Financial Report
Years ended December 31, 2005 and 2006

Public Utility District No. 1
of Douglas County, Washington

Board of Commissioners:
T. James Davis
Lynn M. Heminger
Ronald E. Skagen

William C. Dobbins
General Manager

Mailing Address:
Douglas County PUD
1151 Valley Mall Parkway
East Wenatchee, WA 98802

Table of Contents

Commission Report 2006


T. James Davis


Lynn M. Heminger


Ronald E. Skagen

We are proud to present the Biennial Report of Douglas County PUD. This report summarizes the business activity of your public utility district for the years 2005 and 2006.

Douglas County has benefited from the ingenuity and courage of our predecessor commissioners, who developed the assets of Douglas County PUD. Two main examples of their leadership that continue to benefit the people of Douglas County are the Wells Hydroelectric Project and the Electric Distribution System. We remind ourselves nearly each time we meet that maintaining good stewardship of these assets is vital to the residents of the county. With that in mind, we strive to carefully balance our ability to meet the needs of new customers with large power requirements against protection of our existing customer base.

Continued development of Douglas County Community Network (DCCN) and participation in the Northwest Open Access Network ensures access to high-speed data transfer capabilities that will protect the economic viability of Douglas County. As state law allows, Douglas PUD continues to be a wholesale provider of these services to Internet Service Providers.

Douglas PUD is a 15.4% participant in the first two phases of Energy Northwest's Nine Canyon Wind Project. The second phase of the Project went into commercial operation in December 2003, increasing the turbine count to 49 and capacity to 63.7 megawatts. The Nine Canyon Wind Project, located approximately 8 miles southeast of Kennewick, adds wind power to our already clean, renewable electric generation portfolio.

For the past six years, we have investigated wind generation in Douglas County. Numerous botanical and environmental studies have been conducted along with the testing of wind speed and direction in various parts of the county. Information we have collected has focused our attention on the Withrow area and engineering and permitting has begun. Electricity generated by Douglas County wind may become a part of our renewable resource portfolio in the near future.

After over 11 years of negotiation, the Wells Project Habitat Conservation Plan (HCP) was approved by the Federal Energy Regulatory Commission (FERC) in June 2004. The HCP lays a sturdy foundation for the Wells Hydroelectric Project relicensing process. The current license expires in 2012. The Integrated Licensing Process is a timeline-driven plan developed by FERC to keep all stakeholders moving through the relicensing process. The Notice of Intent to File an Application for New License and the Pre-Application Document were submitted to FERC December 1, 2006. The process is scheduled to last five and one-half years. Away we go!

We take pleasure in telling you, year after year, that our public utility district continues to lead the nation in providing low-cost electric service. All of the citizens of Douglas County and employees of Douglas County PUD share credit for this success. Thank you all for your efforts and support.

Executive Report 2006

William Dobbins

Looking back over the last two years, it is plain to see that your Douglas County PUD has been busy. Every department has been working on projects that, when combined, make Douglas PUD what it is today; a financially stable, low-cost provider of reliable utility services.

Residential development has been off the charts. We have seen a large increase in requests for new service and subdivision power facility agreements. We are pleased to continue to provide low-cost power to our customers, and this increase in development emphasizes the need to successfully relicense the Wells Hydroelectric Project to achieve that goal.

Distribution System operating results continued to be positive over the past two years. Douglas PUD ended 2006 with 17,507 electric customers, assets of $179.4 million, and customers' equity in the electric system at 86 percent. Douglas PUD continues to maintain electricity prices among the lowest in the country.

Generator Unit One at the Wells Hydroelectric Project experienced a fault in February 2005. Investigation led to the rebuilding of the unit's steel stator core and copper rotor poles. The unit was put back online in June 2006 at a cost of around $5.5 million. Further examination determined the other nine generators, which are nearly 30 years old, must be rebuilt to minimize additional failures. Douglas PUD has contracted with Toshiba International Corporation of Englewood, CO, to perform the necessary work. This project is scheduled to take several years.

The Wells Project provides tremendous benefits to the people of Douglas County. I realize one of those benefits each time I open my power bill. Our share of the electric generation from the Wells Hydroelectric Project meets most of our needs in Douglas County. Wells Project output not used in Douglas or Okanogan counties is transmitted to four investor-owned utilities to serve other areas in the Pacific Northwest. Wells continues to maintain its position as the most environmentally responsible hydroelectric project on the Columbia River. The Wells Project ended the year with assets of $307.1 million and equity of 26.1 percent.

