

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

AUDIT REPORT

Years Ended December 31, 2012, and 2011

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TABLE OF CONTENTS

	<u>Page</u>
Board of Directors, Administrative Staff and PUD Office	1
Independent Auditor's Report	2 to 3
Management's Discussion and Analysis	4 to 13
Financial Statements:	
Balance Sheet	14
Statement of Revenues, Expenses and Changes in Net Position	15
Statement of Cash Flows	16 to 17
Notes to Financial Statements	18 to 31
Required Supplementary Information:	
Schedule of Funding Progress for Retirement Plan	Schedule 1 32
Schedule of Funding Progress for Retiree Health Plan	Schedule 2 33
Other Supplementary Information:	
Schedule of Revenue Obligations Principal and Interest Transactions	Schedule 3 34
Schedule of Future Revenue Obligations Principal and Interest Requirements	Schedule 4 35
Statistical Information	Table 1 36
Independent Auditor's Comments Required by Oregon State Regulations	37 to 38

INDEPENDENT AUDITOR'S REPORT

March 4, 2013

Board of Directors
Columbia River People's Utility District
Deer Island, Oregon

We have audited the financial statements of Columbia River People's Utility District, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Columbia River People's Utility District as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 13, the schedule of funding progress for retirement plan on page 32 and the schedule of funding progress for retiree health plan on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information and Statistical Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other supplementary information listed in the table of contents and the statistical information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This section presents management's overview of the PUD's financial condition and performance during the year ended December 31, 2012. It also serves as an introduction to the financial statements, the notes to financial statements, and to the supplementary information provided with the financial statements. Management's Discussion & Analysis is compiled using summary financial statements, key financial and operational indicators used in the strategic plan, budget documents, bond resolutions, and other management tools, and should be read in conjunction with the financial statements and the accompanying notes to financial statements.

Overview of Financial Statements

The financial statements include 1) a balance sheet, 2) a statement of revenues, expenses and changes in net position, 3) a statement of cash flows, and 4) accompanying notes to the financial statements, which are described as follows:

- **Balance Sheet** – This sheet presents the financial position of the PUD on an accrual historical cost basis. It gives a snapshot of the nature and amount of the PUD's resources and obligations for the years ending December 31, 2012, and 2011.
- **Statement of Revenues, Expenses and Changes in Net Position** – This statement presents the result of the PUD's activities over the course of the year and information as to how the PUD's net position changed during the year. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the PUD's recovery of its costs.
- **Statement of Cash Flows** – This statement presents changes in cash and cash equivalents resulting from operating, capital and related financing and investing activities, and cash receipts and cash disbursement information without consideration of the earnings events, when an obligation arises, or the depreciation of capital assets.
- **Notes to Financial Statements** - These notes provide required disclosures and other information that are essential for a full understanding of the financial statements. The notes present information about the PUD's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

Schedules of Selected Supplementary Financial Data

The supplemental information presented by the PUD includes schedules of funding progress for the retirement plan and retiree health plan, schedules presenting the PUD's future debt service requirements, and other data required in accordance with certain provisions of the PUD's debt covenants.

Overall Financial Position

One way to evaluate the PUD's overall financial position is to review its total net position and how it changed during the reporting period. An increase or decrease in total net position is one indicator of the PUD's financial stability. Additionally, non-financial factors such as economic conditions, population growth or decline, and legislative changes must also be considered to adequately assess the PUD's overall financial position.

The PUD's total net position showed a small decrease in 2012 due primarily to decreased revenues from mild weather and a longer-than-expected maintenance shutdown at the PUD's largest industrial customer. However, the PUD's financial position remains stable. The PUD held rates stable in 2012, cash reserves remained strong, and a number of system maintenance and improvement projects were completed. The PUD remains on track to pay off all of its long-term debt in 2020.

Bond Rating

The PUD's electric system revenue obligations received an "A+ Stable" bond rating from Standard & Poor's in January 2012. S&P listed the PUD's strong debt service coverage, limited risk as a BPA customer, and stable, competitive rates among the reasons for the improved rating. This is the second rating upgrade the PUD has received in recent years.

Net Position

The PUD's total net position on December 31, 2012, decreased by \$0.5 million to \$35.2 million. This is a -1.4% decline from the year-end 2011 net position of \$35.7 million. Of the PUD's net position, \$24.7 million or 70.2% has been invested in utility plant assets, net of related debt, which increased by \$0.7 million over 2011. The PUD remains committed to its long-standing practice of investing surplus cash and earnings, and using customer contributions for capital assets in lieu of issuing additional long-term debt.

Of the remaining \$10.5 million, approximately \$10.4 million or 29.5% was unrestricted and available to be used to meet the PUD's ongoing obligations to its customers and creditors, while \$0.1 million has been set aside to reduce future debt service. The unrestricted net position dropped \$1.2 million or 10.3% compared to 2011 as a result of revenues that were slightly lower than anticipated and power costs and energy efficiency expenses that increased significantly over 2011.

Condensed Balance Sheets

(amounts in thousands)	2012	2011	2010
Assets			
Utility plant (net)	\$32,992	\$33,183	\$32,183
Cash and other current assets	14,589	15,822	15,308
Deferred charges	290	324	359
Total Assets	\$47,871	\$49,329	\$47,850
Liabilities			
Long-term debt	\$7,458	\$8,378	\$ 9,253
Current liabilities	4,844	4,922	4,438
Deferred Credits	397	364	220
Total Liabilities	12,699	13,664	13,911
Net Position			
Investment in plant, net of debt	24,663	23,983	22,159
Reserved for bond retirement	76	73	69
Unrestricted	10,433	11,609	11,711
Total Net Position	\$35,172	\$35,665	\$33,939

Economic Conditions

Columbia County is beginning to recover from the Great Recession. The downturn resulted in the closure of several local businesses, declining electric sales for the PUD and high local unemployment rates. The economic rebound that began in 2011 continued slowly in 2012, with statewide unemployment dropping to 8.4% and countywide unemployment dropping to 9.1%.

The industrial and manufacturing sectors saw the most improvement in 2012. Most significantly, the PUD's largest industrial customer completed \$30.0 million in capital improvements at their facility in Columbia City, signaling long-term growth and stability for the plant. Additionally, a plastic recycling facility opened its doors in St. Helens and created 25 new jobs, a manufacturer of materials-handling equipment completed a \$1.5 million upgrade at its Rainier plant, and an aviation equipment manufacturer broke ground on a 22,000 square foot facility to expand their R&D and manufacturing operations at the Scappoose Industrial Airpark. The PUD anticipates continued growth in these sectors in 2013.

Despite improvements and optimism in some areas, Columbia County remains an economically depressed area. The unemployment rate remains well above that of Oregon and of the United States as a whole, and is projected to remain so in 2013. In December 2012, the Boise Paper Mill in St. Helens announced it was ending operations. Although the PUD does not serve the mill, economic analysts predict that the loss of 100 jobs at the mill will result in the loss of an additional 200-300 jobs in the surrounding community, which is served by the PUD.

Revenues and Expenses

During 2012, the PUD's revenue generated from electric services increased by \$0.1 million to \$27.5 million although energy sales decreased by 16.3 million kilowatt-hours or -3.4%. Among the PUD's customer classes, industrial revenues showed the most significant year-to-year decline of \$141,600, which was primarily the result of a maintenance shutdown at the PUD's largest

industrial customer. Industrial energy sales decreased by nearly 10.6 million kilowatt-hours or -6.2%. Residential energy sales decreased by 6.2 million kilowatt-hours or -2.8%, primarily as a result of mild weather. Energy sales among the PUD's small and large commercial customers remained relatively unchanged.

Rates

The PUD held rates stable in 2012. A 4.0% overall rate increase that took effect on October 1, 2011, and a 4.65% overall rate decrease that took effect in October 2006, are the only two rate changes in the past decade. The PUD anticipates implementing a 4.0% overall rate increase on October 1, 2013, as a result of wholesale power cost increases. Following the rate increase in late 2013, PUD rates are expected to remain stable through September 2015.

