates Methodology (TRM). Under the TRM and new agreements, BPA has implemented a cap on the amount of power that the District can purchase at the lowest cost based rates (Tier 1). The cap is referred to in the contract as a Contract High Water Mark (CHWM). The District's CHWM is 204.6 aMW. The maximum amount of power the District can purchase in any FY is referred to as the Rate Period High Water Mark (RHWM), which adjusts the CHWM for changes in Federal System Capability. For FY 2012 and FY 2013 the RHWM is 204.6 aMW. The amount of power the District can purchase in a FY is the lessor of its Net Requirement (Forecast load less its share of Packwood) or RHWM and is the Tier 1 amount. This amount for CY 2012 is 191.1 aMW and for CY 2013 is 194.707 aMW.

The TRM provides for the determination of Tier One Cost Allocators (TOCA) to determine monthly charges. The TOCA is determined by dividing the Tier 1 amount by the sum of all BPA customer's RHWM. For FY 2012, this value for the District is 2.661%; for FY 2013, this value is 2.711%. The TOCA is multiplied by BPA's monthly Composite Charge to determine that portion of the District's monthly BPA power bill that represents BPA's costs. The non-slice TOCA is the TOCA minus the slice percentage resulting in an FY 2012 value of 1.289% and a FY 2013 value of 1.339%. The non-slice TOCA is multiplied by BPA's non-slice charge to determine that portion of the District's monthly BPA power bill that represent several BPA revenues, primarily their wholesale sales.

The FY 2012/2013 BPA power rates have a provision for a CRAC and DDC similar to that discussed above for the 2006-2011 period. The CRAC did not trigger for CY 2011 or 2012.

To obtain needed transmission services, the District entered into a service agreement with BPA for point-to-point transmission services commencing May 31, 1997 and terminating on the earlier of September 30, 2031 or the date of termination established pursuant to BPA's Open Access Transmission Tariff. Effective October 1, 2000, the District obtained transmission demand of 468 MW. It was reduced to 428 MW on October 1, 2003 and 423 MW on October 1, 2005. This service level exceeds requirements needed to meet projected retail loads.

BPA determined that it had over collected from its public customers in providing payments to Investor Owned Utilities (IOUs) for residential exchange benefits in FY 2002-2006. In the WP-10 power rate case, BPA agreed to credit the District $2.29M per year for FY 2010 and 2011 to reimburse the District for these over-collections. The District, along with over 80% of BPA's Consumer Owned Utility (COU) customers and the region's IOUs entered into an agreement to settle the amount of the residential exchange benefits paid by BPA to the IOUs. The settlement included a provision for BPA to continue to provide COU's a discount on BPA power bills. For the FY 2012-2013 period, this discount for the District will be $179,751/month.

Contracts Effective October 2001-September 2011

Commencing October 1, 2001, the District entered into a ten-year Block and Slice Power Sales Agreement with BPA which expired September 30, 2011. The Slice product provided the District 1.7641% of the actual output of the Federal Columbia River Power System (FCRPS) and required the District to pay that same percentage of actual costs of the system. The District's share of output was 165 average megawatts (aMW) in an average year, but varied considerably based on water conditions within the Northwest. BPA increased the wholesale rate for the Slice product by 4.4% effective October 1, 2009 through September 30, 2011.

The Block product provided power in monthly amounts ranging between 47 megawatts (MW) and 83 MW for the first five-year term. In the second five-year term, the monthly Block entitlements increased to a range of 85 MW to 158 MW. BPA increased its wholesale rate for the Block product by 6.95% effective October 1, 2009 through September 30, 2011.

BPA had put in place a Cost Recovery Adjustment Clause (CRAC) which applied to the District's Block purchases during the rate period of October 1, 2006 – September 30, 2011. The CRAC did not trigger in 2009, 2010, or 2011. The CRAC would have been triggered when BPA's forecasted Accumulated Modified Net Revenues (AMNR) were lower than expected. AMNR represents the Power Services net revenues, modified by certain items, as accumulated since 1999 through the end of each year for Fiscal Year (FY) 2006 through 2010. BPA has a fiscal year of October through September. The amount of the CRAC would have been determined by the amount AMNR is forecasted to be greater than certain values and is capped at $300 million per year. If triggered, the CRAC amount would be converted to a percentage and would increase the Block rates charged to the District. The $300 million per year cap would then be increased if BPA triggered a NFB (National Marine Fisheries Service FCRPS BiOp) adjustment. The NFB adjustment would have been triggered if a court ordered additional expenditures for Fish and Wildlife mitigation, an Endangered Species Act (ESA) litigation settlement occurred which resulted in higher costs, a new, more expensive, Biological Opinion (BiOp) was implemented, or BPA committed to implement a recovery plan under the ESA. The

NFB adjustment would have started at the beginning of a fiscal year, or during the fiscal year if an emergency was declared.

The rates also contained a Dividend Distribution Clause (DDC) which would operate similar to the CRAC but would have lowered the Block rates charged to the District. The DDC would have been triggered when generation function reserves exceed $1.05 billion. There was no cap on the DDC.

The Block and Slice agreement contained a provision (Exhibit N) which allowed BPA to recall energy if the sum of Block and Slice energy in a critical water year exceeded District firm loads less declared resources. Under this provision, BPA and the District entered into a letter agreement whereby BPA recalled 7.6 annual aMW for the fiscal year ending September 2011. BPA reimbursed the District for this energy based on BPA's weighted average firm power rates. The reimbursement of $2 million for the fiscal year ending September 2011 was received in January 2012.

BPA Prepay Program
BPA developed a Prepay Program to help fund hydro system infrastructure and as a means to allow customers to prepay for the future delivery of power consistent with the existing power supply agreements, except that payment provisions would be revised to reflect the prepayment. The District submitted an offer for one block in the amount of $6.8 million that was accepted and in return will receive a total of $9.3 million in credits resulting in net present value savings of $1.1 million. The District made a lump sum up-front payment in March 2013, and will receive a $50,000 credit each month on its power bill beginning April 2013 through September 2028.

Energy Northwest
The District, Energy Northwest and BPA have entered into separate agreements with respect to certain Energy Northwest projects. Under these agreements, the District has purchased 4.965%, 5.350%, and 4.295% capability of Project No. 1, Columbia Generating Station, and Energy Northwest's 70% share of Project No. 3, respectively. All project participants, including the District, have assigned their respective rights to the capability of these projects to BPA under contracts referred to as net-billing agreements. Project participants are obligated to pay Energy Northwest their pro rata share of total project costs, and BPA in turn is obligated to pay the participants identical amounts by reducing amounts due to BPA under power sales agreements. The net-billing agreements provide that participants and BPA are obligated to make such payments whether or not the projects are completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction, or curtailment of the projects' output.