I am proud to work with the employees of Douglas PUD, who work as a team to provide the utmost in customer service. Our talented and dedicated workforce, coupled with the assets of the people of Douglas County, is the key to our success every day. Douglas PUD employees take ownership of our mission to provide low-cost, reliable utility services to the people of Douglas County. They are your best insurance for a responsible, consumer-owned electric system.

We appreciate receiving your comments. We read them to the Commissioners at each meeting. The Commissioners integrate your comments into their thinking as they consider policy direction for the District. After all, our customers are our most important partners at Douglas PUD.

Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

December 18, 2007

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

We have audited the accompanying financial statements of each major fund of Public Utility District No. 1 of Douglas County, Douglas County, Washington, as of and for the years ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the District's 2005 financial statements and, in our report dated June 30, 2006, we expressed unqualified opinions on the respective financial statements of the business-type activities.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Public Utility District No. 1 of Douglas County, Douglas County, Washington, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include prior year partial comparative information. Such information does not include all the information required for presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2005, from which such partial information was derived.

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The management's discussion and analysis on pages 5 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Management's Discussion And Analysis

The following management's discussion and analysis presents an overview and analysis of the financial activities of Public Utility District No. 1 of Douglas County (the District) during the fiscal year ended December 31, 2006 and 2005. This supplementary information should be read in conjunction with the accompanying audited financial statements and related notes.

OVERVIEW OF FINANCIAL STATEMENTS AND OPERATIONS

The District is organized in two primary operating systems: the Electric Distribution System (Distribution System) and the Wells Hydroelectric Project (Wells Project). The Distribution System provides retail electric and wholesale broadband service to customers in Douglas County, Washington. The Wells project is a hydroelectric facility, owned and operated by the District and located on the Columbia River in the state of Washington. Generation from the Wells Project is sold at cost to four Pacific Northwest investor owned utilities (the Power Purchasers), pursuant to long term power sales contracts, to the District's Distribution System and to the Colville Confederated Tribes under the terms of a settlement agreement. See the notes to the financial statements for information regarding the Colville Settlement Agreement.

The financial report includes the Management's Discussion and Analysis (MD&A), the financial statements and the notes to the financial statements. The financial statements of the District report information using accounting methods similar to those used by private utility companies. These statements offer short and long term financial information about the District's activities. For additional information on the District's capital assets and long-term debt activity please refer to the footnotes.

- The balance sheet is a statement of position; it includes all of the District's investments in resources (assets), obligations to creditors (liabilities) and net assets (equity).
- The statement of revenues, expenses, and changes in net assets reflect the transactions and events that increase and decrease the economic resources of the district (operations). Revenues and expenses are summarized by major source and use. Revenues and expenses are further summarized by operating and nonoperating based on the nature of the transaction.
- The statements of cash flows reflect the District's sources and uses of cash separated into operating, investing, and capital activities.

DISTRIBUTION SYSTEM

The service area of the Electric Distribution System includes Douglas County with an area of 1,820 square miles. The assets (properties) of the Distribution System include 16 miles of 115-kV transmission lines, 13 substations, 1,170 miles of overhead and underground distribution lines, 229 miles of fiber optic lines and other buildings, equipment, inventories and related facilities.

Condensed Comparative Financial Information

Distribution System Balance Sheet
(Dollars in Thousands)

			Increase (Decrease) 2006-2005		
	12/31/2006	12/31/2005	$	%	12/31/2004
Capital Assets	$ 108,959	$ 102,060	$ 6,899	6.8%	$ 98,789
Current & Other Assets	70,475	66,540	3,935	5.9%	58,775
Total Assets	179,434	168,600	10,834	6.4%	157,564
Noncurrent Liabilities	16,153	14,338	1,815	12.7%	15,403
Current Liabilities	9,609	9,570	39	0.4%	9,014
Total Liabilities	25,762	23,908	1,854	7.8%	24,417
Invested in Capital Assets, net of debt	89,548	84,564	4,984	5.9%	80,760
Unrestricted	64,124	60,118	4,006	6.7%	52,387
Total Net Assets	$ 153,672	$ 144,682	$ 8,990	6.2%	$ 133,147

