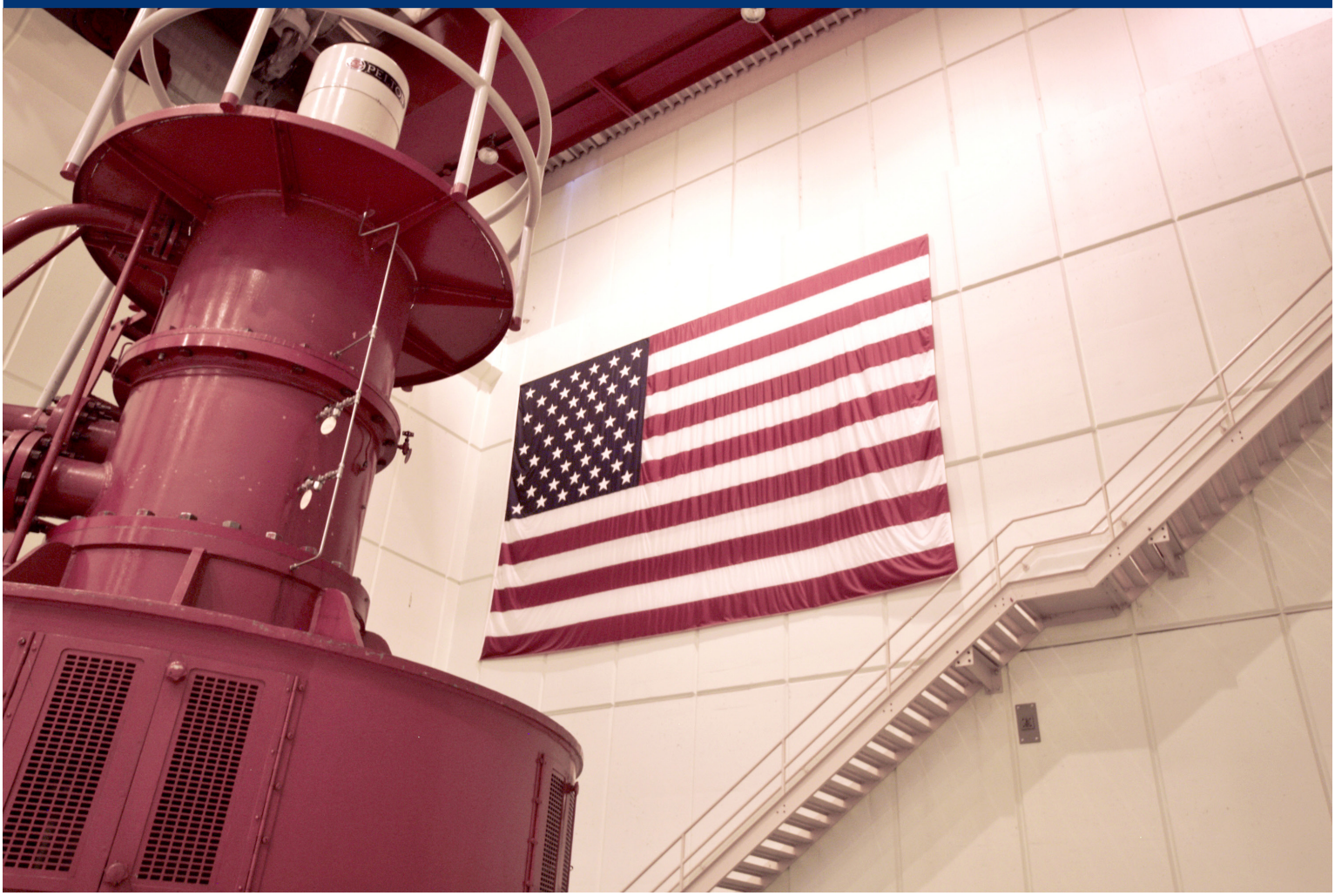
Grant County
PUBLIC UTILITY DISTRICT

2013 Annual Report

GRANT COUNTY PUBLIC UTILITY DISTRICT NO. 2



Grant County
PUBLIC UTILITY DISTRICT

2013 | Annual Report letter from the Board

As an owner and operator of Priest Rapids and Wanapum dams along the Columbia River, balance is important to us. Behind the scenes, every hour of every day, we balance the varied needs of fish passage, irrigation, recreation, cultural resource protection, wildlife habitat enhancements, flood control, and electric generation. Our mission is focused on electric generation, but this cannot be accomplished without consideration for many other interests. While the magnitude of this unseen balancing act is impressive, what's more is the fact that we make it all happen while still offering some of the most affordable retail electric rates in the nation.

In 2013, we were able to celebrate this legacy of low-cost, reliable energy with our 75th anniversary. The anniversary provided an opportunity to highlight how we are connected to those we serve as a public utility district (PUD). As a PUD, we stem from a grassroots vision of local men and women who believed reliable, affordable energy should be made available to all citizens in our rural county. This legacy of public power is something enjoyed throughout the Pacific Northwest and is celebrated every year by those who benefit from it. Through local citizens' foresight, we were able to celebrate yet another strong year at Grant PUD.

In 2013, we completed the advanced turbine replacement at Wanapum Dam which provides a direct value to customers who rely on a renewable-energy supply into the future. The installation occurred over a decade and increases both fish passage survival and electric generation. Completion of the new Columbia to Rocky Ford 230 kV line also ties directly to our mission of efficiently and reliably generating and delivering energy to our customers. This new 35-mile line provides a critical path from our hydroelectric plants to growing customer demand here in the heart of Grant County. While the project improves system reliability, it also saves customers $90 million in reduced transmission costs paid to use lines belonging to other entities over a 20-year period.

None of this capital-intensive work would be accomplished without an emphasis on maintaining a strong financial position. Our prudent financial practices were affirmed once again with an AA/Stable credit rating from Fitch and S&P, and an Aa3/Stable credit rating from Moody's. These credit ratings provide a savings to our customers in the form of reduced borrowing costs for necessary capital work.

With such a capital-intensive period in our history, it is more important than ever that we look for opportunities to add value for our customers. In 2013 we were able to do this by restructuring our debt and modifying plans for necessary rate increases into the foreseeable future. After working with our customers through a public process we were able to reduce the necessary retail rate increase to 2 percent. While raising rates can be challenging, it is important that we plan for the future while also delivering on our mission today.

The importance of a strong financial position is underscored by the fracture discovered at Wanapum Dam in early 2014. The work that staff has done over the past years has positioned us in a place where we are able to respond to this unprecedented event both operationally and financially.

We recognize that all eyes are focused on our response to the fracture at Wanapum Dam right now. It is important to maintain perspective going forward. We continue to generate and deliver renewable energy for our customers and balance all of the varied stakeholder interests. While the Wanapum spillway response is critical, so are the many other commitments that we have made. Our job is to balance the varied interests and ensure that all stakeholder needs are fulfilled. This is how we operate during standard operations and in times of crisis.

Achieving strong financial and operational results creates a foundation of success at Grant County Public Utility District and all those who depend on us. Overall, we had outstanding performance in 2013, which enables us to continue to provide safe, reliable and affordable energy.

Sincerely,

President – Terry Brewer
Vice-President – Bob Bernd
Secretary – Dale Walker
Commissioner – Tom Flint
Commissioner – Larry Schaapman

ADDRESS PO Box 878
Ephrata, WA 98823
PHONE 509 766 2505
FAX 509 754 6770
grantpud.org

Public Utility District No. 2 of Grant County, Washington
Financial Statements
December 31, 2013 and 2012

Independent Auditor's Report

To the Board of Commissioners of
Public Utility District No. 2 of
Grant County, Washington

We have audited the accompanying financial statements of Public Utility District No. 2 of Grant County, Washington (the "District"), which comprise the statements of net position as of December 31, 2013 and December 31, 2012, and the related statements of revenues and expenses and changes in net position and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 our 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, we consider internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

PricewaterhouseCoopers LLP, 805 SW Broadway, Suite 800, Portland, OR 97205
T: (971) 544 4000, F: (971) 544 4100, www.pwc.com/us

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. The financial statements as of and for the year ended December 31, 2012 have been restated for this change. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not 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 the appropriate operational, economic, or historic 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 opinions on the basic financial statements that collectively comprise the District's basic financial statements. The Supplemental Disclosures of Telecommunication Activities in Note 11 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying account and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Disclosures of Telecommunication Activities is fairly stated in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 28, 2014

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013 AND 2012

As of December 31, 2013, Public Utility District No. 2 of Grant County, Washington (the "District") comprises two operating systems: the Electric System and the Priest Rapids Project which consists of the Priest Rapids Hydroelectric Production Development ("Priest Rapids") and the Wanapum Development ("Wanapum"). The Priest Rapids Project is operated under Federal Energy Regulatory Commission ("FERC") License, Project No. 2114.

Presented below is a discussion and analysis of the financial activities for the years ended December 31, 2013, 2012, and 2011. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF DISTRICT'S FINANCIAL STATEMENTS

This annual financial report consists of a series of financial statements and reflects the self-supporting, proprietary activities of the District funded primarily by the sale of electrical power. The District reports the business-type activities in a manner similar to private business enterprises. The District's financial statements presented in this report consist of the Statements of Net Position, Statements of Revenues and Expenses and Changes in Net Position, Statements of Cash Flows, and the Notes to the Financial Statements.

The Statements of Net Position include all of the District's assets, liabilities, and net position and provide information about the nature and amounts of investments in assets and the obligations of the District.

All of the revenues and expenses of the District are accounted for in the Statements of Revenues and Expenses and Changes in Net Position. These statements measure the success of the District's operations over the year and can be used to determine whether the District has successfully recovered all of its costs through rates and other charges.