BPA and Energy Northwest received a favorable private letter ruling from the IRS allowing for direct-pay agreements effective June 2006. The ruling assures that the proposed direct-pay agreements do not adversely affect the existing Federal income tax-exemption on the BPA-backed bonds issued by Energy Northwest for three nuclear projects. Under the direct-pay agreements, BPA pays amounts directly to Energy Northwest to cover the costs of the projects. This enables Energy Northwest to reduce to zero the amounts it bills to project participants and also reduces to zero the amount of net-billing credits BPA provides. The direct-pay agreements improve BPA's cash flows and provide an opportunity for rate relief for the region. The District began participation in the direct-pay program in June 2006.

Additionally, the District entered into a Nine Canyon Wind Project Power Purchase Agreement with Energy Northwest for the purchase of 3 MW of the project generating capacity (1 aMW) of Phase I through July 1, 2023. The project reached commercial operation in late 2002. The District on October 30, 2006, signed an Amended and Restated Agreement with ENW and the other purchasers which extended the term of the Agreement through July 1, 2030 (with rights to extend the agreement for five year terms) and provided the District with 6 MW (2 aMW) from the Phase III expansion (see Note 13).

Packwood Lake Hydroelectric Project (Packwood)
The District is a 14% participant in Energy Northwest's 27 MW Packwood Project, located in the Cascade Mountains south of Mount Rainier. The Project's fifty-year license has expired and the Project has satisfied all of the requirements for relicensing with the Federal Energy Regulatory Commission and is waiting for final issuance. The Packwood Agreement with Energy Northwest obligates participants to pay annual costs and receive excess

revenues. Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized, and no equity is accumulated. Accordingly, no investment for the joint venture is reflected on the District's balance sheet. No distributions were made in 2012 or 2011, as gains are being held for relicensing expenses.

Frederickson Project

In March 2001, the District entered into a twenty-year agreement with Frederickson Power LP for the purchase of 50 MW of contract capacity from the 249 MW Frederickson combined-cycle natural gas fired combustion turbine project near Tacoma, Washington. The agreement includes firm gas transportation from the Canadian border to the project. Power deliveries and variable energy charges are based on a deemed heat rate of 7,100 British thermal units (Btu) per kilowatt-hour (kWh). Up to 40% of the contract capacity may be displaced regardless of the dispatch decisions of other purchasers. Power costs include a capacity charge and fixed and variable operation and maintenance charges indexed to performance and escalation factors. The District receives fuel management services for the Frederickson Project from The Energy Authority (TEA).

Lakeview Light and Power (LL&P) Wind Energy, Inc.

In April 2007, the District entered into a twenty-year Energy and Environmental Attributes Purchase Agreement with LL&P to purchase 3 MW of capacity (1 aMW) at the White Creek Wind Project. This project is a wind generation facility with capacity of 204.7 MW. It is located in Klickitat County and was declared to be in commercial operation in November 2007. The purchase is part of the District's strategy for meeting renewable resource requirements of Initiative 937 (see Note 13). The District pays for only the energy and associated environmental attributes generated by the project.

White Creek Wind Project

In September 2008, the District entered into an Assignment Agreement with Klickitat PUD under which Klickitat PUD assigned the District a share of its Energy Purchase Agreement with White Creek Wind I, LLC representing 3% of the total project for $11.1 million. The purchase is part of the District's strategy for meeting renewable resource requirements of Initiative 937 (see Note 13). The purchase cost is being amortized on a straight-line basis over a 19-year term. In both 2011 and 2012, Power Supply expense includes $578,400 each year in amortization of the purchase cost. This 3% share of the 204.7 MW project represents 6.14 MW (2 aMW). The District also entered into an agreement to sell energy and environmental attributes back to Klickitat PUD through March 2011 to satisfy obligations under an agreement with Powerex related to Klickitat PUD's original share of the White Creek project. The sale expired before the need to meet Initiative 937 requirements beginning in 2012.

Other Power Supply Contracts and Purchases

The District entered into a Resource Management Agreement (RMA) with TEA on July 1, 2006 to provide scheduling, dispatching, fuel management and other power management services. The agreement was restated and extended in 2009 and continues until terminated by either party. The District and TEA have the right to terminate the agreement upon two years written notice. The agreement also provides for annual consulting task orders to provide for a variety of power management services. Under the agreement, TEA is authorized to trade real time, day-ahead transactions, and forward transactions as principal on behalf of the District. TEA is currently not trading forward transactions as principal. This arrangement allows a financial benefit to the District with TEA trading in aggregated larger power blocks and passing the resulting transaction pricing on to the District. It also provides the advantages of simplified settlement, lower operational and settlement risk, and rigorous documentation and equitable allocation of pricing for like transactions across PUDs. In December 2008, the RMA was amended to allow these transactions to be traded utilizing TEA's credit and contracts as discussed in Note 1(i).

As discussed in Note 1(i), the District entered into other power supply contracts and purchases as follows:

- At December 31, 2012, the District had entered into various short-term financial forward sales and purchase contracts committing the District through June 2014. Financial forward contracts for electricity had a net positive fair value of $648,192 at December 31, 2012 and are reflected in the financial statements as deferred inflows and outflows. In addition, the District had entered into put options expiring the first quarter of 2013. These options had a positive fair value of $89,908 at December 31, 2012 and are reflected in the financial statements as deferred inflows and outflows.

- At December 31, 2011, the District had entered into various short-term financial forward sales and purchase contracts committing the District through June 2013. Financial forward contracts for electricity had a net positive fair value of $332,044 at December 31, 2011 and are reflected in the financial statements as deferred inflows and outflows. In addition, the District had entered into put options expiring the first quarter of 2012. These options had a negative fair value of $7,410 at December 31, 2011 and are reflected in the financial statements as deferred inflows and outflows.

NOTE 10 – SELF-INSURANCE

In the normal course of business, the District is exposed to various risks of loss related to liability claims, property damage, and employee health and welfare programs. The District participates in the following self-insurance programs to protect against such losses.

Public Utility Risk Management Services Self-Insurance Fund

The District is a member of the Public Utility Risk Management Services (PURMS) Self-Insurance Fund. PURMS is a public entity risk pool organized on December 30, 1976 in the State of Washington under RCW 54.16.200 and interlocal governmental agreements. It currently operates under RCW 48.62. Its members include 18 public utility districts and one non-profit mutual corporation. The objectives of PURMS are to formulate, develop and administer a program of self-insurance in order to obtain lower costs for the various coverages provided to its members and to develop a comprehensive loss control program.

The risks shared by the members are defined in the Self-Insurance Agreement (SIA). The fund consists of three pools for liability, property, and health and welfare coverage. The pools operate independently of one another. All members do not participate in all pools. The District does not participate in the health and welfare pool.

The pools are governed by a Board of Directors which is comprised of one designated representative from each participating member. The Administrator and an elected Administrative Committee are responsible for conducting the business affairs of the Pool.