Distribution System Statement of Earnings and Net Assets
(Dollars in Thousands)

			Increase (Decrease) 2006-2005		
	12/31/2006	12/31/2005	$	%	12/31/2004
Operating Revenues					
Retail Electric Sales	$ 12,983	$ 12,526	$ 457	3.6%	$ 12,150
Electric Sales For Resale	24,691	31,158	(6,467)	-20.8%	26,713
Broadband	600	525	75	14.3%	480
Other	212	306	(94)	-30.7%	271
Nonoperating Revenues	3,083	2,049	1,034	50.5%	1,535
Total Revenues	41,569	46,564	(4,995)	-10.7%	41,149
Operating Expenses					
Purchased Power	19,568	22,356	(2,788)	-12.5%	22,268
Other	13,593	12,618	975	7.7%	12,019
Nonoperating Expenses	620	714	(94)	-13.2%	714
Total Expenses	33,781	35,688	(1,907)	-5.3%	35,001
Capital Contributions	1,202	658	544	82.7%	1,048
Net Earnings	8,990	11,534	(2,544)	-22.1%	7,196
Beginning Net Assets	144,681	133,147	11,534	8.7%	125,951
Ending Net Assets	$ 153,671	$ 144,681	$ 8,990	6.2%	$ 133,147

(Continued)

Financial Analysis

During 2006, the Distribution System's overall financial position improved. Net assets increased by 6.2% to $154 million.

Revenue

2005 to 2006:

Annual revenue fluctuations in energy sales are typically due to changes in weather conditions, river flows and electrical consumption patterns. In 2006, electric sales for resale decreased 20.8% to $24.6 million. The District had less power to sell because a long-term power purchase from BPA ended in March 2006 (further described in footnote 6). Electric sales to retail customers increased 3.6% to $13 million in 2006. Nonoperating revenues increased 50.0% to $3 million because of interest earned on Distribution System investments.

2004 to 2005:

In 2005, total electric revenue increased 12.4%. The increase was primarily due to an increase in electric sales for resale, which increased 16.9% to $31 million. Retail customer growth of 2.0% further contributed to electric sales. Retail customer sales increased 3.1% to $12.5 million in 2005.

Expenses

2005 to 2006:

During 2006 as compared to 2005 power cost decreased 12.5% to $19.5 million. The primary reason for this decrease was because the District's purchase of a 50-megawatt block of power from BPA ended in March 2006. The Distribution System continues to purchase the bulk of its power from the Wells Project. Other power resources currently include: Rocky Reach Dam, Nine Canyon Wind Project and a long-term exchange contract with Coral Energy.

2004 to 2005:

Power cost remained stable at $22 million with only a 0.4% increase from 2004. Total operating expenses increased 2.0% largely as a result of general wage escalation.

Capital Asset and Long Term Debt Activity

During 2006, capital assets, net of construction work-in-progress increased $6.9 million. Capital additions are associated with a growing customer base, long-term maintenance of electrical distribution facilities and moving district facilities for road expansion projects.

The Distribution System's outstanding debt, net of the current portion, is $12 million in outstanding revenue bonds. Debt service payments for 2006 were $1.9 million. Debt service coverage ratios for 2006 and 2005 were 7.1 and 6.6, respectively.

Please see the notes to the financial statements for further information regarding capital assets and long-term debt activity of the Distribution System.

Capital Contributions

District customers pay Contributions-in-Aid-of Construction that help fund new construction projects. In 2006 the District experienced an increase in commercial and residential building projects, which increased capital contributions by 83% in 2006.

WELLS PROJECT

The Wells Project is located 516 river miles from the mouth of the Columbia River. The District was issued a 50-year license, expiring in 2012, to develop the Wells site as the Wells Hydroelectric Project. Commercial operation began on September 16, 1967. The Wells Project is constructed in a hydrocombine design, which includes generating units, switchyard, spillways, and fish passage facilities in a single integrated concrete structure.