The primary purpose of the Statements of Cash Flows is to provide information about the District's cash receipts and cash disbursements during the year. These statements report cash receipts, cash payments and net changes in cash resulting from operating, financing, and investing activities.

The Notes to the Financial Statements provide additional information that is essential for a full understanding of the information provided in the three statements described above.

FINANCIAL HIGHLIGHTS

In August of 2013, the District issued $100.1 million of revenue bonds, at a net premium of $1.2 million, associated with the Priest Rapids Project to finance improvements at the Priest Rapids Project, to pay issuance costs, and to fund a debt service reserve. In September of 2013, the District issued $67.6 million of revenue refunding bonds, at a net premium of $815 thousand, associated with the Electric System to refund certain bonds previously issued, to pay issuance costs, and to fund a debt service reserve. This refunding allowed the District to restructure debt service so as to obtain a closer alignment and a more fair allocation between the costs of the electric system assets being financed and the enjoyment of the benefits derived from said assets over their useful lives. The debt

restructuring was accompanied by moderate retail electric rate increases into the foreseeable future. In May of 2012, the District issued $127.6 million of revenue and refunding bonds, at a net premium of $11.7 million, associated with the Priest Rapids Project to finance improvements at the Priest Rapids Project, to refund certain bonds previously issued, to pay issuance costs, and to fund a debt service reserve. In September of 2011, the District defeased $53 million of the Electric System 2001-H bonds. In October of 2011, the District also issued $156.1 million of revenue and refunding bonds, at a net premium of $20.8 million, associated with the Electric System to finance improvements in the Electric System, to refund certain bonds previously issued, to pay issuance costs, and to fund a debt service reserve. The District had revenue bonds outstanding of $1.15 billion as of December 31, 2013, $1.08 billion as of December 31, 2012, and $1.07 billion as of December 31, 2011. See Note 5.

The Commission implemented rate increases to retail customers in February of 2011, January of 2012, January of 2013, and January of 2014 in the amounts of 6%, 8%, 6%, and 2.0% respectively. The Commission-adopted budget and forecast has future overall rate increases of 2.0% for the foreseeable future. The largest driver of these rate increases is the rising cost to produce power at the Priest Rapids Project. Cost increases are related to the replacement of turbines and generators at the two dams as well as obligations to build parks, construct and operate fish hatcheries and protect cultural resources as required in the District's federal license.

The Priest Rapids Power Sales Contracts with 17 regional utilities extend to 2052. Each power purchaser is obligated to make payments equal to annual power costs, which include all operating expenses and debt service on the Parity Bonds and debt service coverage less any interest earnings multiplied by the percentage of output or revenue, as applicable, that the purchaser is entitled to that year. In accordance with the FERC Order in the Public Law 83-544 proceeding, the District dedicates 30% of the combined output of the Priest Rapids Project for sales based on market principles. The power purchasers are entitled to receive the net revenues from the sale of the 30% portion to the extent the District does not need the revenues to purchase power to meet the Electric System's firm loads. Since November 1, 2005, the District has been able to meet all of its forecasted firm load requirements with Priest Rapids and Wanapum generation and other benefits derived from the Priest Rapids Project.

The District is a statutory preference customer of the Bonneville Power Administration ("BPA") and, as such has priority for its power requirements over BPA's nonpreference customers consistent with the provisions of Section 5.b.1 of the Northwest Regional Power Act. In 2013, 2012, and 2011 the District purchased 1%, 1%, and 32%, respectively, of its power from BPA. The Electric System's ability to meet more of its load requirements with power from the Priest Rapids Project has significantly reduced its reliance on power from BPA. The District's previous contract with BPA expired September 30, 2011. The District executed a new contract with BPA, effective October 1, 2011, to serve only the District's loads in the Grand Coulee area, which is a small area not easily served by the Priest Rapids Project. The new contract with BPA represents roughly 1% of the District's load in the foreseeable future.

This significant reduction in power supplied by BPA to serve load does not affect the District financially. Since November of 2005, under provisions in the Priest Rapids Power Sales Contracts,

the District has been providing Priest Rapids Project generation to some of its power purchasers at a similar price and quantity as what it received from BPA. This portion of the Power Sales Contracts expired on the same date the BPA contract expired, September 30, 2011. These agreements have offset one another in both load resource and finances since 2005. The termination of these contracts has no net impact on the District. See Note 6.

In 2008, the District determined the final scope and design of a long-term capital improvement project for the Wanapum facilities. A contract was awarded January 5, 2009, to Alstom Hydro US, Inc. for approximately $150 million to upgrade all ten generators at Wanapum Dam. The on-site construction began in June of 2010 and is scheduled through May of 2019. The existing generators are currently rated at 109.26 megavolt-amperes ("MVA"). The new upgraded generators have a nameplate rating of 128.6 MVA, an increase of 17.7%.

The District completed the long-term turbine upgrade project at Wanapum Dam. In October of 2013, the tenth and final turbine and fourth generator were commissioned and began generating power. In February of 2012, the eighth turbine and second generator were completed. In December of 2012, the ninth turbine and third generator were completed. In April of 2011, the seventh turbine and the first generator were completed. As of December 31, 2013, the cost of the remaining Wanapum generators to be replaced is estimated at $90.8 million.

In an effort to increase net revenue stability by improving the predictability of wholesale revenues, the District entered into two contracts to sell a portion of the Electric System's share from the Priest Rapids Project (PRP) to Iberdrola Renewables, Inc. and Shell Energy North America. The $104.4 million Iberdrola contract for 12% of PRP output was effective December 1, 2011, and terminates November 30, 2014. The $102.4 million Shell contract for 10% of PRP output was effective July 1, 2013, and terminates June 30, 2016. These contracts are paid in 36 equal monthly installments over the life of the agreement. The District regularly monitors its exposure with Iberdrola and Shell and retains the right to call for additional assurances at any time. The District has the right to curtail delivery in the event of non-payment.

The District began construction work in late 2012 to build a 35.3 mile 230 kV transmission line that spans from the Rocky Ford Substation to the Columbia substation. This project was completed on schedule and entered service early in 2014 at a cost of approximately $38.6 million. The benefits include significant reduction of transmission costs, an improved ability to deliver power from the District's hydroelectric projects to customers, improved transmission system reliability, and allowing the District to better serve load growth in the central county area.

PRIEST RAPIDS PROJECT

The Priest Rapids Project consists of the Priest Rapids dam and the Wanapum Dam.

Priest Rapids consists of a dam and hydroelectric generating station having a nameplate rating of 955,600 kilowatts ("kW"). Priest Rapids is located on the Columbia River in Grant and Yakima Counties about 150 air miles northeast of the City of Portland, 130 air miles southeast of the City of Seattle and 18 miles downstream of Wanapum.

Wanapum consists of a dam and hydroelectric generating station having a nameplate rating of 1,111,400 kW. Wanapum is located on the Columbia River in Grant and Kittitas Counties about 160 air miles northeast of the City of Portland, 129 air miles southeast of the City of Seattle and 18 miles upstream of Priest Rapids.

During the year ended December 31, 2013, the Priest Rapids Project provided 8,945,411 megawatt hours ("MWh") of electric energy at an average cost of $16.31 per MWh. During the year ended December 31, 2012, the Priest Rapids Project provided 8,747,538 MWh of electric energy at an average cost of $15.47 per MWh. During the year ended December 31, 2011, the Priest Rapids Project provided 9,573,895 MWh of electric energy at an average cost of $14.64 per MWh.

While operating costs have remained generally consistent, the change in average costs per MWh at the Priest Rapids Project from 2011 to 2013 was driven primarily by runoff water available for generation. Runoff was 103%, 120%, and 126% of average for 2013, 2012, and 2011, respectively. The timing of the runoff and spill requirements factor into the water available for generation from year to year.

As described in Note 12, damage to the Wanapum Dam was discovered in February 2014. While this condition, and the related the corrective actions undertaken by the District, are disclosed in that footnote as a subsequent event, such circumstances had no impact on the District's financial position or results of operations for the periods covered in these financial statements.

CONDENSED COMPARATIVE FINANCIAL INFORMATION
(AMOUNTS IN THOUSANDS)

Statements of Net Position	**2013**	**2012 ***	**2011 ***
Assets			
Current	$ 266,417	$ 228,113	$ 220,464
Net utility plant	1,689,361	1,515,539	1,408,063
Noncurrent	238,845	299,213	343,607
Total assets	$ 2,194,623	$ 2,042,865	$ 1,972,134
Deferred outflows of resources	7,334	7,753	5,780
Total assets and deferred outflows of resources	$ 2,201,957	$ 2,050,618	$ 1,977,914
Liabilities			
Current	$ 150,413	$ 142,025	$ 128,352
Noncurrent	1,201,579	1,125,344	1,119,615
Total liabilities	1,351,992	1,267,369	1,247,967
Net position			
Invested in capital assets, net of related debt	530,428	522,650	522,206
Restricted	107,456	95,051	74,869
Unrestricted	212,081	165,548	132,872
Total net position	849,965	783,249	729,947
Total liabilities and net position	$ 2,201,957	$ 2,050,618	$ 1,977,914
Revenues and Expenses and Changes in Net Position			
Operating revenues	$ 290,427	$ 263,252	$ 293,065
Operating expenses	201,509	176,267	204,608
Net operating income	88,918	86,985	88,457
Other revenues (expenses)	(34,168)	(37,531)	(39,350)
Contributions in aid of construction	11,966	3,848	8,660
Change in net position	$ 66,716	$ 53,302	$ 57,767

* The District's 2012 and 2011 Statements of Net Position and Statements of Revenues and Expenses and Changes in Net Position were updated for the impacts of the required retroactive implementation of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," which became effective for the District in 2013. See Note 1 for a summary of this change in accounting principle.

FINANCIAL ANALYSIS

The following discussion provides comparative financial information for the years ended December 31, 2013, 2012, and 2011. The years 2012 and 2011 have been restated to reflect changes in accounting principles per GASB 65.