PURMS engages an independent qualified actuary on an annual basis to determine the claim financing levels, liabilities for unpaid claims and claims adjustment expenses for the Liability Pool and the Property Pool. A copy of these reports is provided to the Washington State Risk Manager and to the Washington State Auditor's Office. Audit reports for the Trust are available from the Washington State Auditor's Office (Report Nos. 1006779 and 1006780).
The pools are fully funded by its current and former members. Members that withdraw from PURMS are responsible for their share of contributions to the pools for any unresolved, unreported and in-process claims for the period they were signatory to the SIA. Claims are filed by members with the Administrator, Pacific Underwriters, Seattle, WA, which serves by contract as the fund's Administrator and provides claims adjustment and loss prevention services.

Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Liability Risk Pool

The liability pool has a $1 million liability coverage limit per occurrence. In addition, the fund maintains $35 million of excess general liability insurance and $10 million of professional liability insurance over the $1 million retention. A second layer of excess general liability insurance of $25 million is also maintained over the first layer of $35 million. The fund maintains $35 million in directors and officers liability coverage with a retention level of $500,000. The deductible is $250.

The Board approved increasing the liability pool reserve balance from $2 million to $3 million effective January 1, 2009. This increase was funded over three years by two additional assessments per year in the years 2009 through 2011. Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop to $500,000 less than the designated level. The minimum reserve balance may be increased above $3 million through member assessments to meet legal funding requirements based on annual actuarial reviews.

Property Risk Pool
The majority of the property in the property pool has a self-insured retention of $250,000 per property loss. Certain classes of property have higher retention requirements up to $750,000. In addition, the fund purchases $200 million of excess insurance over the $250,000 (or higher) retention level. The deductible varies but for most classes of property it is $250.

The designated property pool reserve balance is $750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below $500,000. The minimum reserve balance may be increased above $750,000 through member assessments to meet legal funding requirements based on annual actuarial reviews.

Central Washington Public Utilities Unified Insurance Program Trust
The District is a member of the Central Washington Public Utilities Unified Insurance Program Trust (Trust). The Trust was organized October 1, 1982 pursuant to the provisions of RCW Title 54 and interlocal governmental agreements. The Trust's general objectives are to provide a central fund for the collection and disbursement of employee benefit premiums and claims involving medical, dental, life and long-term disability coverage. The Trust is administered by a Board of Trustees comprised of an appointed Trustee and Alternate Trustee from each of the seven member Districts. The Trustees are authorized to negotiate, obtain, maintain insurance policies, and authorize disbursements made from the Trust to Third Party Administrators or other entities. Effective August 1, 2002, the Trust established a self-insured medical plan. Effective January 1, 2009, the Trust established a self-insured dental plan. Both plans are approved by the State Risk Office. The audit report for the Trust is available from the Washington State Auditor's Office (Report Nos. 1007223 and 1005307).

Unemployment Claims
The District pays unemployment claims on a reimbursement basis with claims administered by the Washington State Department of Employment Security.

Short-Term Disability Insurance
The District self-pays short-term disability benefits through a 70% salary continuation program from the 41st consecutive scheduled hour of inability to work until the employee either recovers and returns to work or completes the waiting period required for long-term disability insurance eligibility, whichever is earlier. Certification of illness or injury by a licensed, competent medical authority is required. The District utilizes a Third Party Administrator who provides medical oversight and advice-to-pay for disability claims.

NOTE 11 - PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. (NOANET)

The District, along with 11 other Washington State public entities, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout Washington. The network began commercial operation in January 2001.

As a member of NoaNet, the District has guaranteed certain portions of NoaNet debt based on its proportionate share (see Note 13). The District's membership interest in NoaNet is 17.17%. The management of NoaNet anticipates meeting debt obligations through profitable operations, it was expected that it will be necessary for NoaNet to assess members to cover deficits during the initial years of operation. The District recorded a member assessment of $70,300 in 2011, there were no member assessments in 2012.

NoaNet was awarded two grants totaling $97.6 million by the U.S. Department of Commerce under the Broadband Technology Opportunities Program (BTOP) of the American Recovery and Reinvestment Act in 2010. NoaNet recorded an increase in net assets (excluding BTOP grant proceeds) of $1,334,055 (unaudited) for 2012 and an increase of $550,654 for 2011. In accordance with generally accepted accounting principles as well as a position statement issued by the Washington State Auditor concerning the appropriate accounting treatment for NoaNet, a proportionate share of these gains/losses has not been recorded by the District.

The District is participating in phase two of the grant as a subrecipient in the amount of $3.5 million. As of December 31, 2012, $138,224 has been spent with the remaining balance to be spent in 2013.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Chief Financial Officer, 5802 Overlook Ave NE, Tacoma, WA 98422.

NOTE 12 - TELECOMMUNICATIONS SERVICES

The District has installed and continues to build out a fiber optic backbone system in its service area to provide wholesale telecommunication services and for internal use by the electric system. The District has connected its fiber optic system to NoaNet's fiber optic communications system. Broadband coverage is also being extended through the development of a wireless network to deliver high-speed Internet service.

Broadband operations and capital activity for the years ended December 31, 2012 and 2011 follows:

Broadband	2012	2011
Operating Revenues		
Ethernet	$988,714	$852,134
TDM	164,524	213,844
Wireless	2,376	3,090
Internet Transport Service	278,532	370,388
Fixed Wireless	133,763	142,380
Other Revenue	50,814	155
NoaNet Maintenance Revenue	1,331	2,330
Bad Debt Expense	-	33,598
Total Operating Revenues	***$1,620,054***	***$1,617,919***
Operating Expenses		
NoaNet Maintenance Expense	$5,097	$2,893
General Expenses	587,734	618,451
Other Maintenance	98,680	48,297
Network Operating Center Maint.	3,244	4,084
Wireless Maintenance	1,660	856
Subtotal before depreciation	696,415	674,581
Depreciation	743,727	964,721
Total Operating Expenses	***$1,440,142***	***$1,639,302***
Nonoperating Expenses	$7,369	$74,102
Capital Investment (Annual)	$1,084,873	$597,590
Capital Investment (Cumulative)	$14,586,928	$13,502,055

The above amounts are included in summarized line items on the income statement

NOTE 13 - OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Repayment Agreement Relating to NoaNet Line of Credit (see Note 11)
In July 2001, NoaNet issued $27 million in Telecommunications Network Revenue Bonds (2001 Bonds) to finance the repayment of the founding members and the costs of initial construction, operations and maintenance. The Bonds became due beginning in December 2003 through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. In June 2011, NoaNet issued $13,165,000 in Telecommunications Network Revenue Refunding Bonds (2011 Refunding Bonds) to refinance certain 2001 Bonds. The 2011 Refunding Bonds become due in December 2012 through December 2016 with interest due semi-annually at rates ranging from 0.75% to 3.0%. The final principal payment on the non-refunded 2001 Bonds was made in December 2011. The amount of outstanding Bonds was $10,835,000 and $13,165,000 at December 31, 2012 and 2011, respectively.