Power Costs

Purchased power costs increased 7.9%, from \$15.2 to \$16.4 million. These costs make up 58.5% of the PUD's total operating expenses. The PUD is a full requirements customer of Bonneville Power Administration (BPA), which increased wholesale power costs 9.7% in October 2011 and 6.95% in October 2009. The power cost increase was somewhat offset by the ongoing BPA billing credits resulting from the BPA/IOU-residential exchange overcharge settlement. Those credits totaled \$578,600 in 2012.

Operating Expenses

The PUD's operating expenses related to electric services, excluding cost of power, increased by \$1.1 million or 10.5% to \$11.6 million when compared to last year's total of \$10.5 million. An increase in PUD funded industrial efficiency incentives was a large contributor to this increase.

While the PUD has historically utilized reimbursements from Bonneville Power Administration to fund a majority of its energy efficiency programs, in 2012 the PUD provided nearly \$0.6 million in self funding for two large industrial efficiency projects that resulted in a combined 7.1 million kilowatt-hours in first-year energy savings. Achieving energy conservation through efficiency projects is less expensive than purchasing additional power at market-based rates.

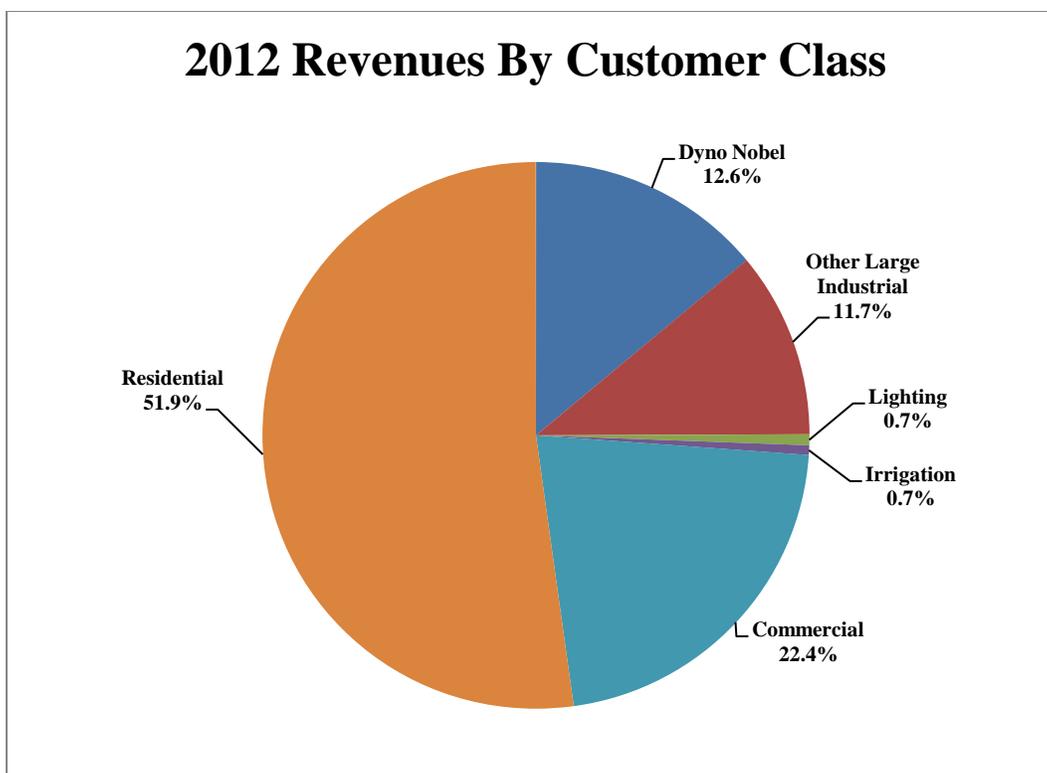
Net Income (Loss)

The PUD reflected a net loss from its electric system operations of -\$0.5 million. Revenues from electric services were \$0.4 million lower than projected as a result of a mild winter and a longer-than-expected maintenance shutdown at the PUD's largest industrial customer. Additionally, limited customer construction activity allowed operations personnel to focus on system maintenance, resulting in distribution system operating and maintenance expenses that were \$0.2 million higher than expected. Depreciation expense was also \$0.3 million higher than expected. This 2012 net loss represents a decrease of \$2.2 million or -128.6% when compared to 2011 net income of \$1.7 million.

Revenues by Customer Class

Residential customers provided 51.9% of the PUD's revenues during 2012. The PUD's largest industrial customer is Dyno Nobel, a subsidiary of Incitec Pivot Limited. Dyno Nobel provided 12.6% of total revenues, while sales to all industrial customers made up 24.3% of revenues. Sales among commercial customers accounted for 22.4% of revenues.

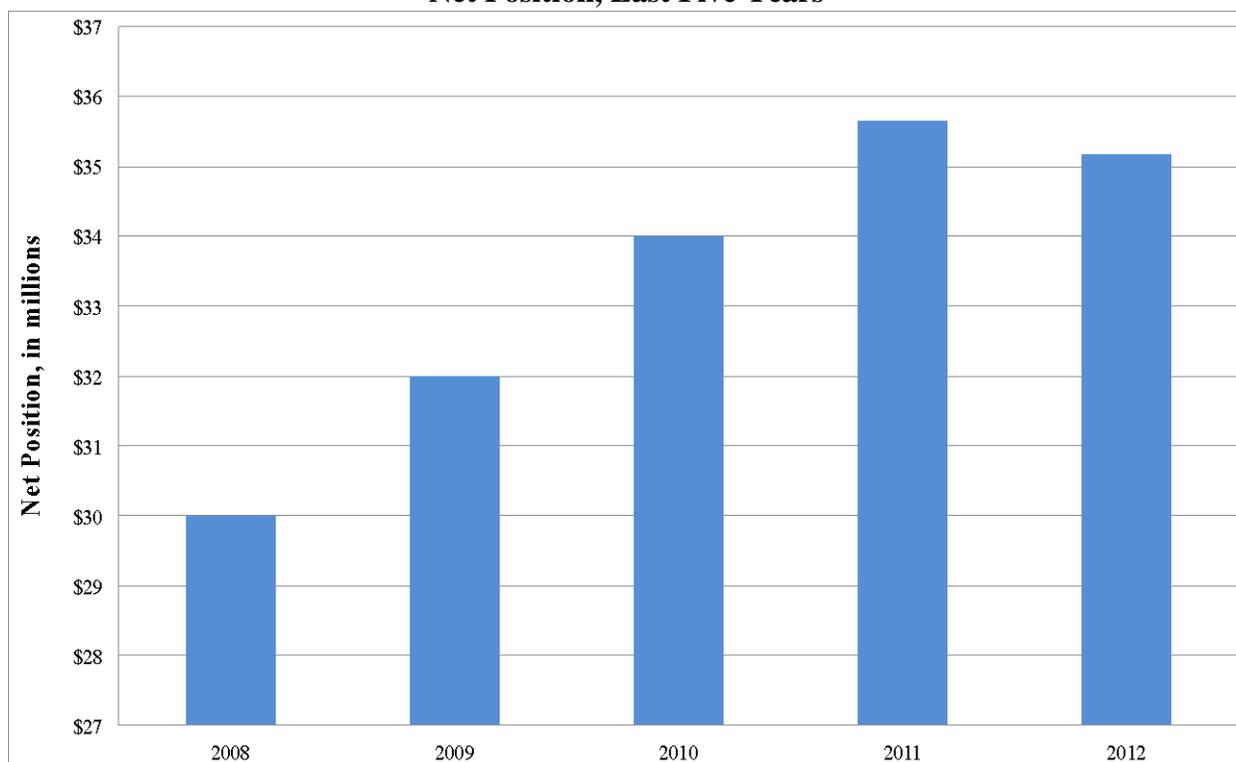
2012 Revenues By Customer Class



Condensed Statements of Revenues Expenses, and Change in Net Position

(amounts in thousands)	2012	2011	2010
Revenue and Other Income			
Charges for electric services	\$27,467	\$27,366	\$25,905
Interest earnings	67	60	63
Other income	574	499	650
Total revenue and other income	28,108	27,925	26,618
Expenses			
Expenses for service			
Electric - purchased power costs	16,440	15,157	14,863
Electric - operating costs	11,640	10,459	9,263
Total expenses for services	28,080	25,616	24,126
Interest and amortization of debt	443	484	523
Other	78	99	71
Total expenses	28,601	26,199	24,720
Increase (decrease) in net position	-493	1,726	1,898
Total net position – beginning of year	35,665	33,939	32,041
Total net position – end of year	\$35,172	\$35,665	\$33,939