ASSETS

Current assets from 2011 to 2013 have fluctuated 21%. Materials, supplies and receivables have remained consistent. The majority of the increase is due to increases in cash and investments reflective of favorable operating results.

Net plant increased 8% from 2011 to 2012 and 11% from 2012 to 2013. These increases reflect the substantial investment in plant in the Electric System, the continued investments in the turbines and generators at Wanapum, and other capital improvements in both systems.

Noncurrent assets have decreased 30% between 2011 and 2013. The ebbs and flows of the non-current assets balance are driven primarily by unspent bond proceeds. Since these proceeds are reserved for construction of plant assets, the timing of bond issues and the subsequent transition to net plant affects the balance from year to year.

Deferred outflows represent the unamortized loss on refunding of debt. These balances have increased from 2011 to 2013 by 27% as a result of several refunding of debt transactions executed during this period.

LIABILITIES

The District had approximately $1.15 billion in bonded debt as of year ended December 31, 2013, and $1.1 billion for years ended December 31, 2012, and 2011, all of which is at fixed rates. In August of 2013, the District issued bonds to finance capital improvements for the Priest Rapids Project. The total par value of the bond offering was $100.1 million. The bonds were issued at fixed interest rates at an initial offering premium of $1.2 million. In September of 2013, the District issued $67.6 million in Electric System revenue refunding bonds to retire $56.8 million of 2011-I revenue and refunding bonds. The 2013 Electric System bonds were issued at fixed interest rates at a net original issue premium of $815 thousand. This refunding allowed the District to restructure debt service to moderate retail electric rate increases in the foreseeable future. In May of 2012, the District issued bonds to finance capital improvements for the Priest Rapids Project. The total par value of the bond offering was $127.6 million, of which $94.1 million was used to refund prior bond issues. The 2012 bonds were issued at fixed interest rates at a net original issue premium of $11.7 million. The 2012 Priest Rapids Project issue was an opportunity for the District to issue the $42.4 million remaining of its Clean Renewable Energy Bond allocation. The bonds have a 70% refund from the Federal Government on interest payments made. In October of 2011, the District issued $156.1 million in Electric System revenue and refunding bonds. The 2011 bonds were issued at an All-In True Interest Cost of 2.55%. The District used a portion of the bond proceeds to retire $62.8

million of 2001-H revenue and refunding bonds. The Electric System also used cash reserves in 2011 to defease $53 million of the 2001-H bond issue.

In August of 2013, Standard and Poor's raised its long-term rating and underlying rating to AA/stable from AA-/stable for the Electric System, Priest Rapids, Wanapum and the Priest Rapids Project System's bonds. The previous rating had been in effect since March of 2010. The rational for the raise included very strong operations, strong availability, extremely low production costs, and improved liquidity for the Priest Rapids Project and the Electric System's benefit from increasing industrial loads, willingness to increase rates, an extremely low-cost power supply, lack of additional debt needs, and strong financial and risk management practices. In August of 2013, Fitch Ratings reaffirmed their AA/stable rating which has been in effect since 2005 on all District bonds based on low-cost power, ample generation capacity, and favorable risk-management practices and cash reserves to manage volatility. In the same month, Moody's reaffirmed their Aa3/stable rating which has been in effect since 2010 on all District bonds citing competitive hydro generation, low retail rates, strong liquidity, and forecasted financial performance.

NET POSITION

Net position increased by $66.7 million, $53.3 million and $57.7 million in 2013, 2012, and 2011 respectively. This is reflective of ample generation and surplus power sales due largely to above average river flows of 103% of average for 2013, 120% for 2012, and 126% for 2011.

STATEMENT OF REVENUES AND EXPENSES

The Sales to power purchasers at cost is directly tied to power costs (operating expenses – noncash items + debt service – interest earnings). Additional expenses related to compliance with the license and other fish and operational costs have added to the revenues required to cover the cost of production.

The Retail energy sales and Sales to other utilities revenues, on the other hand, are reflective of the individual ebbs and flows of the economy through power consumption and market forces on wholesale power prices. In 2012, revenues decreased $29.8 million due primarily to the expiration of the BPA block contract in 2011 previously described, which had the effect of reducing wholesale revenues, and power costs, by approximately $30 million. The increase in operating revenues from 2012 to 2013 is primarily due to the retail rate increase and the $20 million increase in Sales to other utilities, much of which is attributed to the slice sale to Shell Energy which was in place for the last six months of 2013. The expiration of the BPA block contract as of September 30, 2011, resulted in a decrease of Purchased power expense of $29.5 million from 2011 to 2012. Operating expenses increased from 2012 to 2013 by $25 million. $12 million of this increase is related to Purchased Power. This increase was expected and generally relates to covering the slice sales related to Shell Energy and Iberdrola which help to reduce water risk and price exposure for the District. Other operating expense increases included distribution, administrative and general, license compliance, depreciation and amortization, and taxes ranging from 5% to 15% increase from 2012.

Other revenues (expenses) remained flat from 2011 to 2013.

Contributions in aid of construction ("CIAC's") for 2011 and 2013 were $8.7 million and $12.0 million, respectively, with SGL Automotive and Microsoft making up the majority of the contributions. CIAC's of $3.8 million for 2012 are more reflective of normal expansion of the Electric System.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to provide the District's customers, bondholders, creditors and other interested parties with a general overview of the District's finances. If you have questions about this report or need additional information, contact the District's Chief Financial Officer at the Public Utility District No. 2 of Grant County, P.O. Box 878, Ephrata, Washington, 98823.

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012
(AMOUNTS IN THOUSANDS)

ASSETS	2013	2012 (Restated)
CURRENT ASSETS		
Cash	$ 15,227	$ 5,524
Investments	146,766	101,724
Restricted funds		
Cash	8,450	9,014
Investments	56,941	69,494
Customer accounts receivable, net of allowance for uncollectible accounts	18,431	21,144
Materials and supplies	18,880	19,216
Other current assets	1,722	1,997
Total current assets	266,417	228,113
NONCURRENT ASSETS		
Investments	56,228	35,885
Restricted funds		
Cash	9,353	10,645
Investments	168,627	246,785
Conservation loans	722	791
Demand-side management	2,563	3,604
Preliminary expenses	1,352	1,503
Total other noncurrent assets	238,845	299,213
Utility plant, net of accumulated depreciation and amortization	1,689,361	1,515,539
Total noncurrent assets	1,928,206	1,814,752
TOTAL ASSETS	2,194,623	2,042,865
DEFERRED OUTFLOWS OF RESOURCES	7,334	7,753
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 2,201,957	$ 2,050,618

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012
(AMOUNTS IN THOUSANDS)

LIABILITIES AND NET POSITION	2013	2012 (Restated)
CURRENT LIABILITIES		
Accounts payable		
Trade	$ 30,654	$ 35,881
Wages payable	12,509	12,077
Power purchasers	845	3,377
Accrued taxes	5,627	5,351
Customer deposits	11,521	3,794
Accrued bond interest	27,770	27,457
Unearned revenue	11	107
Habitat liability	12,417	11,430
Other current liabilities	10,324	40
Current portion of licensing obligations	3,445	3,646
Current portion of long-term debt	35,290	38,865
Total current liabilities	150,413	142,025
NONCURRENT LIABILITIES		
Accrued other postemployment benefits	1,472	1,240
Long-term unearned revenue	1,286	1,393
Licensing obligations, less current portion	54,350	46,550
Revenue bonds, less current portion	1,117,450	1,041,810
Unamortized (discount) premium, net	27,021	34,351
Total noncurrent liabilities	1,201,579	1,125,344
Total liabilities	1,351,992	1,267,369
NET POSITION		
Invested in capital assets, net of related debt	530,428	522,650
Restricted	107,456	95,051
Unrestricted	212,081	165,548
Total net position	849,965	783,249
TOTAL LIABILITIES AND NET POSITION	$ 2,201,957	$ 2,050,618

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(AMOUNTS IN THOUSANDS)

	2013	2012 (Restated)
OPERATING REVENUES		
Sales to power purchasers at cost	$ 55,641	$ 52,353
Retail energy sales		
Residential	39,491	35,898
Irrigation	20,873	19,501
Commercial and industrial	88,107	87,492
Governmental and others	1,033	1,019
Sales to other utilities	79,363	61,782
Wholesale fiber optic network sales	4,404	3,833
Other	1,515	1,374
Total operating revenues	290,427	263,252
OPERATING EXPENSES		
Purchased power	30,634	17,395
Generation	23,384	23,923
Transmission	7,924	8,449
Distribution	15,272	13,420
Customer and information services	7,318	6,804
Wholesale fiber optic network operations	1,470	1,290
Administrative and general	30,591	26,584
License compliance and related agreements	20,711	18,276
Depreciation and amortization	50,474	47,857
Taxes	13,731	12,269
Total operating expenses	201,509	176,267
NET OPERATING INCOME	88,918	86,985
OTHER REVENUES (EXPENSES)		
Interest and other income	(236)	3,477
Interest on revenue bonds and other, net of capitalized interest	(43,796)	(51,364)
Federal rebates on revenue bonds	7,712	7,809
Amortization of debt discount/premium and cost of debt issuance	2,152	2,547
Total other revenues (expenses)	(34,168)	(37,531)
CONTRIBUTIONS IN AID OF CONSTRUCTION	11,966	3,848
CHANGE IN NET POSITION	$ 66,716	$ 53,302
NET POSITION		
Beginning of year	783,249	729,947
End of year	$ 849,965	$ 783,249