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Condensed Comparative Financial Information

Well Project Balance Sheets
(Dollars in Thousands)

	12/31/2006	12/31/2005	Increase (Decrease) 2006-2005 $	%	12/31/2004
Current and Other Assets	$ 128,166	$ 132,218	$ (4,052)	-3.1%	$ 63,418
Capital Assets	178,942	176,180	2,762	1.6%	175,307
Total Assets	307,108	308,398	(1,290)	-0.4%	238,725
Long-Term Liabilities	207,347	216,241	(8,894)	-4.1%	155,488
Other Liabilities	19,750	17,964	1,786	9.9%	13,899
Total Liabilities	227,097	234,205	(7,108)	-3.0%	169,387
Invested in Capital Assets, Net of Related Debt	57,183	50,888	6,295	12.4%	35,011
Restricted	10,595	9,355	1,240	13.3%	7,637
Unrestricted	12,233	13,950	(1,717)	-12.3%	26,691
Total Net Assets	$ 80,011	$ 74,193	$ 5,818	7.8%	$ 69,339

Wells Project Statements of Earnings and Net Assets
(Dollars in Thousands)

	12/31/2006	12/31/2005	Increase (Decrease) 2006-2005 $	%	12/31/2004
Operating Revenues	$ 36,346	$ 31,806	$ 4,540	14.3%	$ 30,828
Nonoperating Revenues	3,888	1,796	2,092	116.5%	395
Total Revenues	40,234	33,602	6,632	19.7%	31,223
Operating Expenses	21,704	17,826	3,878	21.8%	18,959
Nonoperating Expenses	12,713	10,921	1,792	16.4%	9,808
Total Expenses	34,417	28,747	5,670	19.7%	28,767
Net Earnings	5,817	4,855	962	19.8%	2,456
Beginning Net Assets	74,194	69,339	4,855	7.0%	66,883
Ending Net Assets	$ 80,011	$ 74,194	$ 5,817	7.8%	$ 69,339

Financial Analysis

Fluctuations shown in the comparison of financial position of the Wells Project at December 31, 2006 and 2005 were due mainly to a decrease in long-term liabilities resulting from retirement of outstanding bonds through regular debt service and the refinancing of older, higher interest debt. The refinancing and other significant financial items are discussed in further detail below and in the notes to the financial statements.

Revenues & Expenses

Because the electricity generated by the Wells Project is sold at cost, which under the terms of the power sales contracts includes debt service but excludes depreciation, operating revenues fluctuate based on operating expenses and debt service requirements.

(Continued)

<u>2005 to 2006:</u>
During 2006 as compared to 2005, total annual operating expenses increased by $3.9 million to $21.7 million, a 21.8% increase. Several items contributed to this increase, as follows:

- The District hired a contractor to clean out the rock trap in the tailrace and remove debris in the forebay of the Wells Project at a cost of $1.3 million.
- The Federal Energy Regulatory Commission (FERC) administrative charges in 2006 were $.7 million higher than the previous year.
- Payments to the Wells Project's consulting engineer, Jacobs Civil, were $.6 million greater in 2006 than 2005. This was due mainly to increased work performed by Jacobs related to preliminary planning and engineering pertaining to several upcoming projects.
- Depreciation expense increased by $.5 million.

During 2006 total nonoperating revenues increased by $2.1 million. This was due to increased investment earning resulting from a continued general increase in interest rates and from the first full year of investment of the proceeds of the 2005 Bonds. Nonoperating expenses increased by $1.8 million, due mainly to the first full year of interest expense on the 2005 Bonds.

<u>2004 to 2005:</u>
During 2005 as compared to 2004 total annual operating expense decreased by $1.1 million to $17.8 million, a 6.0% decrease. The primary reason for this decrease was the reduction of expenses due to fish hatchery sharing agreements with neighboring public utility districts. Under the terms of these agreements the other public utility districts utilize excess fish rearing capacity at the Wells Project's fish hatcheries and pay a share of the hatchery expenses. The hatchery sharing agreements were implemented about mid-year in 2004, and 2005 was the first full year of their use.

During 2005 total nonoperating revenues increased by $1.4 million, due to increased investment earnings resulting from a general increase in interest rate and from investment of the 2005 Bonds, issued mid-year. Nonoperating expenses increased by $1.1 million, due mainly to increased interest expense on long-term debt resulting from issuance of the 2005 Bonds.