Net Position, Last Five Years



Cash Management

At December 31, 2012, the PUD's total cash and investments, including debt service reserves, totaled \$10.8 million, which is down \$1.1 million when compared to 2011 balances but well above the PUD's target cash reserve policy level of \$8.5 million. The PUD had built up cash reserves over the years to help fund an aggressive 5-year capital improvement program, which includes upgrading four aging substations transformers, as well as to provide some rate stabilization. The individual components are as follows:

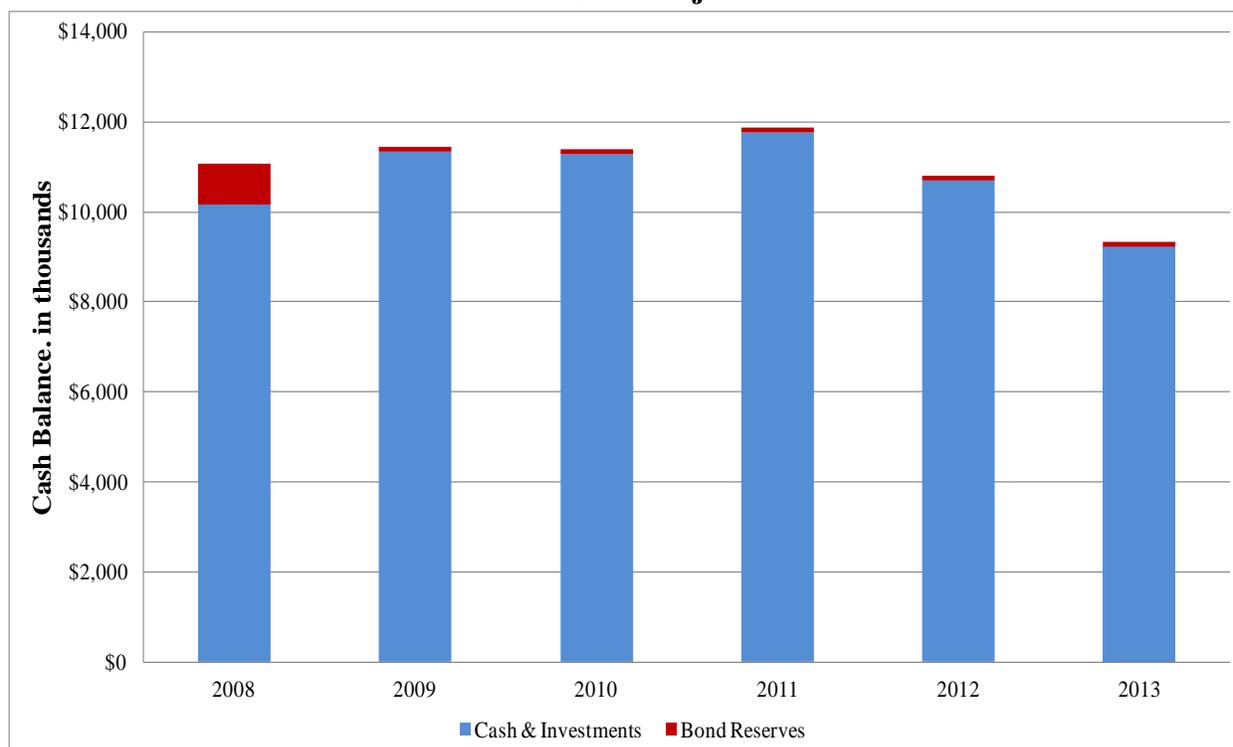
Cash and Investments

(amounts in thousands)	2012	2011	Increase (Decrease)
Operating cash, investments and cash equivalent	\$10,690	\$11,777	(\$1,087)
Debt service fund	107	107	0
Total cash and investments	\$10,797	\$11,884	(\$1,087)

The PUD's cash investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized. All of the PUD's investments held at year-end were in the Oregon Local Government Investment Pool which is more fully described in Note 3 to the financial statements.

The amount of interest earned during the years ended December 31, 2012, and 2011, totaled \$66,700 and \$59,600, respectively. Investment earnings are directly impacted by continued historically low interest rates.

Five-Year Cash and Bond Reserve Balances & 2013 Cash Projection



Capital Assets

At the end of 2012, the PUD's investment in capital assets amounted to \$33.0 million, which is stated net of \$28.6 million of accumulated depreciation and amortization. Total utility plant in service as of December 31, 2010, through 2012, consisted of the following:

Electric Plant

(amounts in thousands)	2012	2011	2010
Transmission	\$1,545	\$1,449	\$1,449
Distribution	38,753	38,004	35,740
General	8,645	8,291	8,116
Plant acquisition adjustment	12,286	12,286	12,286
Construction work in progress	370	195	252
Total electric plant	61,599	60,225	57,843
Less:			
Accumulated depreciation	-19,915	-18,759	-17,785
Amortization of plant acquisition	-8,692	-8,283	-7,875
Total depreciation and amortization	-28,607	-27,042	-25,660
Net electric plant	\$32,992	\$33,183	\$32,183

Capital Projects

During 2012, the PUD invested \$1.8 million in the construction and acquisition of plant which was \$1.2 million less than what was invested in 2011. Capital construction activity during 2012 included:

- Customer line extension and new services work, including meters and transformers.
- System reliability improvements at substations including enhanced communications and SCADA equipment and replacing regulators and reclosers.
- Converting existing overhead facilities to underground.
- Upgrading numerous power lines to increase load capacity and improve system reliability and safety.
- Replacement of damaged or deteriorated poles.