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(AMOUNTS IN THOUSANDS)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retail energy sales	$ 148,135	$ 141,818
Cash received from sales to power purchasers at cost	51,091	52,360
Cash received from sales to other utilities	83,471	62,204
Other cash receipts	5,605	5,190
Cash paid for customer deposits	7,654	844
Cash paid for purchase of power	(24,725)	(20,225)
Cash paid to contractors, suppliers, and employees	(97,911)	(96,897)
Taxes paid	(13,457)	(11,848)
Net cash provided by operating activities	159,863	133,446
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on revenue bonds	(38,855)	(31,520)
Interest paid on revenue bonds	(43,482)	(49,251)
Federal interest rebates	7,712	7,809
Bond proceeds	169,685	139,361
Payment on refunded debt	(62,107)	(92,448)
Bond issuance cost	(1,417)	(976)
Cash received from contributions in aid of construction	22,344	2,548
Licensing obligation payments	(3,564)	(3,407)
Acquisition and construction of plant assets	(228,067)	(146,327)
Proceeds on sale of plant assets	579	249
Miscellaneous nonoperating income	466	847
Net cash used in capital and related financing activities	(176,706)	(173,115)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(471,871)	(453,286)
Sale proceeds of investment securities	448,593	498,067
Investment income proceeds	1,900	2,525
Net repurchase agreement	45,999	-
Cash paid for conservation loans	69	(78)
Net cash provided by investing activities	24,690	47,228
NET INCREASE IN CASH	$ 7,847	$ 7,559

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(AMOUNTS IN THOUSANDS)

	2013	2012
CASH AT END OF YEAR	$ 33,030	$ 25,183
CASH AT BEGINNING OF YEAR	25,183	17,624
NET INCREASE IN CASH	$ 7,847	$ 7,559
OPERATING ACTIVITIES		
Net operating income	$ 88,918	$ 86,985
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	50,474	47,857
Accretion expense	2,475	2,544
Earned revenue from deposits	(107)	(107)
Provision for uncollectible accounts	(79)	(4)
Cash provided by (used in) changes in operating assets and liabilities:		
Change in Habitat funds held in trust	800	1,458
Customer accounts receivable	2,601	(1,803)
Materials and supplies	336	603
Other current assets	275	(398)
Trade and wages payables	5,620	(5,117)
Payable to power purchasers, net	356	7
Accrued taxes	275	432
Customer deposits	7,687	816
Accrued other postemployment benefits	232	173
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 159,863	$ 133,446

Supplemental Disclosure (Amounts In Thousands)	2013	2012
Change in construction costs included in accounts payable	$ 6,457	$ (6,257)

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

1. ORGANIZATION AND ACCOUNTING POLICIES

Public Utility District No. 2 of Grant County, Washington (the "District") is composed of two operating systems: the Electric System and the Priest Rapids Project. The Priest Rapids Project is operated under Federal Energy Regulatory Commission ("FERC") License, Project No. 2114. The District also maintains a Service System to provide administrative services to the operating systems. Internal transactions, including revenues and expenses between the District's reporting segments and the Service System, have been eliminated in the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America. The District is required by its financing arrangements to maintain separate accounts and to report separately on each operating system. See Note 13. The financing arrangements require maintenance of certain funds and application of accounting procedures prescribed by the State of Washington, which generally conform to those prescribed by FERC and accounting principles generally accepted in the United States of America. The accompanying financial statements are those of the District, which generates, transmits and distributes electric energy and wholesale fiber optic network services within Grant County, Washington.

The District maintains its accounts in accordance with accounting principles generally accepted in the United States of America for proprietary funds as prescribed by the Governmental Accounting Standards Board ("GASB"). The District's accounting records generally follow the Uniform System of Accounts for public utilities and licensees prescribed by FERC except as it relates to the accounting for contributions in aid of construction ("CIAC"). FERC prescribes for CIAC proceeds to be recorded as a reduction to plant.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for the District for the year ending December 31, 2012. The District implemented GASB No. 62 for the year ended December 31, 2012, and the implementation did not have a material impact on the District's financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the District the year ended December 31, 2012. This Statement modifies the presentation of deferred inflows and deferred outflows in the financial statements and changes the labeling of "net assets", as previously presented, to "net position". Implementation of Statement No. 63 had no effect on the District's net position or changes in net position for the year ending December 31, 2013 and 2012, respectively.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The primary objective of Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to

project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. This Statement will require the District to account for its proportional share of multi-employer plans, including the State pension fund. Note disclosure and required supplementary information about pensions are also addressed. Statement No. 68 is effective for the District beginning in fiscal year 2015. The District is currently evaluating the financial statement impact of adopting this statement.

Change in Accounting Principle – In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes 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. GASB Statement No. 65 no longer allows debt issuance costs to be classified as an asset and requires that they be expensed in the year incurred. Losses on refunding debt have been reclassified as deferred outflows of resources and restated to reflect the exclusion of bond issuance costs that are now expensed in the period incurred. The requirements of Statement No. 65 are effective for the District for the year ending December 31, 2013. The implementation of GASB 65 resulted in a reduction to previously reported Net Position of approximately $9.3 million as of January 1, 2012 and to the following balances as of December 31, 2012 and for the year then ended:

	December 31,	
	2012 (Restated)	**2012 (Previous)**
	(thousands of dollars)	
STATEMENTS OF NET POSITION		
NONCURRENT ASSETS		
Total other noncurrent assets	$ 299,213	$ 306,926
DEFERRED OUTFLOWS		
Unamortized refunding loss	7,753	-
NONCURRENT LIABILITIES		
Total noncurrent liabilities	1,125,344	1,116,159
NET POSITION		
Invested in capital assets, net of related debt	522,650	531,794
STATEMENTS OF REVENUES AND EXPENSES AND CHANGE IN NET POSITION		
OTHER REVENUES (EXPENSES)		
Total other revenues (expenses)	(37,531)	(37,677)

Revenue Recognition – The District recognizes revenues associated with power sales to its retail and wholesale customers when delivered, which includes an estimate of revenue earned but not billed to customers as of year-end.

Revenues associated with power sales from the Priest Rapids Project under the Power Sales Contracts described in Note 6 are recorded on a cost-based formula specified in the contracts which include operation and maintenance costs, 115% of debt service and adjustments related to other factors. Depreciation, amortization, charges paid by the Renewal, Replacement and Contingency Fund, and Construction Funds are not considered costs of producing and delivering power for this purpose.

Allowance for Uncollectible Accounts – Management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts due from specific customers for which collection is in question. Such estimates are developed based on historical experience. For 2013 and 2012, the allowance for uncollectible accounts was $245,000 and $324,000, respectively.

Contributions in Aid of Construction – A portion of the District's utility plant is financed through contributions from customers in accordance with the District's line extension policy. Additionally, a portion of utility plant may be financed through contributions from other sources, such as other governmental organizations. The District recognizes capital contributions from these sources as non-operating revenue at the point at which it becomes nonrefundable. The District recognized $12.0 million and $3.8 million of contributions in aid of construction for the years ended December 31, 2013 and 2012, respectively.

Capitalized Interest – Interest costs incurred to finance major construction projects are capitalized as part of the cost of the project. The composite interest rate for calculating capitalized interest was 4.23% and 3.32% for 2013 and 2012, respectively. Interest capitalized during 2013 and 2012 was $10.4 million and $2.2 million, respectively.

Utility Plant – Utility plant assets are recorded at cost including an allocation of internal payroll and other administrative and general costs associated with construction of the assets. Depreciation is determined by the straight-line method over the estimated life of the asset. The District's asset lives used for computing depreciation range from five to 100 years, with a composite rate of 2.31% and 2.33% for 2013 and 2012, respectively. When utility plant assets are retired, their original cost, together with removal costs, less salvage, are charged to accumulated depreciation. The District does not collect costs of disposal through rates. Such costs are charged to accumulated depreciation.

The costs of maintenance and repairs are charged to operations as incurred. Renewals, replacements, and betterments are capitalized. The District assesses its assets for obsolescence and possible impairment on a periodic basis. Once an asset has been identified as impaired and selected for liquidation, it is written down to its net realizable value, based on fair market value less settlement costs and the associated impairment loss is charged to operations.

Energy Conservation and Demand-Side Management ("DSM") Programs – The District's expenditures for regional conservation programs and other DSM programs which benefit future periods by reducing energy supply requirements have historically been capitalized and amortized over the expected useful lives of the programs. During 2009, the District began expensing DSM costs as Customer information and services expense. The balances accumulated prior to the change in accounting are being amortized over the original useful lives of the programs.

Cash –The District classifies only amounts held in demand deposit accounts as cash.

Investments – Investments with maturities of more than twelve months are presented at fair value. Fair values are based on quoted market prices for those investments. All other investments are presented at amortized cost in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* on the basis that their amortized cost approximates fair value for these instruments of shorter maturity. Discounts and premiums on investments are amortized as adjustments to interest income over the remaining term of the investments using the constant yield method.

Short-term investments are defined as investments with a maturity of less than one year. The purchase and maturity of investment instruments are reported on a gross basis in the Statements of Cash Flows, with the exception of repurchase agreements, which are reported on a net basis.

Changes in unrealized gains and losses on investments with maturities held for more than one year and realized gains and losses during the current year are included in Interest and other income on the Statements of Revenues and Expenses and Change in Net Position.

Materials and Supplies – Materials and supplies consist of hydroelectric generation, transmission, and distribution assets as well as fiber optic cable and fiber-related supplies. All inventory amounts are recorded at average cost.

Due from (to) Power Purchasers – This balance represents actual power costs in excess (deficit) of estimated power costs received by the Priest Rapids Project from power purchasers to be collected from, or due to, the power purchasers.

Debt Discounts Premiums, and Issuance Costs – Debt discounts and premiums relating to the sale of bonds are amortized over the lives of the related bonds using the constant yield method. Debt issuance costs are recognized in the period incurred.