Current and former Members of NoaNet have entered into a Repayment Agreement to guarantee the debt of NoaNet. Under the Repayment Agreement, each guarantor acknowledges and agrees that it is a guarantor of the payment of the principal of and interest on the Bonds and is liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such principal and interest up to each Member's percentage interest. The District's guarantee is 14.06% of the outstanding Bonds, or $1,523,401 and $1,850,999 as of December 31, 2012 and 2011, respectively.

In the event of a failure by any guarantor to pay such amounts when due, NoaNet may bill from time to time as necessary, and each guarantor is obligated to pay 30 days after receipt of the bill, an additional amount up to a maximum of 25% of such Member's percentage interest (the "Step-Up"), up to the maximum percentage interest, in order to cover the deficiency caused by such Member's or Members' failure to pay. Any Member that pays an additional amount to cover a deficiency reserves all rights to seek reimbursement from the Member or Members that failed to pay. The District's maximum percentage interest is 17.57% or $1,903,710 and $2,313,091 as of December 31, 2012 and 2011, respectively.

In September 2008, NoaNet opened a $1.5 million line of credit with Bank of America to fund capital expenditures. This Note is guaranteed by the Members. The outstanding balance on the 2008 Line of Credit was $300,000 and $600,000 at December 31, 2012 and 2011 respectively. The District's guarantee is 14.17% of the outstanding balance or $42,510 and $85,020 at December 31, 2012 and 2011 respectively.

In August 2009, NoaNet opened a $1.5 million line of credit with Bank of America to fund capital expenditures. This Note is guaranteed by the Members. The outstanding balance on the 2009 Line of Credit was $500,000 and $833,333 as of December 31, 2012 and 2011, respectively. The District's guarantee is 14.17% of the outstanding balance or $70,850 and $118,083 as of December 31, 2012 and 2011, respectively.

In October 2012, NoaNet opened a $5.0 million line of credit with Bank of America to fund capital expenditures. This Note is guaranteed by the Members. The outstanding balance on the 2012 Line of Credit was $756,400 as of December 31, 2012. The District's guarantee is 17.17% of the outstanding balance or $129,874 as of December 31, 2012.

Energy Northwest – Nine Canyon Wind Project
The Nine Canyon Wind Energy Project is owned and operated by Energy Northwest. The District, along with nine other public utilities, is a participant in Phases I and III of the Project. Under its Power Purchase Agreement, the District is obligated to pay its percentage share of the annual debt service of each project Phase and the operation and maintenance costs of the project in return for its percentage share of project output, whether or not the project is operating or capable of operating. Under the agreement, the District is obligated to pay an amended percentage share effective May 2008 when Phase III achieved commercial operation. Under a step-up provision, the District could be required to pay up to a maximum of 125% of its percentage share in the event of default by another purchaser. The Agreement limits Energy Northwest's total annual operation and maintenance cost to $4 million prior to Phase III Commercial Operation and to $7 million post Phase III Commercial Operation. These limits will change annually based on certain inflation indexes.

The agreement terminates July 1, 2030. The District's applicable percentage share obligations are:

Allocation of Cost	District % Share	District % Share under Step-up Provision
Debt Service - Phase I	6.25%	7.81%
Debt Service - Phase III	18.63%	23.29%
O&M Costs - Prior to Phase III Commercial Operation	4.72%	5.90%
O&M Costs - Post Phase III Commercial Operation	9.39%	11.74%

Energy Independence Act (Initiative 937)

With the passage of Initiative 937 by Washington voters in November 2006, all electric utilities with more than 25,000 customers are required to purchase renewable energy in gradually increasing percentages and to establish and meet a minimum biennial energy conservation target. As of December 31, 2012, the District had renewable energy contracts in place that satisfies the Initiative's initial renewable target of 3% by 2012. The renewable requirement increases to 9% of retail load in 2016, and finally to 15% of retail load in the year 2020. Total incremental expenses for qualifying renewable resources plus the cost of renewable energy credits are limited to 4% of the annual retail revenue requirement. In 2009, the Commission established the minimum Biennial Conservation Target for 2010-2011 of 23,478 MWh. The District exceeded the target for the biennial period of 2010-2011 with 34,753 MWh achieved. In 2011, the Commission established the minimum Biennial Conservation Target for 2012-2013 of 24,144 MWh and is currently planning on meeting or exceeding that goal.

Operating Leases

The District leases electrical testing equipment on an annual basis. The annual rental cost was $23,501 each year for 2012 and 2011, respectively.

The District has entered into an agreement with Agrium U.S. Inc., to lease a parcel of land upon which the District constructed the Finley CT in 2001. The agreement is in effect from June 1, 2001 to June 1, 2021. The agreement may be extended up to an additional twenty years with the consent of both parties. The agreement is classified as a non-cancellable operating lease of more than one year.

The annual rental cost for the land was $53,166 and $51,833 for 2012 and 2011, respectively.

The future minimum rental payments are:

Year	Minimum Rental Payment
2013	$53,700
2014	53,700
2015	53,700
2016	53,700
2017	53,700
2018-2021	187,950
Total	$456,450

NOTE 14 – RESTATEMENT OF PRIOR YEAR

With implementation of GASB 63 and 65, the District restated the 2011 financial statements and reclassified certain 2011 account balances to conform with 2012 presentation. The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In accordance with GASB Statement No. 63, the District now presents sections titled Deferred Outflows of Resources and Deferred Inflows of Resources on its Statement of Net Position and reports the appropriate account lines for these sections. The Statement of Net Assets and any references to Net Assets has been updated to reflect Net Position. The Net Position section has also been recalculated as prescribed by GASB. The reclassified balances have no impact on total net position.

In accordance with GASB Statement No. 65, the District expensed debt issuance costs which previously were amortized. This restatement resulted in $394,115 of bond issue costs for the 2011 bond issue being expensed in 2011 as well as the removal of $105,282 of previously amortized bond issue costs. Unamortized bond issue costs of $703,941 at the beginning of 2011 are presented as a cumulative effect of restatement and reduce the beginning net position.

REQUIRED SUPPLEMENTARY INFORMATION

Retiree Medical Insurance Benefit
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2008	-	$113,657	$113,657	-	$10,478,784	1.08%
12/31/2009	-	$160,491	$160,491	-	$11,029,641	1.46%
12/31/2010	-	$146,430	$146,430	-	$11,158,544	1.31%
12/31/2011	-	$136,273	$136,273	-	$11,115,660	1.23%
12/31/2012	-	$131,567	$131,567	-	$11,671,665	1.13%

2012

Statistical Section

Comprehensive Annual Financial Report

2012

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

REVENUE CAPACITY

These schedules contain information to help the reader assess the District's most significant revenue source, electric sales.

DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the ability of the District to issue additional debt in the future.