Long-Term Debt

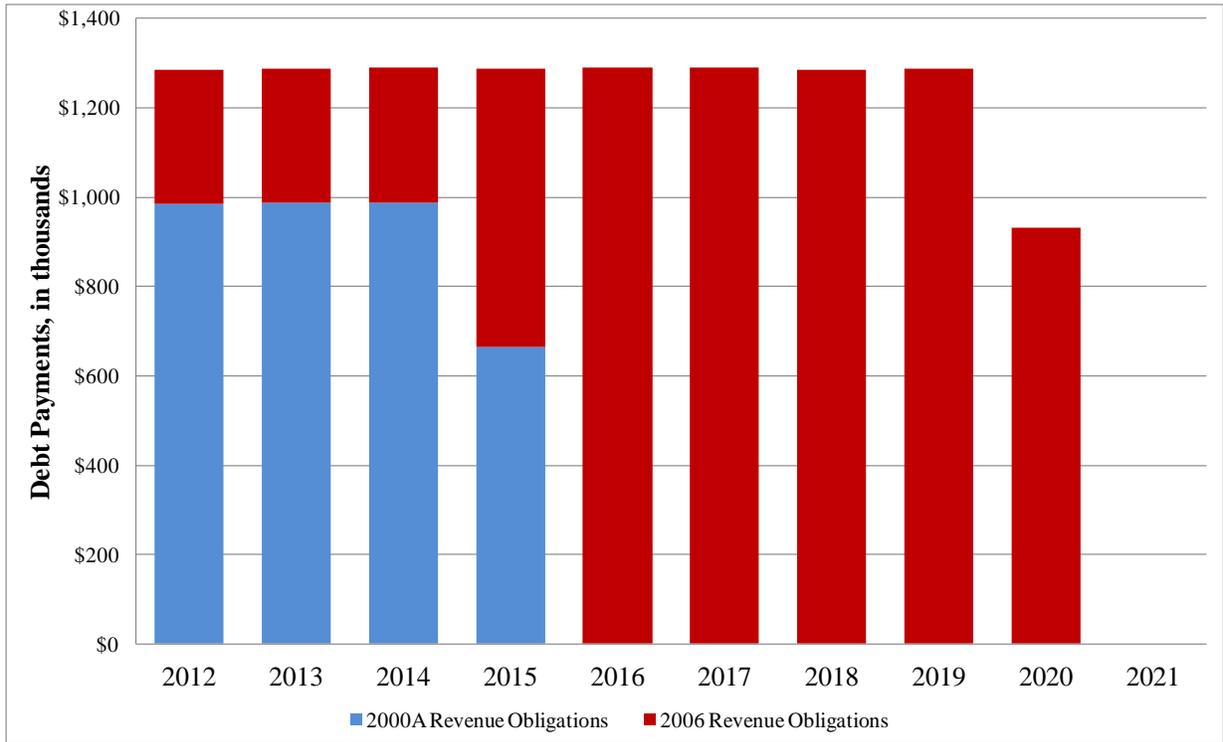
Debt service coverage ratio is a useful indicator of the PUD's debt position. Under its current debt agreements, the PUD is required to maintain coverage of at least one hundred twenty-five percent (or 1.25) of the annual debt service on its 2000A and 2006 System Revenue Obligations. Coverage on the 2000A and 2006 System Revenue Obligations has exceeded coverage requirements at 1.68 in 2012 and 3.29 in 2011.

As of December 31, 2012, the PUD had \$8.3 million of long-term debt outstanding (including current maturities of \$0.9 million), which was down \$0.9 million or 9.8% from the year-end 2011 balance of \$9.2 million (including current maturities of \$0.9 million). The PUD issued no new debt in 2012 and has no plans to issue any additional long-term debt in the future. The PUD looks forward to 2020 when it expects to be debt free.

Long-Term Debt

(amounts in thousands)	2012	2011	2010
Series 2000A Revenue Obligations	\$2,395	\$3,210	\$3,985
Series 2006 Revenue Obligations	5,935	5,990	6,040
Total long-term debt	\$8,330	\$9,200	\$10,025

**Schedule of Long-Term Debt – Principal and Interest
Balance at Year-End, 2012-2021**



Future debt service requirements are detailed in Schedule 4 of the “Other Supplementary Information” section of the financial statements.

2013 Capital Budget

The PUD plans expenditures of \$3.4 million on system improvement projects, new equipment, and customer work in 2013, less \$0.3 million in customer contributions, with net capital additions totaling \$3.1 million. In 2013, the PUD’s capital plans include continuing construction of the Fairgrounds Substation in St. Helens, continuing to convert overhead facilities to underground, completing numerous projects upgrading to larger capacity wire, replacing damaged and deteriorated poles, as well as performing customer work to meet customer demand. The PUD will also evaluate various options to increase office space and purchase two new double bucket trucks.

**Condensed Statements of Revenues
Expenses, and Change in Net Position
Budget – vs. – Actual**

(amounts in thousands)	2013 Budget	2012 Actual	2012 Budget	2011 Actual	2011 Budget
Revenue and Other Income					
Charges for electric services	\$28,043	\$27,467	\$27,824	\$27,366	\$26,844
Interest earnings	60	67	60	60	64
Other income	517	574	434	499	574
Total revenue and other income	28,620	28,108	28,318	27,925	27,482
Expenses					
Expenses for electric services					
Electric – purchased power costs	16,643	16,440	16,320	15,157	15,623
Electric – operating costs	11,216	11,640	11,214	10,459	10,503
Total expenses for services	27,859	28,080	27,534	25,616	26,126
Interest and amortization of debt	425	443	469	484	511
Other	50	78	38	99	58
Total expenses	28,334	28,601	28,041	26,199	26,695
Increase (decrease) in net position	\$286	-\$493	\$277	\$1,726	\$787

Requests for Information

This financial report is designed to provide a general overview of Columbia River People's Utility District's finances and operations for all those who have expressed an interest in its finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Manager, P.O. Box 1193, St. Helens, OR 97051-1193 or at (503) 397-1844.

FINANCIAL STATEMENTS

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Assets</u>	December 31,	
	2012	2011
Electric plant: (Notes 1 and 2)		
In service - at cost	\$ 48,942,526	\$ 47,744,440
Acquisition adjustment	12,286,247	12,286,247
Construction work in progress	370,142	194,485
Total electric plant	61,598,915	60,225,172
Less:		
Accumulated provision for depreciation	(19,914,789)	(18,758,736)
Accumulated provision for amortization of acquisition adjustment	(8,692,131)	(8,283,663)
Net electric plant	32,991,995	33,182,773
Other assets and investments:		
Nonutility property	680	680
Investments in associated organizations	11,675	11,675
Total other assets and investments	12,355	12,355
Current assets:		
Cash and investments (Notes 1 and 3):		
Current cash	10,689,964	11,776,764
Designated for debt service	107,288	107,227
Customer accounts receivable (net of allowance for doubtful accounts of \$30,863 in 2012 and \$31,189 in 2011)	2,817,492	3,126,692
Other receivables	262,856	159,596
Materials and supplies (Note 1)	419,892	365,351
Prepayments	291,740	286,382
Total current assets	14,589,232	15,822,012
Total assets	47,593,582	49,017,140
<u>Deferred Outflows of Resources</u>		
Unamortized loss on refunding (Notes 1 and 4)	277,265	312,105
Total assets and deferred outflows of resources	\$ 47,870,847	\$ 49,329,245

The accompanying notes are an integral part of this statement.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Net Position and Liabilities</u>	December 31,	
	<u>2012</u>	<u>2011</u>
Net position:		
Invested in capital assets - net of related debt	\$ 24,662,675	\$ 23,983,453
Restricted for debt service	76,266	72,506
Unrestricted	<u>10,432,996</u>	<u>11,609,221</u>
Total net position	<u>35,171,937</u>	<u>35,665,180</u>
Long-term debt:		
Revenue obligations payable, less current maturities (Note 4)	7,415,000	8,330,000
Unamortized premium on revenue obligations (Note 4)	<u>42,573</u>	<u>47,812</u>
Total long-term debt	<u>7,457,573</u>	<u>8,377,812</u>
Current liabilities:		
Current maturities of long-term debt (Note 4)	915,000	870,000
Accounts payable	2,057,549	2,067,924
Accrued franchise taxes payable	547,584	529,481
Accrued interest	31,022	34,721
Accrued compensated absences (Note 1)	555,547	534,750
Customer deposits	569,072	554,486
Other accruals	<u>168,507</u>	<u>330,449</u>
Total current liabilities	<u>4,844,281</u>	<u>4,921,811</u>
Deferred credits:		
Post-employment health care benefits obligation (Note 6)	294,123	242,023
Customer advances for construction	63,545	101,020
Other deferred credits	<u>39,388</u>	<u>21,399</u>
Total deferred credits	<u>397,056</u>	<u>364,442</u>
Total net position and liabilities	<u>\$ 47,870,847</u>	<u>\$ 49,329,245</u>