Refunds of Debt – The gain or loss on refunding of debt is amortized over the remaining life of the refunded or newly issued bond, whichever is shorter. If debt is extinguished using the District's own resources, any resulting gain or loss is recognized during the current period.

Unearned Revenue – Contributions in aid of construction that are refundable are recorded as unearned revenue. Additionally, the District has two long-term exchange contracts under

which the District received collective prepayments of $2 million that are being amortized into revenue on a straight-line basis over the life of these agreements.

Revenue Taxes – Utility revenue-based taxes assessed by governmental entities are accounted for as a separate cost collected from customers for remittance to those governmental entities. Therefore, revenue taxes paid to the taxing authorities are accounted for as an operating expense on the Statements of Revenues and Expenses and Changes in Net Position. Taxes collected from customers on behalf of other governmental entities are included in Retail energy sales in the Statements of Revenues and Expenses and Changes in Net Position.

Net Position – The District classifies its net position into three components – Invested in capital assets, net of related debt; Restricted; and Unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses, and related unspent project and debt service funds.

- *Restricted* – This component of net position consists of assets with constraints placed on their use. Constraints include those imposed by debt trust indentures, grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.

- *Unrestricted* – This component of net position consists of net assets and liabilities that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Significant Risk and Uncertainties – The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include weather and natural-disaster-related disruptions, collective bargaining labor disputes, fish and other Endangered Species Act ("ESA") issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of hydroelectric facilities, and the deregulation of the electrical utility industry.

With regard to liability risk, the District has elected self-insurance for general and auto liability up to $500,000 per incident. The District has historically had minimal liability claims activity, and estimated claims incurred but not reported are not significant as of December 31, 2013. The District is involved in litigation with results that are uncertain but the risk to the District at this time is considered immaterial.

Personal Leave Benefit – Employees of the District accrue a personal leave benefit based upon a years of service schedule. Personal leave may be used for vacation, sick leave, or other employee absences. The District records personal leave as an expense and a liability as

earned. Unused personal leave may be accumulated up to a maximum of 1,200 hours for employees who began service prior to April 1, 2011. For employees hired on or after April 1, 2011, the maximum amount of accrued personal leave is 700 hours.

Use of Estimates – The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The District has used significant estimates in determination of unbilled revenue, Licensing obligations, allowance for uncollectible accounts, Accrued other postemployment benefits, and depreciable lives of utility plant.

Energy Risk Management – The District's power marketing activities are restricted to meeting the District load requirements in excess of expected generation from the Priest Rapids Project and selling power excess to the District's needs at the best available price. To mitigate risk associated with power marketing activities, the District established the Risk Oversight Committee and adopted the Energy Risk Management Policies and Procedures to provide greater ongoing monitoring and review of power transactions. The Energy Risk Management Policy and Procedures outlines the parameters for transactions, trader and counterparty exposure, and serves as a formal communication to all District employees performing power marketing functions. The District believes that the Energy Risk Management Policy and Procedures, coupled with the Risk Oversight Committee, limits the risk of any substantial financial loss resulting from the District's power supply management activities.

2. CASH AND INVESTMENTS

The District's cash deposits at December 31, 2013 and 2012, were either entirely covered by federal depository insurance or protected against loss by being on deposit with financial institutions recognized as qualified public depositories of the State of Washington under the Revised Code of Washington ("RCW") Chapter 39. Subject to specific bond resolution limitations, management is permitted to invest as provided under the laws of the State of Washington.

Unspent cash, and associated investments, received in connection with bond offerings are maintained in funds as required by the District's bond indentures. Restricted assets represent funds that are restricted by bond covenants or third party contractual agreements. Funds that are allocated by Commission resolution are considered to be board-designated funds. Board designated funds are a component of unrestricted assets as their use may be redirected at any time by Commission approval.

As of December 31, the District's unrestricted, board designated and restricted assets included on the Statement of Net Position as Cash and Investments, including accrued interest, consisted of the following:

(amounts in thousands)	2013	2012
Unrestricted assets:		
Unrestricted funds:		
Revenue and Service System funds	$ 97,009	$ 69,953
Board designated funds:		
Electric System Reserve and Contingency fund	120,111	72,070
Self-Insurance Reserve fund	1,101	1,110
Total board designated funds	121,212	73,180
Total unrestricted funds	218,221	143,133
Restricted:		
Construction funds	70,822	176,966
Bond Sinking funds	58,028	55,675
Debt Service Reserve funds	47,897	37,649
Bond Interest funds	27,791	27,479
Renewal, Replacement and Contingency fund	24,626	24,317
Habitat funds	12,496	12,138
Quincy Chute Renewal and Replacement fund	1,711	1,714
Total restricted funds	243,371	335,938
Total	$ 461,592	$ 479,071

Interest Rate Risk – The District has adopted a formal investment policy and an investment oversight committee which monitors its investment position limitations as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The District has adopted a formal investment policy that specifies minimal credit rating acceptability criteria of potential investment issuers as well as both a wholesale and retail electric power customer credit risk management program as a means of managing the District's exposure to credit risk.

Concentration of Credit Risk – The District's adopted investment policy states that no more than thirty percent (30%) of the total portfolio par value will be invested in a single security

type, with the exception of direct US Government obligations, repurchase agreements collateralized by the same, and the state investment pool. Credit concentration of the District's investment portfolio is actively monitored by the investment oversight committee as required by the District's adopted investment policy.

The District's investments at December 31, 2013 and 2012, as identified on the Statements of Net Position, are shown below by investment type. All investments are either issued or registered in the name of the District or are held by the District or by the District's agent in the District's name. The difference between the totals shown in the previous table and table below is accrued interest of $1.4 million for 2013 and 2012.

During 2013 and 2012, the District realized $2.0 million and $1.8 million of interest earnings and realized gains from investments, respectively. The unrealized gain on investments held at December 31, 2013 and 2012, was $2.8 million and $341 thousand, respectively.

Investments are made in investment types authorized by the RCW. The types are 1) Obligations of the U.S. Government and its agencies, 2) Repurchase agreements collateralized by U.S. Government obligations, 3) Money market funds that have holdings of or are backed by U.S. Government obligations and 4) Municipal bonds. Investments by type at December were as follows:

(amounts in thousands)	**2013**	**2012**
U.S. agencies	$ 162,470	$ 165,854
U.S. treasuries	175,447	164,871
Money market funds	55,467	56,008
Repurchase agreements	6,000	52,000
Municipal bonds	27,815	13,752
Total investments	427,199	452,485
Cash	33,030	25,183
Total cash and investments	$ 460,229	$ 477,668

The District places a limit of no more than thirty percent (30%) on the amounts invested in any one issuer for federal agency securities. The investment oversight committee actively monitors portfolio composition and seeks to ensure prudent diversification is maintained. The following are the concentrations of risk greater than 5%, in either year. The credit ratings listed are from Standard and Poor's as of December 31, 2013. TSY refers to U.S. Treasury securities and N/R means not rated.

	Credit Rating	2013	2012
U.S. treasuries	TSY	38%	37%
FNMA Discount Notes	AA+	8%	15%
Federal Home Loan Mortgage Corp.	n/a	7%	less than 5%
Money market funds	N/R	13%	12%
Repurchase agreements	N/R	less than 5%	12%
Federal Home Loan Bank	AA+	13%	13%
Federal Farm Credit	AA+	11%	6%

3. UTILITY PLANT

Utility plant of the District as of December 31, 2013, is summarized as follows:

(amounts in thousands)	Balance 2012	Additions	Retirements/ Transfers	Balance 2013
Distribution facilities	$ 441,068	$ 21,258	$ (281)	$ 462,045
Transmission facilities	162,114	8,101	-	170,215
Hydro facilities				
Power plant structures	57,208	3,932	-	61,140
Reservoirs, dams, waterways	411,469	527	(1,744)	410,252
Power plant equipment	464,031	47,257	(2,509)	508,779
General facilities				
Quincy Chute (Note 6)	17,771	-	-	17,771
Potholes East Canal (Note 6)	16,450	-	-	16,450
Other generation	30	-	-	30
General plant	297,766	10,430	-	308,196
FERC License	110,646	8,689		119,335
Other intangible assets	5,667	13,841	-	19,508
Total	1,984,220	114,035	(4,534)	2,093,721
Accumulated depreciation and amortization	(715,183)	(50,537)	2,056	(763,664)
Subtotal	1,269,037	63,498	(2,478)	1,330,057
Land and land rights	24,577	-	41	24,618
Construction in progress	221,925	214,177	(101,416)	334,686
Total net utility plant	$ 1,515,539	$ 277,675	$ (103,853)	$ 1,689,361

(amounts in thousands)	Balance 2011	Additions	Retirements/ Transfers	Balance 2012
Distribution facilities	$ 409,589	$ 32,122	$ (643)	$ 441,068
Transmission facilities	155,797	6,317	-	162,114
Hydro facilities				
Power plant structures	49,993	7,215	-	57,208
Reservoirs, dams, waterways	408,420	3,049	-	411,469
Power plant equipment	399,539	68,043	(3,551)	464,031
General facilities				
Quincy Chute (Note 6)	17,771	-	-	17,771
Potholes East Canal (Note 6)	16,450	-	-	16,450
Other generation	30	-	-	30
General plant	260,728	37,038	-	297,766
FERC License	110,646	-	-	110,646
Other intangible assets	2,094	3,573	-	5,667
Total	1,831,057	157,357	(4,194)	1,984,220
Accumulated depreciation and amortization	(670,942)	(48,435)	4,194	(715,183)
Subtotal	1,160,115	108,922	-	1,269,037
Land and land rights	24,577	-	-	24,577
Construction in progress	223,371	151,995	(153,441)	221,925
Total net utility plant	$ 1,408,063	$ 260,917	$ (153,441)	$ 1,515,539

4. LICENSING

The Priest Rapids Project is operated under a 44-year FERC license that expires in 2052.