<u>Capital Assets and Long-Term Debt Activity</u>
As of December 31, 2006 the Wells Project had approximately $179 million invested in capital assets, net of accumulated depreciation, including its hydraulic generation and transmission plant, fish rearing facilities, and related land, office buildings and equipment. Capital costs of the Wells Project, other than major additions or replacements, are typically funded from revenues. Costs of major additions or replacements are funded from bond proceeds.

As of December 31, 2006 the Wells Project had long-term liabilities of $207 million. This included $198 million of revenue bonds outstanding, net of the current portion of $11 million. In July 2005 the District issued an additional $88 million of Wells Project Revenue Bonds (the 2005 Bonds) for the purposes of financing a major rebuild of the generating units at the Wells Project, certain other capital projects, payment of the cash portion of the Colville Settlement Agreement, and refinancing of a portion of the District's outstanding 1999 Wells Project Bonds. In August 2006 the District issued $13 million of Wells Project bonds (the 2006 Bonds) for the purpose of refinancing the remaining outstanding 1986A Bonds. This resulted in total debt service savings of $4.8 million over the ensuing 12 years. Please see the notes to the financial statements for further information regarding the 2005 and 2006 Bonds and other Wells Project Bonds.

In the spring of 2002 the bond rating firm of Standard & Poor's upgraded its rating of the Wells Project to "AA". This rating was affirmed in the fall of 2003. Additionally, in the fall of 2003 Moody's Investors Service upgraded its bond rating for the Wells Project to "Aa2". These ratings were affirmed by Standard & Poor's and Moody's, respectively, in 2005 and 2006.

In November 2004 the District reached a settlement with the Tribes regarding use of Tribal lands. The settlement included three items of compensation from the Wells Project, namely 1) a cash payment; 2) a transfer of land owned by the Wells Project; and 3) an agreement to sell a portion of future Wells Project power generation to the Tribes at cost. The cash payment of $13.5 million was made during the summer of 2005, and was financed by the 2005 Bonds. This cash payment is reflected as a deferred charge on the balance sheet, and is being amortized to expense over the life of the 2005 Bonds. Title to the land was transferred in early 2005.

Please see the notes to the financial statements for further information regarding capital assets and long term debt activity of the Wells Project.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the finances of the District. If you have questions about this report or need additional financial information, please contact Public Utility District No. 1 of Douglas County, 1151 Valley Mall Parkway, East Wenatchee, WA 98802.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2006

ASSETS	Wells Hydroelectric Project	Distribution System	TOTAL 2006	TOTAL 2005
Non-Current Assets				
Electric Plant:				
Electric Plant	$ 232,197,518	$ 147,531,720	$ 379,729,238	$ 367,973,262
Construction Work in Progress	9,512,898	5,702,278	15,215,176	13,391,017
Electric Plant-Gross	241,710,416	153,233,998	394,944,414	381,364,279
Less: Accum. Depreciation & Amortization	62,768,605	51,376,035	114,144,640	107,696,516
Net Electric Plant	178,941,811	101,857,963	280,799,774	273,667,763
Intradistrict Note Receivable		2,900,000	2,900,000	600,000
Deferred Charges:				
Unamortized Debt Discount & Expense	3,108,741	303,485	3,412,226	3,761,219
Unamortized Loss on Reacquired Debt	4,359,851	-	4,359,851	3,387,743
Other Deferred Charges	32,031,712	3,897,796	35,929,508	37,895,240
Total Non-Current Assets	218,442,115	108,959,244	327,401,359	319,311,965
Current Assets				
Restricted:				
Construction Funds-Cash	9,999	-	9,999	331,864
Construction Funds-Investments	69,707,155	-	69,707,155	74,221,554
Debt Repayment Funds-Cash	1,841,981	100,626	1,942,607	-
Debt Repayment Funds-Investments	6,007,233	-	6,007,233	9,517,759
Reserve & Contingency Fund-Cash	1,189,645	-	1,189,645	517,764
Reserve & Contingency Fund-Investments	4,500,000	-	4,500,000	5,025,000
Wells Project Relicensing Fund-Cash	-	2,950,427	2,950,427	-
Wells Project Relicensing Fund-Investments	-	5,770,617	5,770,617	9,692,911
Total Restricted	83,256,013	8,821,670	92,077,683	99,306,852
Unrestricted:				
Cash	3,781,096	24,330,636	28,111,732	24,434,576
Investments	-	14,665,000	14,665,000	6,596,245
Rate Stablization Fund	-	12,000,000	12,000,000	12,000,000
Receivables-Net	1,049,556	4,399,993	5,449,549	8,325,659
Materials and Supplies	-	3,661,657	3,661,657	3,502,040
Other Current & Accrued Assets	578,756	2,595,751	3,174,507	3,512,253
Total Unrestricted	5,409,408	61,653,037	67,062,445	58,370,773
Total Current Assets	88,665,421	70,474,707	159,140,128	157,677,625
TOTAL ASSETS	$ 307,107,536	$ 179,433,951	$ 486,541,487	$ 476,989,590