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,	
	2012	2011
Operating revenues:		
Sales of electricity	\$ 27,466,716	\$ 27,365,941
Other operating revenues	311,754	312,021
Total operating revenues	27,778,470	27,677,962
Operating expenses:		
Cost of power	16,440,126	15,156,680
Transmission and distribution expense	2,409,915	2,143,629
Customer accounts expense	693,013	758,682
Customer service and informational expense	1,160,036	438,085
Administrative and general expense	4,189,455	4,139,913
Depreciation and amortization	2,213,995	2,014,377
Taxes and franchise fees	973,224	964,193
Total operating expenses	28,079,764	25,615,559
Net operating revenues-(loss)	(301,294)	2,062,403
Nonoperating income-(expenses):		
Interest on investments	66,712	59,628
Interest expense	(412,949)	(454,476)
Amortization of loss on refunding and premium	(29,601)	(29,601)
Other nonoperating income	183,889	88,512
Total nonoperating income-(expenses)	(191,949)	(335,937)
Net income-(loss)	(493,243)	1,726,466
Net position - beginning of year (as restated)	35,665,180	33,938,714
Net position - end of year	\$ 35,171,937	\$ 35,665,180

The accompanying notes are an integral part of this statement.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Statement of Cash Flows

	Years Ended December 31,	
	2012	2011
Cash flows from operating activities:		
Cash received from customers	\$ 27,998,996	\$27,655,010
Cash payments for purchased power	(16,773,296)	(15,131,703)
Cash payments to suppliers for goods and services	(3,897,064)	(2,775,143)
Cash payments to employees for services	(5,512,054)	(5,129,020)
Other cash receipts	183,889	88,512
	<u>2,000,471</u>	<u>4,707,656</u>
Cash flows from capital and related financing activities:		
Construction and acquisition of plant	(1,829,799)	(3,041,200)
Principal payments on revenue obligations payable	(870,000)	(825,000)
Interest payments on revenue obligations payable	(416,648)	(457,915)
Customer advances for construction	(37,475)	44,834
	<u>(3,153,922)</u>	<u>(4,279,281)</u>
Cash flows from investing activities:		
Change in cash and investments designated for debt service	(61)	84
Interest on investments	66,712	59,628
	<u>66,651</u>	<u>59,712</u>
Net increase-(decrease) in cash and cash equivalents	(1,086,800)	488,087
Cash and cash equivalents - beginning of year	<u>11,776,764</u>	<u>11,288,677</u>
Cash and cash equivalents - end of year	<u>\$ 10,689,964</u>	<u>\$11,776,764</u>

The accompanying notes are an integral part of this statement.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Statement of Cash Flows

	Years Ended December 31,	
	<u>2012</u>	<u>2011</u>
Reconciliation of net operating revenues-(loss) to net cash provided by operating activities:		
Net operating revenues-(loss)	<u>\$ (301,294)</u>	<u>\$ 2,062,403</u>
Adjustments to reconcile net operating revenues-(loss) to net cash provided by operating activities:		
Depreciation and amortization	2,213,995	2,014,377
Other nonoperating income	183,889	88,512
Decrease-(increase) in:		
Customer accounts receivable	309,200	(196,674)
Other receivables	(103,260)	123,693
Materials and supplies	(54,541)	29,854
Prepayments	(5,358)	17,021
Increase-(decrease) in:		
Accounts payable	(203,793)	136,151
Accrued franchise taxes payable	18,103	21,900
Accrued compensated absences	20,797	51,255
Customer deposits	14,586	50,029
Other accruals	(161,942)	210,150
Post-employment health care benefits obligation	52,100	101,611
Other deferred credits	<u>17,989</u>	<u>(2,626)</u>
Total adjustments	<u>2,301,765</u>	<u>2,645,253</u>
Net cash provided by operating activities	<u>\$ 2,000,471</u>	<u>\$ 4,707,656</u>
Noncash capital and related financing activities:		
Deferred charges - unamortized loss on refunding	\$ 34,840	\$ 34,840
Long-term debt - unamortized premium on revenue obligations	(5,239)	(5,239)
Amortization of loss on refunding and premium	<u>(29,601)</u>	<u>(29,601)</u>
Total noncash capital and related financing activities	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General

Columbia River People's Utility District (PUD) is a people's utility district organized under Oregon Revised Statutes Chapter 261. The PUD was created by vote in 1940 and began operation in 1984. The PUD is a power distribution utility that employs 54 people and serves 18,640 customers. The PUD's service area encompasses 240 square miles in the south and east portions of Columbia County, and a small portion of northwest Multnomah County, Oregon. The PUD is governed by an elected five member Board of Directors which has the authority to set rates and charges for commodities and services furnished. Substantially all revenues are derived from the sale of electric power to residential, industrial and commercial customers.

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

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

Significant policies are described below.

Description of Reporting Entity

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

Basis of Accounting

The PUD uses the accrual basis of accounting for financial reporting purposes. Revenues are recognized when earned and expenses are recognized when incurred. Although not required by the Oregon Local Budget Law, the PUD prepares an operating budget annually.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

Electric Plant

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

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

Depreciation and Amortization

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

Transmission plant	36½ years
Distribution plant	25 - 42 years
General plant	5 - 30 years

Provision for amortization of the electric plant acquisition adjustment is computed using annual straight-line rates over the lives shown in Note 2.

Investments

Investments included in cash and investments are reported at fair value.

Cash and Cash Equivalents

For purposes of the cash flows statement, the PUD considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash and investments which are designated for debt service are not considered to be cash equivalents.

Materials and Supplies

Materials and supplies are carried at average cost.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

Unamortized Loss on Refunding

Loss on reacquired debt is being amortized over the life of the 2006 revenue obligations issue using the straight-line method.

Compensated Absences

Accumulated unpaid vested personal leave is accrued as earned by employees.

Restricted Net Position

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

Operating Revenues

Approximately 24.1% in 2012 and 24.7% in 2011 of operating revenues were the result of sales to eight industrial customers.

2 - ELECTRIC PLANT:

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

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012
Electric plant not being depreciated:				
Land	\$ 649,099	\$ -	\$ -	\$ 649,099
Construction in progress	194,485	2,382,319	2,206,662	370,142
Total electric plant not being depreciated	843,584	2,382,319	2,206,662	1,019,241
Electric plant being depreciated:				
Transmission	1,448,159	103,016	6,790	1,544,385
Distribution	37,431,855	976,797	228,053	38,180,599
General	8,215,327	388,739	35,623	8,568,443
Acquisition adjustment	12,286,247	-	-	12,286,247
Total electric plant being depreciated	59,381,588	1,468,552	270,466	60,579,674
Less accumulated depreciation:				
Transmission	651,032	40,095	15,709	675,418
Distribution	13,201,284	1,192,473	613,693	13,780,064
General	4,906,420	572,959	20,072	5,459,307
Less accumulated provision for amortization of acquisition adjustment	8,283,663	408,468	-	8,692,131
Total electric plant being depreciated, net	32,339,189	(745,443)	(379,008)	31,972,754
Electric plant, net	<u>\$ 33,182,773</u>	<u>\$ 1,636,876</u>	<u>\$ 1,827,654</u>	<u>\$ 32,991,995</u>

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

2 - ELECTRIC PLANT: (Contd)

Electric plant activity for the year ended December 31, 2011 was as follows:

	Balance January 1, 2011	Increases	Decreases	Balance December 31, 2011
Electric plant not being depreciated:				
Land	\$ 649,099	\$ -	\$ -	\$ 649,099
Construction in progress	251,754	3,439,253	3,496,522	194,485
Total electric plant not being depreciated	900,853	3,439,253	3,496,522	843,584
Electric plant being depreciated:				
Transmission	1,448,159	-	-	1,448,159
Distribution	35,167,782	2,849,318	585,245	37,431,855
General	8,039,844	305,422	129,939	8,215,327
Acquisition adjustment	12,286,247	-	-	12,286,247
Total electric plant being depreciated	56,942,032	3,154,740	715,184	59,381,588
Less accumulated depreciation:				
Transmission	611,518	39,514	-	651,032
Distribution	12,740,269	977,405	516,390	13,201,284
General	4,432,805	588,990	115,375	4,906,420
Less accumulated provision for amortization of acquisition adjustment	7,875,195	408,468	-	8,283,663
Total electric plant being depreciated, net	31,282,245	1,140,363	83,419	32,339,189
Electric plant, net	<u>\$ 32,183,098</u>	<u>\$ 4,579,616</u>	<u>\$ 3,579,941</u>	<u>\$ 33,182,773</u>

The electric plant acquisition adjustment is the excess cost over the net book value of electric plant purchased from Portland General Electric in 1984 and 2000. Electric plant acquired in 1984 is being amortized over a life of 34-1/2 years. Electric plant acquired in 2000 is being amortized over a life of 24-1/2 years.