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

OPERATING INFORMATION

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31

	2012	2011 restated	2010 restated	2009
OPERATING REVENUES				
Sales of Electric Energy - Retail	$110,799,843	$105,228,051	$94,137,792	$91,942,100
Energy Sales for Resale	14,048,971	25,773,429	30,122,467	38,885,352
Transmission of Power for Others	797,837	397,063	230,978	229,429
Broadband Revenue	1,620,054	1,617,919	1,181,892	927,041
Other Revenue	1,879,829	1,424,566	1,403,220	1,348,716
Total Operating Revenues	129,146,534	134,441,028	127,076,349	133,332,638
OPERATING EXPENSES				
Purchased Power	68,652,534	75,475,402	78,768,878	75,055,153
Purchased Transmission & Ancillary Services	11,260,088	10,276,334	9,315,582	10,074,812
Conservation Program	405,589	808,494	1,795,846	679,406
Generation	-	-	-	-
Transmission Operations & Maintenance	12,684	17,575	26,909	30,026
Distribution Operations & Maintenance	8,191,232	7,499,422	7,163,781	7,092,143
Broadband Expense	696,415	674,581	712,433	577,958
Customer Accounting, Collection and Information	3,954,421	3,388,582	3,773,740	4,011,243
Administrative & General	6,276,795	5,384,210	5,396,629	5,557,985
Taxes	11,814,545	10,890,913	9,513,213	9,956,874
Depreciation & Amortization	11,642,052	10,769,424	9,751,161	9,367,272
Total Operating Expenses	122,906,355	125,184,937	126,218,172	122,402,872
OPERATING INCOME (LOSS)	**6,240,179**	**9,256,091**	**858,177**	**10,929,766**
NONOPERATING REVENUES & EXPENSES				
Interest & Other Nonoperating Income	688,636	602,075	488,924	358,811
Interest Expense & Other Nonoperating Expense	(3,001,895)	(2,958,273)	(2,703,991)	(2,278,184)
Debt Discount/Premium Amortization & Bond Issue Costs (1)	459,198	(237,799)	(674,641)	(34,128)
Assessments to Joint Venture	-	(70,300)	(129,550)	(236,393)
Total Nonoperating Revenues & Expenses	(1,854,061)	(2,664,297)	(3,019,258)	(2,189,894)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND EXTRAORDINARY ITEM	**4,386,118**	**6,591,794**	**(2,161,082)**	**8,739,872**
CAPITAL CONTRIBUTIONS	2,368,597	1,394,438	**1,271,831**	**3,072,025**
EXTRAORDINARY ITEM	-	-	-	-
CHANGE IN NET POSITION	**$6,754,715**	**$7,986,232**	**($889,251)**	**$11,811,897**

NET POSITION

For the years ended December 31

	2012	2011	2010	2009
Net Investment in Capital Assets	$58,085,620	$59,836,918	$61,389,146	$64,930,735
Restricted for Debt Service	140,017	140,017	706,157	-
Restricted Settlement Proceeds	-	-	-	86,955
Unrestricted(2)	65,934,508	57,428,495	47,323,895	45,848,815
Total Net Position	**$124,160,145**	**$117,405,430**	**$109,419,198**	**$110,866,505**

(1) Governmental Accounting Standards Board Statement No. 65 was implemented effective 2012 classifying debt issuance costs as expense when incurred. 2011 was restated for comparative purposes in the financial statements.

(2) Governmental Accounting Standards Board Statement No. 65 was implemented effective 2012 classifying debt issuance costs as expense when incurred. 2010 was restated for comparative purposes and the cumulative effect of $(703,941) for prior years has been applied to the Unrestricted balance.

2008	2007	2006	2005	2004	2003
$86,236,604	$92,388,210	$95,549,937	$101,111,740	$101,177,165	$99,074,832
53,188,137	42,922,151	46,585,675	39,350,618	32,452,008	33,065,979
225,908	279,687	256,781	238,040	198,591	268,955
858,566	787,589	461,276	315,469	161,447	52,876
1,449,381	1,745,868	2,126,721	1,635,971	1,379,005	1,196,174
141,958,596	138,123,505	144,980,390	142,651,838	135,368,216	133,658,816
91,764,877	83,330,863	88,171,300	92,225,135	84,134,802	85,034,770
10,295,990	9,385,236	9,713,193	8,776,993	8,336,489	9,319,269
130,064	-	-	-	-	-
-	169,339	671,606	1,440,302	1,319,742	2,678,635
20,449	24,376	53,432	17,321	154,426	216,643
6,998,119	6,254,249	6,883,927	6,358,739	6,291,634	5,991,928
662,267	692,390	582,999	471,082	404,573	288,320
3,850,215	3,854,630	4,062,499	3,700,101	3,358,095	3,250,414
5,420,309	5,405,180	5,243,565	5,098,364	4,875,823	4,502,408
9,197,531	9,884,911	10,096,882	10,638,538	10,022,182	10,315,133
9,369,594	10,084,084	10,156,431	9,951,985	9,270,588	8,800,473
137,709,415	129,085,258	135,635,834	138,678,560	128,168,354	130,397,993
4,249,181	**9,038,247**	**9,344,556**	**3,973,278**	**7,199,862**	**3,260,823**
1,198,244	1,762,210	1,960,710	1,674,427	569,733	248,093
(2,443,373)	(2,533,496)	(3,319,058)	(3,807,972)	(4,198,458)	(3,887,870)
(40,312)	(21,519)	(553,124)	(209,324)	(113,865)	(245,253)
(402,707)	(555,095)	(912,323)	(449,138)	(574,560)	(444,361)
(1,688,148)	(1,347,900)	(2,823,795)	(2,792,007)	(4,317,150)	(4,329,391)
2,561,033	**7,690,347**	**6,520,761**	**1,181,271**	**2,882,712**	**(1,068,568)**
1,885,387	**6,099,714**	**1,491,180**	**1,951,640**	**1,841,166**	**2,930,868**
-	**(9,755,303)**	-	-	-	-
$4,446,420	**$4,034,758**	**$8,011,941**	**$3,132,911**	**$4,723,878**	**$1,862,300**

2008	2007	2006	2005	2004	2003
$56,656,963	$54,367,199	$60,104,751	$47,472,197	$47,897,220	$46,040,723
-	-	812,537	812,537	812,537	812,537
-	-	-	-	-	-
42,397,645	40,240,989	29,656,142	34,276,755	30,718,821	27,851,440
$99,054,608	**$94,608,188**	**$90,573,430**	**$82,561,489**	**$79,428,578**	**$74,704,700**