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2006

LIABILITIES & NET ASSETS	Wells Hydroelectric Project	Distribution System	TOTAL 2006	TOTAL 2005
Non-current Liabilities				
Bonds Payable, excluding current portion	$ 197,815,000	$ 12,410,000	$ 210,225,000	$ 221,865,000
Unamortized Bond Premiums (Discounts)	6,171,193	436,044	6,607,237	6,803,949
Bonds Payable, Net	203,986,193	12,846,044	216,832,237	228,668,949
Deferred Credits	460,699	3,111,393	3,572,092	613,954
Intradistrict Note Payable	2,900,000	-	2,900,000	600,000
Unamortized Gain on Redeemed Debt	-	195,472	195,472	234,328
Total Non-current Liabilities	207,346,892	16,152,909	223,499,801	230,117,231
Current Liabilities				
Accounts Payable	3,574,541	4,896,261	8,470,802	5,338,975
Other Accrued Liabilities	2,214,927	3,986,127	6,201,054	7,848,420
Payable from Restricted Assets:				
Accrued Interest Payable	3,365,616	46,376	3,411,992	4,004,078
Current Portion Long-Term Debt	10,595,000	680,000	11,275,000	10,805,000
Total Current Liabilities	19,750,084	9,608,764	29,358,848	27,996,473
Total Liabilities	227,096,976	25,761,673	252,858,649	258,113,704
Net Assets				
Invested in Capital Assets, Net of Related Debt	57,182,865	89,447,655	146,630,520	135,285,714
Restricted For Debt Service	10,595,000	100,626	10,695,626	9,522,209
Unrestricted	12,232,695	64,123,997	76,356,692	74,067,963
Total Net Assets	80,010,560	153,672,278	233,682,838	218,875,886
TOTAL LIABILITIES AND NET ASSETS	$ 307,107,536	$ 179,433,951	$ 486,541,487	$ 476,989,590

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For The Fiscal Year Ended December 31, 2006

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2006	TOTAL 2005
Operating Revenues					
Retail Sales of Electric Energy	$ -	$ 12,982,678	$ -	$ 12,982,678	$ 12,526,283
Energy Sales for Resale	36,345,787	24,691,196	(12,820,397)	48,216,586	51,391,627
Broadband	-	599,460	-	599,460	525,250
Other	-	212,211	-	212,211	305,895
Total Operating Revenues	36,345,787	38,485,545	(12,820,397)	62,010,935	64,749,055
Operating Expenses					
Operations	12,986,259	24,934,181	(12,820,397)	25,100,043	26,720,503
Maintenance	3,388,583	2,984,709	-	6,373,292	4,774,572
Depreciation	4,149,420	4,203,604	-	8,353,024	7,605,837
Taxes	1,179,440	1,038,243	-	2,217,683	2,125,959
Total Operating Expenses	21,703,702	33,160,737	(12,820,397)	42,044,042	41,226,871
Operating Income	14,642,085	5,324,808	-	19,966,893	23,522,184
Non-operating Revenues (Expenses)					
Interest Income	3,888,091	3,018,480	-	6,906,571	3,711,935
Interest Expense	(10,437,017)	(599,057)	-	(11,036,074)	(9,321,199)
Net Amortization of Debt Discounts, Premiums and Costs	(2,276,164)	(20,580)	-	(2,296,744)	(2,314,780)
Other	-	64,169	-	64,169	133,988
Total Non-operating Revenues (Expenses)	(8,825,090)	2,463,012	-	(6,362,078)	(7,790,056)
Income Before Contributions	5,816,995	7,787,820	-	13,604,815	15,732,128
Capital Contributions	-	1,202,137	-	1,202,137	657,739
Change In Net Assets	5,816,995	8,989,957	-	14,806,952	16,389,867
Net Assets, Beginning of Year	74,193,565	144,682,321	-	218,875,886	202,486,019
Net Assets, End of Year	$ 80,010,560	$ 153,672,278	$ -	$ 233,682,838	$ 218,875,886