3 - CASH AND INVESTMENTS:

Cash and investments are comprised of the following as of December 31, 2012, and 2011:

	2012	2011
Working funds	\$ 608	\$ 608
Deposits with financial institutions	272,557	362,903
Investments	10,524,087	11,520,480
Total cash and investments	<u>\$10,797,252</u>	<u>\$ 11,883,991</u>

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

3 - CASH AND INVESTMENTS: (Contd)

Deposits

Deposits with financial institutions include bank demand deposits. The total bank balance, as shown on the banks' records, was \$304,319 at December 31, 2012, and \$463,002 at December 31, 2011. Of these deposits, the total covered by federal depository insurance was \$284,313 at December 31, 2012, and \$273,905 at December 31, 2011.

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

Custodial credit risk for deposits is the risk that in the event of a bank failure, the PUD's deposits may not be returned to it. The PUD follows State law with respect to custodial credit risk and has not adopted a separate policy. Of the PUD's bank balance, \$20,006 was exposed to custodial credit risk as of December 31, 2012, and \$189,097 was exposed to custodial credit risk as of December 31, 2011, because deposits in excess of FDIC insurance were uncollateralized and/or were collateralized but not held by the third-party custodian bank in the PUD's name.

Investments

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

At December 31, 2012, and 2011, the PUD's investments consisted of:

	<u>2012</u>	<u>2011</u>
Investment in Oregon Local Government Investment Pool	<u>\$ 10,524,087</u>	<u>\$ 11,520,480</u>

The Oregon Local Government Investment Pool is an open-ended, no-load diversified portfolio pool. The fair value of the PUD's position in the pool is substantially the same as the value of the PUD's participant balance. The PUD's investment in the Oregon Local Government Investment Pool is 100% of total investments.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

3 - CASH AND INVESTMENTS: (Contd)

Investments (Contd)

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Oregon Short-Term Fund manages this risk by limiting the maturity of the investments held by the fund. Weighted average maturities of investments in the Oregon Short-Term Fund at December 31, 2012 were: 70% mature within 93 days, 15% mature from 94 days to one year, and 15% mature from one to three years. Weighted average maturities of investments in the Oregon Short-Term Fund at December 31, 2011 were: 65% mature within 93 days, 16% mature from 94 days to one year, and 19% mature from one to three years.

The PUD has designated cash and investments totaling \$107,288 at December 31, 2012, and \$107,227 at December 31, 2011, for debt service.

4 - LONG-TERM DEBT:

Revenue Obligations Payable

In September 2000, the PUD issued Series 2000A Electric System Revenue Obligations totaling \$9,430,000. Proceeds of the Series 2000A Revenue Obligations were primarily used to pay off a line of credit drawn on to pay for the cost of acquisition of service territory and facilities acquired from Portland General Electric in August 2000. Series 2000A Revenue Obligations are special limited obligations of the PUD payable solely from and secured by a pledge of the net operating revenues of the electric system and amounts on deposit in the debt service account and the reserve account.

In April 2006, the PUD issued Series 2006 Electric System Revenue Refunding Obligations totaling \$6,090,000. Proceeds of the Series 2006 Revenue Refunding Obligations were used to advance refund \$5,570,000 of Series 2000B Revenue Obligations through an in-substance defeasance. All Series 2000B Revenue Obligations were subsequently redeemed. Series 2006 Revenue Refunding Obligations are special limited obligations of the PUD payable solely from and secured by a pledge of the net operating revenues of the electric system and amounts on deposit in the debt service account and the reserve account.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

4 - LONG-TERM DEBT: (Contd)

Revenue Obligations Payable (Contd)

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

	<u>Balance</u> <u>January 1, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>December 31, 2012</u>
Principal	<u>\$ 9,200,000</u>	<u>\$ -</u>	<u>\$ 870,000</u>	<u>\$ 8,330,000</u>
	<u>Balance</u> <u>January 1, 2012</u>	<u>Matured</u>	<u>Paid</u>	<u>Balance</u> <u>December 31, 2012</u>
Interest	<u>\$ -</u>	<u>\$ 416,650</u>	<u>\$ 416,650</u>	<u>\$ -</u>

At December 31, 2012, and 2011, revenue obligations payable consist of the following:

	<u>2012</u>	<u>2011</u>
Series 2000A Revenue Obligations, principal payable annually on December 1. Interest at 5.25% to 5.45% per annum payable semi-annually on June 1 and December 1 each year.	\$ 2,395,000	\$ 3,210,000
Series 2006 Revenue Refunding Obligations, principal payable annually on December 1. Interest at 3.75% to 4.75% per annum payable semi-annually on June 1 and December 1 each year.	<u>5,935,000</u>	<u>5,990,000</u>
	8,330,000	9,200,000
Less current maturities	<u>915,000</u>	<u>870,000</u>
Long-term debt	<u>\$ 7,415,000</u>	<u>\$ 8,330,000</u>

As of December 31, 2012, scheduled annual maturities of revenue obligations principal and interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 915,000	\$ 372,262	\$ 1,287,262
2014	965,000	325,051	1,290,051
2015	1,015,000	274,352	1,289,352
2016	1,065,000	225,388	1,290,388
2017	1,115,000	174,800	1,289,800
2018-2020	<u>3,255,000</u>	<u>250,000</u>	<u>3,505,000</u>
Total	<u>\$ 8,330,000</u>	<u>\$ 1,621,853</u>	<u>\$ 9,951,853</u>

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

4 - LONG-TERM DEBT: (Contd)

Revenue Obligations Payable (Contd)

The unamortized premium on revenue obligations and the unamortized loss on reacquired debt are being amortized over the life of the 2006 revenue obligations issue using the straight-line method.

5 - RETIREMENT PLANS:

PENSION PLAN:

Plan Description

The PUD participates in the State of Oregon Public Employees Retirement System (PERS), an agent multiple-employer pension plan which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The system is a statewide defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. PERS is administered under Oregon Revised Statutes Chapter 238 and Chapter 238A by the Public Employees Retirement Board. Participation by state government units, school districts, and community colleges is mandatory. Participation by most political subdivisions is optional but irrevocable if elected. A stand-alone financial report is not available for the PUD. However, the State of Oregon Public Employees Retirement System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, 11410 S.W. 68th Parkway, P.O. Box 23700, Tigard, Oregon 97281-3700 or by calling (503) 598-PERS.

Funding Policy

PERS members are required to contribute 6% of their annual covered salary after fulfilling a mandatory six-month waiting period as public employees to become members of PERS. The PUD is required to contribute an actuarially determined rate; the rate was 8.93% of annual covered payroll during the first six months of 2011, and 10.95% of annual covered payroll during the last six months of 2011 and all of 2012. The PUD also contributed for Oregon Public Service Retirement Plan member employees at a rate of 10.32% during the first six months of 2011, and 10.38% during the last six months of 2011 and all of 2012. The PUD contributes the employer's portion and the employee's portion for all employees. The contribution requirements of plan members and the PUD are established and may be amended by the Public Employees Retirement Board.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

5 - RETIREMENT PLANS: (Contd)

PENSION PLAN: (Contd)

Annual Pension Cost

For 2012 and 2011, the PUD's annual pension costs, for the employer's portion only, of \$457,736 and \$412,776, respectively, for the system were equal to the PUD's required and actual contributions. The required contributions for the first six months of 2011 were determined as part of the December 31, 2007 actuarial valuation which used the projected unit credit actuarial cost method. The required contributions for the last six months of 2011 and all of 2012 were determined as part of the December 31, 2009 actuarial valuation which used the projected unit credit actuarial cost method.