REVENUES AND CONSUMPTION BY CUSTOMER CLASS

For the years ended December 31

	2012	2011	2010	2009
AVERAGE NUMBER OF CUSTOMERS				
Residential	40,645	40,201	39,687	39,220
General Service	5,499	5,421	5,356	5,289
Industrial	3	3	3	3
Irrigation	721	722	736	746
Miscellaneous	1,842	1,850	1,834	1,816
Total	48,710	48,197	47,616	47,074
RETAIL ELECTRIC SALES (IN THOUSANDS) (1)				
Residential	$50,678	$49,258	$43,707	$43,704
General Service	32,416	29,864	27,575	25,605
Industrial	3,223	2,780	2,167	1,483
Irrigation	18,817	17,602	15,642	16,290
Miscellaneous	821	790	762	733
Total	$105,955	$100,294	$89,853	$87,815
RETAIL ELECTRIC SALES IN MWh				
Residential	668,018	687,953	654,775	721,720
General Service	512,797	503,471	503,037	530,255
Industrial	70,575	65,411	55,365	38,909
Irrigation	385,738	381,999	371,321	427,269
Miscellaneous	8,148	9,528	8,304	8,188
Total	1,645,276	1,648,362	1,592,802	1,726,341
AVERAGE REVENUE PER kWh (CENTS) (1)				
Residential	7.59	7.16	6.68	6.06
General Service	6.32	5.93	5.48	4.83
Industrial	4.57	4.25	3.91	3.81
Irrigation	4.88	4.61	4.21	3.81
Miscellaneous	10.08	8.29	9.17	8.95
Average - All Classes	6.44	6.08	5.64	5.09

(1) Includes total retail revenue (per kWh charge and base charge); excludes city utility occupation tax, bad debt expense, and accrued unbilled revenue.

2008	2007	2006	2005	2004	2003
38,855	37,969	37,418	36,963	36,285	35,576
5,192	5,077	4,931	4,903	4,869	4,761
3	3	3	3	3	3
736	717	713	718	729	739
1,814	1,804	1,790	1,802	1,823	1,797
46,600	45,570	44,855	44,389	43,709	42,876
$41,116	$42,765	$44,778	$46,461	$47,664	$46,335
24,750	27,282	29,259	30,478	30,651	29,043
1,662	1,790	1,444	1,995	2,483	2,291
13,936	15,764	15,485	17,136	16,294	16,375
690	744	824	832	827	794
$82,154	$88,345	$91,790	$96,902	$97,919	$94,838
666,418	644,392	632,213	622,639	621,386	604,618
510,144	503,551	510,052	521,307	523,388	509,057
47,760	49,045	37,456	53,286	69,479	58,054
407,432	402,251	368,048	397,651	375,363	401,868
8,102	8,026	7,941	7,625	7,438	7,154
1,639,856	1,607,265	1,555,710	1,602,508	1,597,054	1,580,751
6.17	6.64	7.08	7.46	7.67	7.66
4.85	5.42	5.74	5.85	5.86	5.71
3.48	3.65	3.86	3.74	3.57	3.95
3.42	3.92	4.21	4.31	4.34	4.07
8.51	9.27	10.38	10.92	11.11	11.10
5.01	5.50	5.90	6.05	6.13	6.00

RETAIL RATES (1)

As of December 31

	2012	2011	2010	2009
Residential				
Monthly Base Charge (single phase)	$11.05	$10.50	$9.20	$8.80
Energy Charge (cents/kWh)	6.84	6.49	6.05	5.78
Small General Service				
Monthly Base Charge (single phase)	$11.95	$11.45	$11.45	$10.70
Energy Charge Effective 2010 (cents/kwh)	6.14	5.88	5.47	-
Prior to 2010				
First 20,000 kwh	-	-	-	5.13
Over 20,000 kwh	-	-	-	3.35
Medium General Service				
Monthly Charge (single phase)	$17.55	$16.30	$14.25	$13.20
Energy Charge (cents/kwh)				
Summer (Effective 2011)	4.85	4.51	-	-
Winter (Effective 2011)	5.69	5.29	-	-
Summer (Prior to 2011)				
First 20,000 kwh	-	-	4.45	4.46
Over 20,000 kwh	-	-	3.55	2.74
Winter (Prior to 2011)				
First 20,000 kwh	-	-	5.29	5.24
Over 20,000 kwh	-	-	4.19	3.33
Demand Charge	$8.36	$7.77	$7.13	$6.60
Large General Service				
Monthly Charge (multi phase)	$26.10	$24.15	$18.60	$17.40
Energy Charge (cents/kwh)				
Summer (Effective 2010)	3.89	3.59	3.31	-
Winter (Effective 2010)	4.65	4.30	3.97	-
Summer (Prior to 2010)				
First 20,000 kwh	-	-	-	4.33
Over 20,000 kwh	-	-	-	2.89
Winter (Prior to 2010)				
First 20,000 kwh	-	-	-	4.72
Over 20,000 kwh	-	-	-	3.56
Demand Charge	$7.00	$6.48	$5.99	$5.60

(1) These rates represent the typical customer. Other monthly charges may apply.
Other rate schedules also in effect are small irrigation, large irrigation, industrial, and miscellaneous.

2008	2007	2006	2005	2004	2003
$8.80	$8.80	$9.15	$9.55	$10.05	$10.65
5.78	6.02	6.28	6.54	6.87	7.27
$10.70	$11.25	$11.75	$12.25	$12.51	$12.51
-	-	-	-	-	-
5.13	5.39	5.64	5.87	5.98	5.98
3.35	3.46	3.62	3.77	3.84	3.84
$13.20	$13.90	$14.55	$15.15	$15.28	$15.28
-	-	-	-	-	-
-	-	-	-	-	-
4.46	4.69	4.81	5.01	5.06	5.06
2.74	2.88	2.95	3.07	3.10	3.10
5.24	5.52	5.66	5.90	5.96	5.96
3.33	3.49	3.58	3.73	3.77	3.77
$6.60	$7.20	$8.08	$8.42	$8.50	$8.50
$17.40	$18.45	$19.10	$19.90	$20.41	$20.41
-	-	-	-	-	-
-	-	-	-	-	-
4.33	4.62	4.78	4.98	5.11	5.11
2.89	3.07	3.18	3.31	3.39	3.39
4.72	5.03	5.21	5.43	5.57	5.57
3.56	3.77	3.9	4.06	4.16	4.16
$5.60	$5.92	$6.13	$6.39	$6.55	$6.55

PRINCIPAL RATEPAYERS

For the years ended December 31

	2012				
Ratepayer's Rate Class [(1)]	kWh	Rank	Percentage of Total kWh	Retail Sales	Percentage of Total Retail Electric Sales
Large Irrigation Customer 1	173,446,250	1	10.5%	$8,146,676	7.4%
Large Industrial Customer 1	70,575,165	2	4.3%	3,170,159	2.9%
Large Irrigation Customer 2	65,084,579	3	4.0%	3,037,538	2.7%
Large Irrigation Customer 3	42,397,693	4	2.6%	1,953,803	1.8%
Large Irrigation Customer 4	31,251,933	6	1.9%	1,515,801	1.4%
Large General Customer 1	22,071,841	5	1.3%	1,469,832	1.3%
Large Irrigation Customer 5	30,519,904	7	1.9%	1,379,582	1.2%
Large General Customer 2	21,796,532	8	1.3%	1,319,738	1.2%
Large Irrigation Customer 6	19,755,254	9	1.2%	1,148,125	1.0%
Large Irrigation Customer 7	25,774,363	10	1.6%	1,147,445	1.0%
Large Irrigation Customer 8	-	-	-	-	-
Large Irrigation Customer 9	-	-	-	-	-
	502,673,514		30.6%	$24,288,699	21.9%
Total All Ratepayers	**1,645,276,516**			**$110,799,843**	

(1) To preserve confidentiality, individual ratepayer names are not disclosed.
(2) Revenues for 2003 are estimated based on kWh consumption.