Costs associated with the relicensing efforts, totaling $57.1 million, were recorded as an intangible asset included in Utility plant and are being amortized over the term of the license.

Under the license, the District is committed to numerous obligations related to fish and habitat protection which require payments to other organizations using funds provided by the District. The present value of these obligations totaled $57.8 million as of December 31, 2013, of which approximately $3.4 million is expected to be paid within one year. The present value of the obligations was $50.2 million as of December 31, 2012. These amounts are included in the FERC license balance and are reflected as liabilities in the statement of net position. The elements of these obligating payments, comprising the Salmon and Steelhead Agreement, Part A (Hatchery Renovation) and Part B (Resident Fish Monitoring and Trout Purchase), are further discussed in Note 7.

5. REVENUE BONDS

In August of 2013, the District issued $100.1 million of revenue bonds associated with the Priest Rapids Project. The bonds were issued at fixed interest rates at an initial offering premium of $1.2 million. The bonds were issued to finance improvements at the Priest Rapids Project, to pay issuance costs, and to fund a debt service reserve.

In September of 2013, the District issued $67.6 million in Electric System revenue refunding bonds to retire $56.8 million of 2011-I revenue and refunding bonds. The 2013 Electric System bonds were issued at fixed interest rates at a net original issue premium of $815 thousand. The District realized a $1.3 million refunding loss associated with unamortized discounts/premiums. In May of 2012, the District issued $127.6 million of revenue and refunding bonds, at a net premium of $11.7 million, associated with the Priest Rapids Project to finance improvements at the Priest Rapids Project, to refund certain bonds previously issued, to pay issuance costs, and to fund a debt service reserve. The refunded portion of $88.6 million will yield a net present value savings of $9.5 million. The District realized a $5.4 million refunding loss associated with unamortized discounts/premiums, and bond issuance costs on this transaction.

All the outstanding issues, which are on parity with each other, are fixed rate obligations secured by a pledge of the net revenues of the District. See Note 13.

The District's outstanding revenue bonds as of December 31 were as follows:

(amounts in thousands)	2013	2012
Electric System, interest rates of 3.0% to 5.0%, maturing through 2023	$ 151,340	$ 151,735
Priest Rapids Project, interest rates of .55% to 5.83%, maturing through 2043	1,001,400	928,940
Total revenue bonds outstanding	$ 1,152,740	$ 1,080,675

Scheduled debt service requirements for the District's bonds are as follows:

(amounts in thousands)	Principal	Interest	Total
2014	$ 35,290	$ 56,288	$ 91,578
2015	29,000	56,401	85,401
2016	29,330	55,091	84,421
2017	30,650	53,701	84,351
2018	30,275	52,245	82,520
2019 - 2023	217,630	230,671	448,301
2024 - 2028	229,600	179,789	409,389
2029 - 2033	228,785	116,172	344,957
2034 - 2038	188,700	60,794	249,494
2039 - 2043	133,480	14,690	148,170
Total	$ 1,152,740	$ 875,842	$ 2,028,582

For the years ending December 31, 2013 and 2012, the District is in compliance with all debt covenants related to the outstanding bonds, which includes a minimum debt service coverage of 1.15x and 1.25x for the Priest Rapids Project bonds and Electric System bonds, respectively.

During the years ended December 31, the following changes occurred in the District's long-term debt:

(amounts in thousands)	Balance 2012	Additions	Reductions	Balance 2013	Due Within One Year
Revenue bonds payable	$ 1,080,675	$ 167,695	$ (95,630)	$ 1,152,740	$ 35,290
Unamortized premiums and discounts, net	34,351	1,990	(9,320)	27,021	-
Total	$ 1,115,026	$ 169,685	$ (104,950)	$ 1,179,761	$ 35,290

(amounts in thousands)	Balance 2011	Additions	Reductions	Balance 2012	Due Within One Year
Revenue bonds payable	$ 1,073,130	$ 127,620	$ (120,075)	$ 1,080,675	$ 38,865
Unamortized premiums and discounts, net	28,053	11,741	(5,443)	34,351	-
Total	$ 1,101,183	$ 139,361	$ (125,518)	$ 1,115,026	$ 38,865

6. POWER PURCHASER COMMITMENTS

Priest Rapids Project

Under the Priest Rapids Power Sales Contracts, the amount of net power costs incurred by the District in serving its load changes on an annual basis in relation to its firm power requirements. For 2013 and 2012, the District incurred 61% of Priest Rapids Project power costs with power purchasers funding 39%. Each purchaser is obligated to pay its share of the cost (excluding depreciation and amortization) of producing and delivering power, plus 115% of its share of the amounts required for debt service payments.

BPA

The District is a statutory preference customer of BPA. The District signed a BPA preference contract during 2008 to serve its Grand Coulee load of approximately 5 aMW that expires September 30, 2028. The District has purchased, from BPA, the transmission required to deliver the power associated with this load through September 30, 2028. In 2009, the District entered into a five-year agreement for 150 MW of Long-Term Firm (LTF) power with a

security deposit of $2.3 million for transmission services commencing January 1, 2011. The $2.3 million deposit was reimbursed to the District during the first year of the contract. Rollover rights are included as part of this agreement. In 2010, the District exercised rollover rights associated with 12 MW of transmission for the delivery of power from the Nine Canyon Wind Project in order to extend the term of the reservation to October 1, 2030. In 2011, the District entered into a 2-year contract with BPA for 250 MW of transmission that expired on September 30, 2013. The District does not anticipate replacing this transmission long- term and plans to rely on the new 230 kV line which was completed in early 2014.

District management estimates the District's minimum commitments to BPA for the next five years are as follows:

Estimated BPA Contractual Payments (amounts in thousands)	
2014	$ 2,844
2015	2,918
2016	2,346
2017	2,605
2018	2,745

Nine Canyon Wind Power Purchase Agreement

The District participates in a power purchase agreement with Energy Northwest for Phase I of the Nine Canyon Wind Project (the "Project") which consists of 37 wind turbines with an aggregate generating capacity of approximately 48 MW. Energy Northwest is a municipal corporation and a joint operating agency of the State of Washington (formerly known as the Washington Public Power Supply System). The District does not participate in the two other phases of the Project which comprise additional generation capacity of approximately 48 MW. The phases are operated together as a single project under an amended power purchase agreement.

The District is one of nine public agencies participating in the original project power purchase agreement for Phase I of the Project. The District's purchaser share of Phase I of the project output was 25% of output up to a maximum of 12 MW. Since the District did not participate in either Phase II or Phase III of the Project, its share of the combined Project is 12.54%. In exchange for the output, the District pays its proportionate share of certain Project costs and its 25% share of Phase I debt service.

Scheduled debt service requirements, inclusive of principal and interest, for the District's 25% share of the bonds as well as certain other Project costs are estimated at $2.1 million annually.

Yakama Nation Agreement

In 2007, the District entered into an agreement with the Yakama Nation that provides mutual benefits to both parties. In exchange for physical benefits from the Priest Rapids Project, the Yakama Nation will work collaboratively with the District on environmental issues affecting the project and in the development of new generation resources. The Yakama Nation is responsible to pay the costs associated with producing the benefit received.

The net payments to the Yakama Nation totaled $2,266,513 and $422,898 during 2013 and 2012, respectively. The estimated cost for this agreement is approximately $2.0 million for 2014. The projected average annual cost for this agreement from 2014 to 2019 is approximately $2 million. The agreement expires at the end of the FERC license term (2052).

Other Sources

Pursuant to agreements with three irrigation districts, the District constructed, operates, and maintains both the Quincy Chute and Potholes East Canal hydroelectric generation facilities in return for the right to all output from the projects. The construction costs of Quincy Chute and Potholes East Canal are included in Net utility plant and are being amortized over the terms of the agreements, which expire October 1, 2025, and September 1, 2030, respectively. The irrigation districts hold title to the project facilities.

7. NONPOWER COMMITMENTS

Capital Projects

The District has contractual commitments relating to several Electric System capital improvement projects including fiber design/build, mobile radio replacement electrical system upgrades, multiple transformer purchases, power cable purchases, and substation and distribution line construction projects over the next few years totaling approximately $34.8 million as of December 31, 2013.

The District's improvement programs for the Priest Rapids Project include restoration or replacement of generators, turbine model testing, construction and upgrades to project support buildings, construction of a fish bypass project, construction and renovation of hatcheries, construction of recreation facilities, supplying GSU transformers and supplying trunnion cylindrical bearings for spillway gates. The District intends to, or has committed by contract to, fulfill these programs, which are projected to be substantially complete by 2018. The contractually committed amount on future Priest Rapids Project work to be performed on these major capital programs is approximately $95.4 million as of December 31, 2013.

Other Commitments

In 2006, the District entered into a Salmon and Steelhead Settlement Agreement with the United States Department of Interior, the U.S. Fish and Wildlife Service, the National Marine Fisheries Service of the National Oceanic and Atmospheric Administration (NOAA), the Washington Department of Fish and Wildlife, the Yakama Nation, and the Confederated Tribes of the Colville Reservation for the purpose of resolving all issues between the District and the other signatories related to anadromous salmonid fish species. This agreement is intended to constitute a comprehensive and long-term adaptive management program for the protection, mitigation, and enhancement of anadromous fish (both listed and not listed species under the Endangered Species Act; ESA) which pass or may be affected by the Priest Rapids Project.