The December 31, 2007 actuarial valuation, which provided employer contribution rates which became effective July 1, 2009, uses the projected unit credit actuarial cost method. The unfunded actuarial liability is being amortized as a level percentage of combined valuation payroll over a closed 20-year period. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over 20 years from the odd-year valuation in which they are first recognized. The change in the unfunded actuarial liability due to the change in the actuarial cost method from the entry age actuarial cost method to the projected unit credit actuarial cost method is being amortized as a level percentage of combined valuation payroll over a rolling three-year period. On December 31, 2007, the actuarial value of assets was equal to the market value of assets. Significant actuarial assumptions used in the valuation include (a) consumer price inflation of 2.75% per year, (b) a rate of return on the investment of assets of 8.00% compounded annually, and (c) future general wage inflation of 3.75% per year.

The December 31, 2009 actuarial valuation, which provided employer contribution rates which became effective July 1, 2011, uses the projected unit credit actuarial cost method. The unfunded actuarial liability is being amortized as a level percentage of combined valuation payroll over a closed 20-year period (for Retiree Healthcare a closed 10-year period is used). Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over 20 years (10 years for Retiree Healthcare and 16 years for Oregon Public Service Retirement Plan) from the odd-year valuation in which they are first recognized. On December 31, 2009, the actuarial value of assets was equal to the market value of assets. Significant actuarial assumptions used in the valuation include (a) consumer price inflation of 2.75% per year, (b) a rate of return on the investment of assets of 8.00% compounded annually, and (c) future general wage inflation of 3.75% per year.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

5 - RETIREMENT PLANS: (Contd)

PENSION PLAN: (Contd)

Annual Pension Cost (Contd)

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12-31-12	\$ 457,736	100%	\$ -
12-31-11	\$ 412,776	100%	\$ -
12-31-10	\$ 369,562	100%	\$ -

Funding Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 83% funded. The actuarial value of assets was \$11,614,143, and the actuarial accrued liability for benefits was \$13,958,378, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,344,235. The covered payroll was \$4,487,797, and the ratio of the UAAL to the covered payroll was 52%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The December 31, 2011 actuarial valuation uses the projected unit credit actuarial cost method. The unfunded actuarial liability is being amortized as a level percentage of combined valuation payroll over a closed 20-year period (for Retiree Healthcare a closed 10-year period is used). Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over 20 years (10 years for Retiree Healthcare and 16 years for Oregon Public Service Retirement Plan) from the odd-year valuation in which they are first recognized. On December 31, 2011, the actuarial value of assets was equal to the market value of assets. Significant actuarial assumptions used in the valuation include (a) consumer price inflation of 2.75% per year, (b) a rate of return on the investment of assets of 8.00% compounded annually, and (c) future general wage inflation of 3.75% per year.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

5 - RETIREMENT PLANS: (Contd)

DEFINED CONTRIBUTION PLAN:

The PUD established the Columbia River People's Utility District 401(a) Deferred Compensation Matching Plan effective January 1, 2007. The plan is a defined contribution plan which is administered by the PUD and which is available to all eligible employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The PUD is required to contribute an amount equal to the amount that eligible employees contribute (1% to 4% of employee compensation) to the PUD's IRC Section 457(b) plan. The PUD is also required to contribute a performance contribution for eligible employees equal to 2% of employee compensation. During 2012 and 2011, the PUD made the required contributions of \$215,811 and \$208,255, respectively. Plan provisions are established by and may be amended by the PUD.

DEFERRED COMPENSATION PLAN:

The PUD offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to all employees who elect to participate. All assets of the deferred compensation plan are held in trust by third-party trustees for the exclusive benefit of the participants and their beneficiaries. Because the PUD does not have fiduciary accountability for the plan and does not hold plan assets in a trustee capacity, the deferred compensation plan is not reported in the PUD's financial statements.

6 - POST-EMPLOYMENT HEALTH CARE BENEFITS:

Plan Description

The PUD administers a single-employer defined benefit healthcare plan. The plan consists of a lump sum benefit subsidy payment upon retirement into a HRA-VEBA account. Retirees and their spouses have the option of purchasing health care, dental and vision insurance through the PUD up to age 65 with the retiree paying the entire premium. Benefit provisions are established through PUD policy. The PUD's post-employment health care plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements are established through PUD policy. The basic benefit subsidy is equal to sixty months of the premium cost at the time of retirement to reflect the value of 100% of the retiree's premium and 50% of their spouse's premium. This benefit subsidy is reduced for retirees who have less than 30 years of service but meet all other eligibility requirements, and increased for retirees who have more than 30 years of service if retirement occurs after the age of 60. Funding is on a pay-as-you-go basis. The PUD contributed \$47,981 and \$0, respectively, to the plan during 2012 and 2011.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

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

Annual OPEB Cost and Net OPEB Obligation

The PUD's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a 30 year period. The following table shows the components of the PUD's annual OPEB cost for the year, amounts actually contributed to the plan, and changes in the PUD's net OPEB obligation:

Annual required contribution	\$ 103,724
Interest on net OPEB obligation	12,101
Adjustment to annual required contribution	<u>(15,744)</u>
Annual OPEB cost	100,081
Contributions made	<u>(47,981)</u>
Increase in net OPEB obligation	52,100
Net OPEB obligation - beginning of year	<u>242,023</u>
Net OPEB obligation - end of year	<u><u>\$ 294,123</u></u>

The PUD's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011 and 2010 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2012	\$ 100,081	47.9%	\$ 294,123
12/31/2011	\$ 101,611	0.0%	\$ 242,023
12/31/2010	\$ 63,102	81.1%	\$ 140,412

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$747,480 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$747,480. The covered payroll (annual payroll of active employees covered by the plan) was \$3,918,791 for 2010 and the ratio of the UAAL to the covered payroll was 19%.

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

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

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

Actuarial Methods and Assumptions

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

In the actuarial valuation conducted as of January 1, 2011, the projected unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized using the level-dollar method over a 30-year period on an open basis. Actuarial assumptions included a discount rate of 5% and an annual healthcare cost trend rate of 8% initially, reduced to an ultimate rate of 5% beginning in 2014.

7 - RISK MANAGEMENT:

The PUD is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. ORS 30.260 to 30.300 generally limits the PUD's liability with respect to torts. The PUD is a member of Special Districts Insurance Services (SDIS) and pays an annual premium to SDIS for risks of loss including general liability, automobile liability, public official liability and property coverage. Under the membership agreement with SDIS, SDIS is to be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

8 - INCOME TAX STATUS:

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

9 - POWER PURCHASE AGREEMENTS:

In September 2000, the PUD executed a Full Service Power Sales Agreement with the Bonneville Power Administration (BPA) for the period October 1, 2001 through September 30, 2011. Wholesale power rates under this agreement are not fixed.

In November 2008, the PUD executed a Power Sales Agreement with the BPA for the period October 1, 2011 through September 30, 2028. Wholesale power rates under this agreement are not fixed.