2003				
kWh	Rank	Percentage of Total kWh	Retail Sales[2]	Percentage of Total Retail Electric Sales
162,877,912	1	10.3%	$6,629,131	6.7%
58,053,805	3	3.7%	2,293,125	2.3%
70,821,929	2	4.5%	2,882,453	2.9%
25,866,687	8	1.6%	1,052,774	1.1%
22,175,528	9	1.4%	902,544	0.9%
21,279,302	5	1.3%	1,215,048	1.2%
34,659,867	6	2.2%	1,410,657	1.4%
20,248,344	7	1.3%	1,156,180	1.2%
-	-	-	-	-
-	-	-	-	-
42,820,943	4	2.7%	1,742,812	1.8%
19,103,161	10	1.2%	777,499	0.8%
477,907,478		30.2%	$20,062,223	20.2%
1,580,750,910			**$99,074,832**	

RATIOS OF OUTSTANDING DEBT

For the years ended December 31

	2012	2011[3]	2010	2009
Revenue Bonds	$59,575,000	$62,330,000	$59,165,000	$50,865,000
Unamortized Premium & Discount	4,597,935	5,134,338	452,684	597,829
Total Outstanding Revenue Debt	$64,172,935	$67,464,338	$59,617,684	$51,462,829
Total Revenue Debt to Operating Revenues	50%	50%	47%	39%
Total Revenue Debt to Total Assets	32%	33%	32%	29%
Total Revenue Debt per Ratepayer	$1,317	$1,400	$1,252	$1,093

DEBT MARGIN INFORMATION [1]

For the year ended December 31, 2012

Net Revenues January 2011 - December 2011[2]	$21,951,724
Maximum Future Annual Debt Service (2020)	$5,969,737
Maximum Allowable Annual Debt Service per Bond Covenants [2]	$17,561,379
Allowable Additional Annual Debt Service	$11,591,642

(1) As a proprietary fund, the District does not have a legal debt limitation. However, the District's bond resolutions establish restrictions on the issuance of additional debt based on a defined formula.

(2) The bond covenants state that new parity bonds may be issued if the amount of net revenue for any twelve consecutive months in the prior 24 month period divided by the maximum annual debt service in any future year is not less than 125%.

(3) With implementation of GASB 65 in 2012, bond issuance costs are expensed in the year incurred. The District restated 2011 for comparative purposes to match the financial statements. In addition, prior to 2011, the unamortized loss on defeasance is included in Total Outstanding Revenue Debt.

2008	2007	2006	2005	2004	2003
$53,395,000	$55,810,000	$59,855,000	$71,620,000	$74,830,000	$79,105,000
663,277	727,593	782,504	537,328	984,226	1,009,884
$54,058,277	$56,537,593	$60,637,504	$72,157,328	$75,814,226	$80,114,884
38%	41%	42%	51%	56%	60%
29%	33%	34%	39%	44%	47%
$1,160	$1,241	$1,352	$1,626	$1,735	$1,869

DEBT SERVICE COVERAGE

For the years ended December 31

	2012	2011	2010	2009
DEBT SERVICE CALCULATION				
Change in Net Position	$6,754,715	$7,986,232	($889,251)	$11,811,897
Adjustments to (from) Change in Net Position				
Depreciation & Amortization	11,642,052	10,769,424	9,751,161	9,367,272
Prepaid Power Amortization (1)	578,400	578,400	578,400	578,400
Interest Expense	3,001,895	2,958,273	2,683,991	2,259,809
Debt Discount/Premium Amortization & Bond Issue Costs	(459,198)	237,799	674,641	34,128
Extraordinary Item	-	-	-	-
Transfer (to) from Rate Stabilization	-	(2,369,920)	-	-
REVENUE AVAILABLE FOR DEBT SERVICE	**$21,517,864**	**$20,160,208**	**$12,798,942**	**$24,051,506**
DEBT SERVICE (2)	**$5,969,064**	**$5,002,221**	**$5,445,961**	**$5,131,680**
DEBT SERVICE COVERAGE RATIO	**3.60**	**4.03**	**2.35**	**4.69**

(1) White Creek Wind Project Prepaid Power Amortization.
(2) Reduced by capitalized interest.

2008	**2007**	**2006**	**2005**	**2004**	**2003**
$4,446,420	$4,034,758	$8,011,941	$3,132,911	$4,723,878	$1,862,300
9,369,594	10,084,084	10,156,431	9,951,985	9,270,588	8,800,473
144,600	-	-	-	-	-
2,442,913	2,533,496	3,309,699	3,389,240	3,992,266	3,887,870
40,312	21,519	553,124	209,324	113,865	245,253
-	9,755,303	-	-	-	-
-	2,244,474	-	(1,500,000)	(3,000,000)	-
$16,443,839	**$28,673,634**	**$22,031,195**	**$15,183,460**	**$15,100,597**	**$14,795,896**
$5,130,080	**$6,957,703**	**$7,407,225**	**$4,783,721**	**$7,599,395**	**$3,324,395**
3.21	**4.12**	**2.97**	**3.17**	**1.99**	**4.45**

PRINCIPAL EMPLOYERS - TRI-CITIES METROPOLITAN STATISTICAL AREA

For the years ended December 31

		2012		
Employer	**Product/Service**	**Employees**	**Rank**	**Percentage of Total MSA Nonfarm Employment**
Battelle Pacific NW National Laboratory	Research/National Laboratory	4,339	1	4.4%
Bechtel National, Inc.	Engineering Services	2,990	2	3.1%
ConAgra/Lamb Weston Inc.	Food Processing	2,498	3	2.6%
Kadlec Medical Center	Health Care	2,227	4	2.3%
Kennewick School District	Education	1,922	5	2.0%
Pasco School District	Education	1,908	6	2.0%
CH2MHill Hanford Group Inc./CHG	Environmental Engineering	1,808	7	1.8%
Mission Support Alliance	Environmental Engineering	1,694	8	1.7%
Washington River Protection Solutions	Environmental Engineering	1,385	9	1.4%
Tyson Fresh Meats/Iowa Beef	Meat Packing	1,300	10	1.3%
Fluor Hanford Inc./URS	Environmental Engineering	-	-	-
Duratek	Environmental Engineering	-	-	-
Energy Northwest	Electrical Power	-	-	-
Total		22,071		22.6%