Under the Salmon and Steelhead Settlement Agreement, the District is obligated to establish a habitat conservation account and a no-net-impact fund (referred herein as "Habitat funds") into which the District deposits payments for further distribution in accordance with the requirements of the Salmon and Steelhead Agreement. The purpose of the Habitat funds are two-fold; (1) to establish and shepherd a habitat restoration program that promotes the rebuilding of self-sustaining and harvestable populations of anadromous species and to mitigate for a portion (2%) of unavoidable losses resulting from the Priest Rapids Project operations and (2) to provide near-term compensation for annual survivals that are less than the survival objectives in the performance standards for the Priest Rapids Project for spring Chinook, steelhead, summer Chinook, and sockeye. The parties that oversee the distribution of these funds include the signatories to the Priest Rapids Salmon and Steelhead Settlement Agreement (U.S. Fish and Wildlife Service, NOAA Fisheries, Washington Department of Fish and Wildlife, Confederated Colville Tribes, Yakama Nation, and the District).

In addition to the Habitat funds discussed above, the District is obligated to establish a habitat account into which the District deposits payments for further distribution in accordance with the requirements of the NOAA Fisheries 2008 Biological Opinion (“2008 BiOp”) for the Priest Rapids Project. Funds from this account are used for habitat actions that directly benefit Upper Columbia River (“UCR”) spring-run Chinook salmon and UCR steelhead. The parties identified above and the Confederated Tribes of the Umatilla Reservation have been identified in the 2008 BiOp as responsible for overseeing distribution of these funds.

The Habitat funds are restricted and cannot be spent without unanimous consent. Interest earned by the Habitat funds increases the balance of these funds and is not recognized as income by the District. Expenditures of these funds are made in accordance with the Salmon and Steelhead Settlement Agreement and the 2008 NOAA Fisheries BiOp for the protection and restoration of habitats along the mainstem and tributaries within the UCR watershed including the Okanogan, Methow, Entiat, and Wenatchee watersheds. The District anticipates funding these accounts up to and through the term of its FERC license.

In October of 2006, the District filed a request for a 401 Water Quality Certification (“401 WQC”) from the Washington State Department of Ecology (“Ecology”), pursuant to the

provisions of section 401 of the Clean Water Act. A 401 WQC for the operation of the Priest Rapids Project was issued by Ecology on April 3, 2007, and amended on March 6, 2008.

In order to fulfill requirements of the 401 WQC related to native resident fish, the District is required to provide funds to track native resident fish species diversity and provide mitigation for impacts to and loss of resident fish and harvest opportunities by compliance with Parts A and B as described below.

To remain in compliance under Part A ("Hatchery Renovation"), the District is required to provide funds (not to exceed $1.5 million) to renovate the existing Columbia Basin Hatchery facility to ensure stable operations at current capacity for the term of the license. Current capacity is 60,000-70,000 pounds of trout annually, which shall be credited to the District as mitigation for reduced recreational fishing opportunities occurring on native resident fish species. Under Part B ("Resident Fish Monitoring and Trout Purchase"), the District is obligated to establish and administer a fund for resident fish monitoring and fish purchase. Funds from Part B are specifically directed toward the monitoring of native resident fish species within the Priest Rapids Project area. The District is required to make contributions to the fund annually on or before February 15 of each year in the amount of $100,000 per year, based upon 2003 dollars and annually adjusted for inflation.

In a FERC Order (issued on August 31, 2010) approving the Wildlife Habitat Management Plan (Article 409), the District is required to assist the Washington Department of Fish and Wildlife in fire suppression by contributing $40,000 annually to an account. Funds from the account are to be designated for: 1) revegetating burned areas; 2) revegetating areas known to burn frequently with species carrying lesser fuel loads; 3) creating fire breaks in appropriate locations; and 4) paying for firefighting activities.

The District's total contributions to these Habitat funds for the years ended December 31, 2013, and December 31, 2012, equaled $3.4 million and $3.3 million, respectively. These contributions reduced the Licensing obligations, as discussed in Note 4.

The following table shows the District's estimate of the remaining fixed contributions to the Habitat funds as of December 31, 2013, representing required contributions through the New License term.

Estimated Fixed Habitat Funding Commitments

(amounts in thousands)

2014	$	3,445
2015		3,620
2016		3,697
2017		2,479
2018		2,530
2019 and thereafter		123,289
Total	$	139,060

Participation In Northwest Open Access Network, Inc. D.B.A. NoaNet - The District, along with 9 other Washington State Public Utility Districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet provides a broadband communications backbone, over Public Benefit Fibers leased from BPA, throughout the State of Washington to assist its members in the efficient management of load, conservation, and acquisition of electric energy as well as other purposes.

NoaNet has issued revenue bonds, the balance of which as of December 31, 2013, was $8.2 million. Each member of NoaNet has entered into a repayment agreement to guarantee the bonds of NoaNet. The District's guarantee is limited to a maximum of 17.57% of the bonds.

The management of NoaNet anticipates meeting its cost of operations through revenues, thus no annual assessment for 2013 was needed.

For the NoaNet final 2013 financial report, please contact: NoaNet, Accounting Department, 4312 Kitsap Way, Suite 101, Bremerton, WA 98312.

The NoaNet financial report is the responsibility of NoaNet. The independent auditor for the District has not audited or examined any information in the financial report, and accordingly, does not express an opinion or any other form of assurance with respect thereto.

8. PENSION / RETIREMENT PLAN

Substantially all the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit 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 Statements 27, Accounting for Pensions by State and Local Government Employers and 50, Pension Disclosures, an Amendment of GASB Statements 25 and 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; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. 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 exercised an option to transfer their membership to Plan 3. PERS members 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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 3 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. The benefit 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, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 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. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average

of the 60 consecutive highest-paid service months. 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 3 percent annually.

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, if hired prior to May 1, 2013:

- 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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 by 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.

- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 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.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.
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 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 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 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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 the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable

election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012 :

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

Funding Policy

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 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. 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.

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, 2013, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% 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 4.92% 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:

(amounts in thousands)	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$ 246	$ 3,843	$ 1,018
2012	356	3,269	854
2011	211	2,747	727

Deferred Compensation Plan – The District has an Internal Revenue Code Section 457 (b) deferred compensation program covering eligible employees as defined in the plan document. Participants may contribute and defer, up to defined limits, a portion of their current year's salary. The deferred compensation is held in trust and is not available to employees until termination, retirement, death, or unforeseeable emergency. The program includes a loan provision in accordance with IRS guidelines. All plan assets are held in trust for the exclusive benefit of participants and their beneficiaries and therefore are not included in the District's financial statements.

Additionally, the District administers the Public Utility District No. 2 of Grant County's 401(a) Governmental Money Purchase Plan and Trust (fixed and variable plan). Eligible employees can elect to either contribute to the Section 457 deferred compensation plan (variable) or the 401(a) defined contribution plan (fixed). The District's matching employer contributions (50 cents per one dollar of employee contributions) are deposited into the 401(a) plan. The District's match is capped at 2% of straight-time employee wages for the pay period. The District made matching contributions of $898,327 and $842,426 in 2013 and 2012, respectively.

9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")

Plan Description

The District administers a single-employer defined benefit premium program ("the retiree subsidy plan"). The plan provides a subsidy that covers a portion of healthcare insurance for retirees ages 59½ to 65 and their spouses. The retiree subsidy plan may be amended through

collective bargaining (for bargaining unit employees) and ratified by the District's Commission, or changed without bargaining for non-unit employees. The retiree subsidy plan does not issue a publicly available financial report.

Funding Policy

The District pays a percentage of the medical premiums based upon years of service of the retirees. At the age of 59½, the retiree is eligible for a subsidy of 3% of their premium cost for each year of service up to 30 years (years x 3% x retiree premium). The subsidy cannot be more than the premium amount paid for active employees and is effective until the retiree turns 65. For the years ended December 31, 2013 and 2012, the District paid approximately $234,000 and $286,000 in retiree subsidies, respectively.

Annual OPEB Cost and Net Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution ("ARC") of the employer. The District's ARC and related information is based upon an actuarial valuation as required by GASB Statement No. 45. As of year-end, the net OPEB obligation represents the cumulative difference in ARC and payments made through the plan since actuarial accounting began in 2007. The following table shows the components of the District's annual OPEB cost for the years ended December 31, 2013 and 2012:

(amounts in thousands)	2013	2012
Normal cost with interest	$ 198	$ 187
Amortization amount with interest	268	271
Annual required contribution	$ 466	$ 458
Annual OPEB cost	$ 466	$ 458
Less: benefit payments	(234)	(286)
Increase in net OPEB obligation	232	172
Net OPEB obligation at beginning of year	1,240	1,068
Net OPEB obligation at end of year	$ 1,472	$ 1,240

Funded Status and Funding Progress

As of December 31, 2013 and 2012, the District's Actuarial Accrued Liability ("AAL") was $4.1 million and $4.2 million, respectively, all of which was unfunded. The District has no plans at this time to fund the obligation using an irrevocable trust. The AAL is being amortized over a 30-year period and the increase in net OPEB obligation is accrued each year and is split between the District systems, based on current labor allocations. For 2013 and 2012, the covered payroll (annual payroll of active employees covered by the plan) was $54.4 million and $52.5 million, respectively, and the ratio of the unfunded obligation to the covered payroll was 7.6% and 8.0%, respectively.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and 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.

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 the valuation and the sharing of benefit costs between the employer and plan members in effect at the time of the valuation which was December 31, 2013. The Entry Age Normal method is used to develop an Annual Required Contribution and an Actuarial Accrued Liability. Use of the EAN Level Percent of Pay method for the OPEB Plan is a change from the prior year valuation, which used the Projected Unit Cost method to value OPEB benefits. This change in method resulted in a 1% increase in Accrued Liabilities.

The following are the significant assumptions related to the plan's actuarial liability:

Retirement age for active employees – Based on assumptions used by the Office of the State Actuary in Olympia, Washington but adjusted to reflect expected future rates of retirement based on current experience of the District.

Mortality – Rates of mortality are the same that were used for PERS participants in the June 30, 2012 actuarial valuation published by the Office of the State Actuary.