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2012, and 2011

10 - RESTATEMENT:

Due to the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, net position as of January 1, 2011 has been restated as follows:

Net position - January 1, 2011, as originally reported	\$ 34,123,598
Unamortized debt issuance costs	<u>(184,884)</u>
Net position - January 1, 2011, as restated	<u><u>\$ 33,938,714</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Schedule of Funding Progress for Retirement Plan

	Actuarial Valuation Date		
	12-31-11	12-31-10	12-31-09
Actuarial value of assets (a)	\$ 11,614,143	\$ 12,073,472	\$ 10,976,475
Actuarial accrued liability (b)	13,958,378	14,110,150	12,944,562
Unfunded actuarial accrued liability (b-a)	<u>\$ 2,344,235</u>	<u>\$ 2,036,678</u>	<u>\$ 1,968,087</u>
Funded ratio (a/b)	<u>83%</u>	<u>86%</u>	<u>85%</u>
Covered payroll (c)	<u>\$ 4,487,797</u>	<u>\$ 3,977,426</u>	<u>\$ 3,947,347</u>
Unfunded actuarial accrued liability as a percentage of covered payroll ((b-a)/c)	<u>52%</u>	<u>51%</u>	<u>50%</u>

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Schedule of Funding Progress for Retiree Health Plan

	<u>Actuarial Valuation Date</u>	
	<u>1-1-11</u>	<u>12-31-08</u>
Actuarial value of assets (a)	\$ -	\$ -
Actuarial accrued liability (b)	<u>747,480</u>	<u>462,500</u>
Unfunded actuarial accrued liability (b-a)	<u>\$ 747,480</u>	<u>\$ 462,500</u>
Funded ratio (a/b)	<u>0%</u>	<u>0%</u>
Covered payroll (c)	<u>\$ 3,918,791</u>	<u>\$ 3,315,875</u>
Unfunded actuarial accrued liability as a percentage of covered payroll ((b-a)/c)	<u>19%</u>	<u>14%</u>

OTHER SUPPLEMENTARY INFORMATION

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Schedule of Revenue Obligations Principal and Interest Transactions
Year Ended December 31, 2012

	Principal Transactions			Outstanding 12-31-12
	Outstanding 1-1-12	2012 Issues	2012 Retirements	
Series 2000A Revenue Obligations	\$ 3,210,000	\$ -	\$ 815,000	\$ 2,395,000
Series 2006 Revenue Obligations	5,990,000	-	55,000	5,935,000
Totals	<u>\$ 9,200,000</u>	<u>\$ -</u>	<u>\$ 870,000</u>	<u>\$ 8,330,000</u>

	Interest Transactions			Matured 12-31-12
	Matured 1-1-12	2012 Maturities	2012 Payments	
Series 2000A Revenue Obligations	\$ -	\$ 170,283	\$ 170,283	\$ -
Series 2006 Revenue Obligations	-	246,367	246,367	-
Totals	<u>\$ -</u>	<u>\$ 416,650</u>	<u>\$ 416,650</u>	<u>\$ -</u>

SCHEDULE 4

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Schedule of Future Revenue Obligations Principal and Interest Requirements
December 31, 2012

Year	Series 2000A Revenue Obligations			Series 2006 Revenue Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 860,000	\$ 127,902	\$ 987,902	\$ 55,000	\$ 244,360	\$ 299,360
2014	905,000	82,753	987,753	60,000	242,298	302,298
2015	630,000	34,335	664,335	385,000	240,017	625,017
2016	-	-	-	1,065,000	225,388	1,290,388
2017	-	-	-	1,115,000	174,800	1,289,800
2018	-	-	-	1,155,000	130,200	1,285,200
2019	-	-	-	1,205,000	84,000	1,289,000
2020	-	-	-	895,000	35,800	930,800
Totals	<u>\$ 2,395,000</u>	<u>\$ 244,990</u>	<u>\$ 2,639,990</u>	<u>\$ 5,935,000</u>	<u>\$ 1,376,863</u>	<u>\$ 7,311,863</u>

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Schedule of Future Revenue Obligations Principal and Interest Requirements
December 31, 2012

Total Future Requirements		
<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$ 915,000	\$ 372,262	\$ 1,287,262
965,000	325,051	1,290,051
1,015,000	274,352	1,289,352
1,065,000	225,388	1,290,388
1,115,000	174,800	1,289,800
1,155,000	130,200	1,285,200
1,205,000	84,000	1,289,000
895,000	35,800	930,800
<u>\$ 8,330,000</u>	<u>\$ 1,621,853</u>	<u>\$ 9,951,853</u>

STATISTICAL INFORMATION

COLUMBIA RIVER PEOPLE'S UTILITY DISTRICT

Statistical Information
Last Five Years

	2012	2011	2010	2009	2008
Number of customers: (I)					
Residential	16,111	16,118	16,121	16,084	16,011
General service - 30kW or less	1,698	1,672	1,662	1,660	1,713
General service - over 30kW	243	234	229	220	214
Industrial	8	8	8	8	9
Street lighting and signals	520	515	512	513	562
Irrigation	57	57	58	57	60
Total customers	<u>18,637</u>	<u>18,604</u>	<u>18,590</u>	<u>18,542</u>	<u>18,569</u>
Energy requirements: (MWh)					
Energy sales:					
Residential	211,529	217,729	209,135	218,328	215,038
General service - 30kW or less	26,730	26,538	26,021	26,955	27,107
General service - over 30kW	59,412	59,384	58,516	60,261	64,009
Industrial	158,804	169,387	154,606	162,561	203,521
Street lighting and signals	1,926	1,825	1,815	1,905	2,115
Irrigation	2,661	2,481	1,904	1,716	1,929
Total energy sales	<u>461,062</u>	<u>477,344</u>	<u>451,997</u>	<u>471,726</u>	<u>513,719</u>
Used by utility	503	507	544	538	484
Losses	14,468	15,596	11,378	15,476	15,146
Total energy requirements	<u>476,033</u>	<u>493,447</u>	<u>463,919</u>	<u>487,740</u>	<u>529,349</u>
System peak (MW)	<u>88.9</u>	<u>93.1</u>	<u>91.6</u>	<u>103.4</u>	<u>97.5</u>
Operating revenues:					
Sales of electricity:					
Residential	\$ 14,259,016	\$ 14,287,146	\$ 13,538,499	\$ 14,127,055	\$ 14,078,591
General service - 30kW or less	2,084,434	1,965,561	1,901,876	1,972,243	1,994,088
General service - over 30kW	4,077,343	3,955,556	3,884,088	3,955,073	4,184,141
Industrial	6,683,918	6,825,468	6,286,237	6,530,560	8,136,854
Street lighting and signals	184,727	175,045	172,645	178,990	208,949
Irrigation	177,278	157,165	121,648	110,330	123,248
Total sales of electricity	<u>27,466,716</u>	<u>27,365,941</u>	<u>25,904,993</u>	<u>26,874,251</u>	<u>28,725,871</u>
Other operating revenues	<u>311,754</u>	<u>312,021</u>	<u>314,638</u>	<u>291,176</u>	<u>305,657</u>
Total operating revenues	<u>\$ 27,778,470</u>	<u>\$ 27,677,962</u>	<u>\$ 26,219,631</u>	<u>\$ 27,165,427</u>	<u>\$ 29,031,528</u>
Average annual kWh used per customer:					
Residential	13,129	13,508	12,973	13,574	13,431
General service - 30kW or less	15,742	15,872	15,656	16,238	15,824
General service - over 30kW	244,494	253,778	255,528	273,914	299,107
Industrial	19,850,500	21,173,375	19,325,750	20,320,125	22,613,444
Street/area lighting and signals	3,704	3,544	3,545	3,713	3,763
Irrigation	46,684	43,526	32,828	30,105	32,150
Average revenue per kWh: (in cents)					
Residential	6.741	6.562	6.474	6.471	6.547
General service - 30kW or less	7.798	7.407	7.309	7.317	7.356
General service - over 30kW	6.863	6.661	6.638	6.563	6.537
Industrial	4.209	4.030	4.066	4.017	3.998
Street/area lighting and signals	9.591	9.592	9.512	9.396	9.879
Irrigation	6.662	6.335	6.389	6.429	6.389
Average all classes	<u>5.957</u>	<u>5.733</u>	<u>5.731</u>	<u>5.697</u>	<u>5.592</u>

(I) Annual monthly average

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

INDEPENDENT AUDITOR'S COMMENTS
REQUIRED BY OREGON STATE REGULATIONS

March 4, 2013

Board of Directors
Columbia River People's Utility District
Deer Island, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Columbia River People's Utility District as of and for the year ended December 31, 2012, and have issued our report thereon dated March 4, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance

As part of obtaining reasonable assurance about whether Columbia River People's Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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

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

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

Purpose of this Report

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

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

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.