Source: Tri-City Development Council, Richland Chamber of Commerce

	2003		
	Employees	Rank	Percentage of Total MSA Nonfarm Employment
	3,850	2	4.8%
	2,277	3	2.8%
	2,000	4	2.5%
	-	-	-
	1,676	6	2.1%
	1,218	10	1.5%
	1,554	7	1.9%
	-	-	-
	-	-	-
	1,450	8	1.8%
	4,429	1	5.5%
	1,800	5	2.2%
	1,408	9	1.7%
	21,662		26.8%

DEMOGRAPHIC STATISTICS

For the years ended December 31

	2012	2011	2010	2009
Population [(1)]				
Tri-Cities Metropolitan Statistical Area	262,500	258,400	253,340	242,000
Benton County	180,000	177,900	175,177	169,300
City of Kennewick	75,160	74,665	73,917	67,180
Prosser	5,785	5,780	5,714	5,110
Benton City	3,295	3,145	3,038	2,955
Total Personal Income - Benton County [(2)]	N/A	$7,172,962	$6,831,392	$6,446,768
Per Capita Income - Benton County [(2)]	N/A	$39,700	$38,372	$38,307
Unemployment Rate - Benton County [(3)]	9.0%	9.2%	7.1%	7.4%
Building Permits Issued [(4)]				
Kennewick	1918	2,123	2,161	1,868
Benton County (Unincorporated)	588	711	753	674
Taxable Retail Sales - All of Benton County [(5)]	N/A	$2,959,959,724	$2,731,890,939	$2,623,845,560

(1) Source: Washington State Office of Financial Management. 2010 was restated with census numbers.
(2) Source: U.S. Bureau of Economic Analysis
(3) Source: Labor Market and Economic Analysis, Washington Employment Security Department
(4) Source: City of Kennewick and Benton County Building Departments
(5) Source: Washington State Department of Revenue

2008	2007	2006	2005	2004	2003
235,700	230,300	224,800	218,600	212,100	205,200
165,500	162,900	160,600	158,100	155,100	151,600
65,860	62,520	61,770	60,410	58,970	57,900
5,075	5,075	5,045	5,045	4,985	4,940
2,855	2,860	2,840	2,840	2,815	2,790
$6,010,220	$5,683,149	$5,227,870	$5,035,032	$4,876,659	$4,664,902
$36,643	$35,644	$33,177	$32,266	$31,592	$30,572
6.5%	5.1%	5.8%	6.5%	5.8%	6.9%
1,649	1,963	1,851	1,813	1,859	1,981
562	662	753	819	945	1,018
$2,601,911,391	$2,574,398,245	$2,303,245,278	$2,226,436,260	$2,081,376,797	$2,020,400,388

OPERATING INDICATORS

For the years ended December 31

	2012	2011	2010	2009
Operating Expenses / Revenues	95.2%	93.1%	99.3%	91.8%
Total Electric Sales in MWh				
Retail Sales	1,645,277	1,648,362	1,592,802	1,726,341
Sales for Resale	687,098	929,688	693,299	667,758
Total MWh Sales	2,332,375	2,578,050	2,286,101	2,394,099
Average Annual kWh per Customer				
Residential	16,435	17,113	16,498	18,402
General Service	93,253	92,874	93,920	100,256
Industrial	23,525,055	21,803,603	18,454,887	12,969,692
Irrigation	535,005	529,085	504,513	572,747
Miscellaneous	4,423	5,150	4,528	4,509
Average Annual kWh per Customer - All Classes	33,777	34,201	33,451	36,673
Average Revenue per Customer				
Residential	$1,247	$1,225	$1,101	$1,114
General Service	5,895	5,509	5,148	4,841
Industrial	1,074,442	926,683	722,372	494,424
Irrigation	26,098	24,380	21,253	21,836
Miscellaneous	446	427	415	403
Average Revenue per Customer - All Classes	$2,175	$2,081	$1,887	$1,865
Additions to Electric Plant, excluding work-in-progress	$11,658,180	$16,575,853	$17,203,386	$10,736,615
Net Electric Utility Plant	$122,002,258	$121,789,048	$120,302,889	$115,807,257
Capitalized Payroll	$2,550,126	$2,858,449	$2,677,911	$2,363,236
Total Payroll Expense	$12,401,390	$11,637,285	$11,672,710	$11,585,291
Full Time Equivalent Employees (1)	151	152	155	159
Cooling Degree Days (2)	1,057	884	870	1,235
Heating Degree Days (2)	4,940	5,466	4,896	5,679
Annual Precipitation (inches) (2)	8.18	4.45	10.19	5.47

(1) Includes regular and temporary employees. Full time equivalents reported beginning in 2006. Average number of employees reported prior to 2006.

(2) Source: Hanford Meteorological Station
Heating degree days are indicators of household energy consumption for space heating. When the average outdoor temperature is less than 65 degrees Fahrenheit, most buildings require heat to maintain a temperature of 70 degrees inside. Similarily, when the average outdoor temperature is 65 degrees or more, most buildings require air-conditioning to maintain a temperature of 70 degrees inside.

2008	**2007**	**2006**	**2005**	**2004**	**2003**
97.0%	93.5%	93.6%	97.2%	94.7%	97.6%
1,639,856	1,607,265	1,555,710	1,602,508	1,597,054	1,580,751
818,485	771,347	845,768	563,061	723,913	819,435
2,458,341	2,378,612	2,401,478	2,165,569	2,320,967	2,400,186
17,151	16,972	16,896	16,845	17,125	16,995
98,256	99,183	103,438	106,324	107,494	106,922
15,920,098	16,348,383	12,485,305	17,761,932	23,159,528	19,351,268
553,576	561,019	516,196	553,832	514,901	543,800
4,466	4,449	4,436	4,231	4,080	3,981
35,190	35,270	34,683	36,101	36,538	36,868
$1,058	$1,126	$1,197	$1,257	$1,314	$1,302
4,767	5,374	5,934	6,216	6,295	6,100
554,015	596,832	481,482	664,988	827,817	763,762
18,934	21,986	21,718	23,866	22,352	22,158
380	412	460	462	453	442
$1,763	$1,939	$2,046	$2,183	$2,240	$2,212
$10,358,753	$15,578,938	$7,484,509	$8,296,645	$9,107,460	$10,023,480
$110,029,356	$109,916,268	$119,838,966	$118,503,253	$122,188,107	$123,699,242
$2,008,050	$1,998,843	$1,570,018	$1,806,542	$1,968,011	$2,017,656
$11,041,774	$10,583,678	$10,769,446	$10,133,591	$9,687,480	$9,321,808
156	156	162	162	160	159
991	1,070	1,166	989	1,135	1,331
5,581	5,223	5,140	5,145	4,930	4,742
5.49	5.48	8.46	6.37	7.96	8.14

2012

BENTON P·U·D