Medical trends – Premium increases of 7.5% in 2014 and declining percentages in future years. It is assumed that the monthly premium and maximum employer subsidy amounts will increase at a slower rate than future claims in the immediate future.

Discount rate – The discount rate of 5.0% that was used in the valuation represents the District's current long term borrowing rate. This rate is used because the Plan is "unfunded" and the District's assets would be used to pay benefits.

10. CONTINGENCIES

The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material impact on its financial position, results of operations, or cash flows.

11. SUPPLEMENTAL DISCLOSURE OF TELECOMMUNICATION ACTIVITIES

As described in Note 7, the District, along with 9 other Washington public utility districts and Energy Northwest, is a member of Northwest Open Access Network ("NoaNet"), a Washington nonprofit mutual corporation.

The District is installing a fiber optic distribution system in its service area. As of December 31, 2013, the build out is 59% complete. This fiber optic distribution system is interconnected with multiple regional and national telecommunications carriers, including NoaNet's fiber optic network. The District has made capacity on this system available to providers of high speed Internet services and telephone services, among others.

A summary of the results of operations of the wholesale fiber optic network activities, and its utility plant balances and related additions, as of and for the years ended December 31, are as follows:

(amounts in thousands)	2013	2012
Operating revenues		
Wholesale fiber services	$ 4,027	$ 3,439
Dark fiber revenue	377	394
Wholesale fiber optic network sales	$ 4,404	$ 3,833
Operating expenses		
Administrative and general	$ 431	$ 458
Repairs and maintenance	1,038	832
Depreciation	5,499	6,065
Total operating expenses	$ 6,968	$ 7,355
Nonoperating revenues		
Contributions in aid of construction	$ 274	$ 100
Utility plant		
Additions to utility plant	$ 11,254	$ 11,235
Utility plant, net of accumulated depreciation	$ 83,576	$ 77,752

12. SUBSEQUENT EVENT

On February 27, 2014, the District discovered a fracture on one of the twelve monoliths comprising the spillway section of the Wanapum dam. As a precaution, the reservoir behind the dam was lowered to relieve pressure on the affected monolith and to investigate the cause of the fracture. The scope and specifics of the repairs are still being determined and may vary depending on results of the on-going investigation. However, as of April 22, 2014, the District announced a preliminary estimate of $61 million that may ultimately be incurred in connection with the investigation and repairs associated with this matter.

Further, management has not determined how long and at what sustained levels the drawdown will need to be maintained; however, at the current drawdown elevation levels of 541-545 feet above sea level, generation capability has decreased by 40-50%. Included in the cost estimate described above is approximately $8 million in replacement power costs associated with these lower generation levels. Favorable regional water levels and stable wholesale revenue

contracts mitigate the impact of curtailment. Current generation levels are expected to be sufficient to meet distribution system expectations.

13. SEGMENTS

The District has outstanding revenue bonds used to finance the Electric System, and the Priest Rapids Project hydroelectric production facilities. As described in Note 5, all the outstanding bond issues, which are on parity with each other, are secured by a pledge of the net revenues of the District. The Electric System has committed to cover, without limitation, any costs incurred by the Priest Rapids Project that are not covered by purchasers other than the District.

Each system has an external requirement to be accounted for separately. The following condensed financial statements of the operating segments of the District include the Electric System and the Priest Rapids Project. The District's Service System, as well as eliminating internal transactions, is presented as "Other" in order to reconcile to the combined District's results. "Other" is not considered a segment of the District. 2012 information is restated to reflect changes in accounting principles per GASB 65.

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS
DECEMBER 31, 2013

CONDENSED STATEMENT OF NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
ASSETS				
Total current assets	$ 237,027	$ 83,042	$ (53,652)	$ 266,417
Net utility plant	534,790	1,154,571	-	1,689,361
Noncurrent	81,615	156,729	501	238,845
TOTAL ASSETS	853,432	1,394,342	(53,151)	2,194,623
Deferred outflows of resources	1,035	6,299	-	7,334
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 854,467	$ 1,400,641	$ (53,151)	$ 2,201,957
LIABILITIES				
Current	$ 86,004	$ 117,560	$ (53,151)	$ 150,413
Noncurrent	158,253	1,043,326	-	1,201,579
TOTAL LIABILITIES	244,257	1,160,886	(53,151)	1,351,992
NET POSITION				
Invested in capital assets, net of related debt	373,716	156,712	-	530,428
Restricted	24,465	82,991	-	107,456
Unrestricted	212,029	52	-	212,081
TOTAL NET POSITION	610,210	239,755	-	849,965
TOTAL LIABILITIES AND NET POSITION	$ 854,467	$ 1,400,641	$ (53,151)	$ 2,201,957

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
OPERATING REVENUES	$ 234,786	$ 142,168	$ (86,527)	$ 290,427
OPERATING EXPENSES				
Depreciation and amortization	29,612	20,862	-	50,474
Other operating expenses	171,552	66,010	(86,527)	151,035
Total operating expenses	201,164	86,872	(86,527)	201,509
NET OPERATING INCOME	33,622	55,296	-	88,918
OTHER REVENUES (EXPENSES)				
Interest and other income	(96)	(140)	-	(236)
Interest on revenue bonds and other, net of capitalized interest	(4,725)	(39,071)	-	(43,796)
Federal rebates on revenue bonds	-	7,712	-	7,712
Amortization of debt expense, discount, and premium	1,917	235	-	2,152
Total other revenues (expenses)	(2,904)	(31,264)	-	(34,168)
CONTRIBUTIONS IN AID OF CONSTRUCTION	11,966	-	-	11,966
CHANGE IN NET POSITION	42,684	24,032	-	66,716
NET ASSETS				
Beginning of year	567,524	215,725	-	783,249
End of year	$ 610,208	$ 239,757	$ -	$ 849,965

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

CONDENSED SCHEDULE OF CASH FLOWS

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
Net cash provided by operating activities	$ 66,412	$ 76,200	$ 17,251	$ 159,863
Net cash provided by (used in) capital and related financing activities	(57,072)	(119,068)	(566)	(176,706)
Net cash (used in) provided by investing activities	(5,257)	35,480	(5,533)	24,690
NET (DECREASE) INCREASE IN CASH	$ 4,083	$ (7,388)	$ 11,152	$ 7,847
CASH AT END OF PERIOD	$ 17,815	$ 7,946	$ 7,269	$ 33,030
CASH AT BEGINNING OF YEAR	13,732	15,334	(3,883)	25,183
NET (DECREASE) INCREASE IN CASH	$ 4,083	$ (7,388)	$ 11,152	$ 7,847

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS
DECEMBER 31, 2012 (RESTATED)

CONDENSED STATEMENT OF NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
ASSETS				
Total current assets	$ 155,062	$ 96,926	$ (23,875)	$ 228,113
Net utility plant	495,034	1,020,505	-	1,515,539
Noncurrent	112,530	186,683	-	299,213
TOTAL ASSETS	762,626	1,304,114	(23,875)	2,042,865
Deferred outflows of resources	30	7,723	-	7,753
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 762,656	$ 1,311,837	$ (23,875)	$ 2,050,618
LIABILITIES				
Current	$ 36,134	$ 129,766	$ (23,875)	$ 142,025
Noncurrent	158,997	966,347	-	1,125,344
TOTAL LIABILITIES	195,131	1,096,113	(23,875)	1,267,369
NET ASSETS				
Invested in capital assets, net of related debt	381,156	141,494	-	522,650
Restricted	24,626	70,425	-	95,051
Unrestricted	161,743	3,805	-	165,548
TOTAL NET ASSETS	567,525	215,724	-	783,249
TOTAL LIABILITIES AND NET ASSETS	$ 762,656	$ 1,311,837	$ (23,875)	$ 2,050,618

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS
DECEMBER 31, 2012 (RESTATED)

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
OPERATING REVENUES	$ 210,899	$ 135,338	$ (82,985)	$ 263,252
OPERATING EXPENSES				
Depreciation and amortization	28,536	19,321	-	47,857
Other operating expenses	150,820	60,575	(82,985)	128,410
Total operating expenses	179,356	79,896	(82,985)	176,267
NET OPERATING (LOSS) INCOME	31,543	55,442	-	86,985
OTHER REVENUES (EXPENSES)				
Interest and other income	1,274	2,203	-	3,477
Interest on revenue bonds and other, net of capitalized interest	(6,792)	(44,572)	-	(51,364)
Federal rebates on revenue bonds	-	7,809	-	7,809
Amortization of debt expense, discount, and premium	3,376	(829)	-	2,547
Total other revenues (expenses)	(2,142)	(35,389)	-	(37,531)
CONTRIBUTIONS IN AID OF CONSTRUCTION	3,848	-	-	3,848
CHANGE IN NET POSITION	33,249	20,053	-	53,302
NET POSITION				
Beginning of year	534,276	195,671	-	729,947
End of year	$ 567,525	$ 215,724	$ -	$ 783,249

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

NOTE 13 - SEGMENTS
DECEMBER 31, 2012 (RESTATED)

CONDENSED SCHEDULE OF CASH FLOWS

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
Net cash provided by operating activities	$ 57,982	$ 78,460	$ (2,996)	$ 133,446
Net cash (used in) provided by capital and related financing activities	(52,828)	(113,271)	(7,016)	(173,115)
Net cash provided by (used in) investing activities	857	37,847	8,524	47,228
NET (DECREASE) INCREASE IN CASH	$ 6,011	$ 3,036	$ (1,488)	$ 7,559
CASH AT END OF PERIOD	$ 13,732	$ 15,334	$ (3,883)	$ 25,183
CASH AT BEGINNING OF YEAR	7,721	12,298	(2,395)	17,624
NET (DECREASE) INCREASE IN CASH	$ 6,011	$ 3,036	$ (1,488)	$ 7,559

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)