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2006

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2006	TOTAL 2005
Cash Flow from Operating Activities					
Receipts from Customers	$ 35,981,535	$ 45,568,741	$ (12,820,397)	$ 68,729,879	$ 68,726,423
Receipts for Other Agencies	-	11,104,849		11,104,849	16,290,475
Receipts for Internal Services Provided	1,248,929	394,121	(1,643,050)	-	1,538,423
Payments for Internal Services Used	(394,121)	(1,248,929)	1,643,050	-	(1,538,423)
Payments to Employees & Payroll Related	(8,493,283)	(5,818,282)	-	(14,311,565)	(13,272,414)
Payments to Suppliers & Other Agencies	(9,014,748)	(33,636,007)	12,820,397	(29,830,358)	(44,215,678)
Net Cash Provided by Operating Activities	19,328,312	16,364,493	-	35,692,805	27,528,806
Cash Flows from Investing Activities					
Purchase of Investments	(28,057,275)	(23,140,000)	-	(51,197,275)	(189,101,257)
Proceeds from Sales and Maturities of Investments	34,343,444	18,923,784	-	53,267,228	119,573,271
Interest on Investments	3,834,080	2,914,323	-	6,748,403	3,607,146
Net Cash Provided by Investing Activities	10,120,249	(1,301,893)	-	8,818,356	(65,920,840)
Cash Flows from Non-Capital Financing Activities					
Proceeds from Bond Issuance	-	-	-	-	13,500,000
Net Cash Provided by Non-Capital Financing Activities	-	-	-	-	13,500,000
Cash Flows from Capital and Related Financing Activities					
Additions to Electric Plant in Service	(156,253)	(5,574,618)	-	(5,730,871)	(13,918,359)
Net Additions to Construction Work in Progress	(6,059,332)	(2,817,260)	-	(8,876,592)	1,921,044
Intradistrict Note Payable-Proceeds (Loaned)	2,300,000	(2,300,000)	-	-	-
Proceeds from Bond Issuance	13,280,000	-	-	13,280,000	74,085,000
Premium (Discount) and Expenses Related to Issuance of Bonds	(1,386,191)	-	-	(1,386,191)	793,294
Payment of Colville Settlement	-	-	-	-	(13,500,000)
Proceeds from Capital Contributions	-	1,202,137	-	1,202,137	657,739
Principal Payments on Long-term Debt	(23,000,000)	(1,450,000)	-	(24,450,000)	(14,650,000)
Interest Payments on Long-term Debt	(10,461,533)	(553,323)	-	(11,014,856)	(7,752,557)
Net Cash Used in Capital and Related Financing Activities	(25,483,309)	(11,493,064)	-	(36,976,373)	27,636,161
Net Increase (Decrease) in Cash and Cash Equivalents	3,965,252	3,569,536	-	7,534,788	2,744,127
Cash & Cash Equivalents, Beginning of Year	2,857,469	23,812,153	-	26,669,622	23,925,495
Cash & Cash Equivalents, End of Year	$ 6,822,721	$ 27,381,689	$ -	$ 34,204,410	$ 26,669,622

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2006

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2006	TOTAL 2005
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities					
Operating Income	$ 14,642,085	$ 5,324,808	$ -	$ 19,966,893	$ 23,522,184
Receipts for Other Agencies					
Receipts for Internal Services Provided					
Depreciation	4,149,420	4,203,604	-	8,353,024	7,605,837
Amortization	-	46,356	-	46,356	43,044
Net Cash From Jobbing Activities	-	66,046	-	66,046	66,046
Payment of Interest on Customer Deposits	-	(45,735)	-	(45,735)	(34,133)
Cash Provided by changes in Operating Assets and Liabilities:					
Accounts Receivable	182,464	3,329,012	-	3,511,476	(2,793,838)
Prepaid Expenses	12,992	324,754	-	337,746	(60,613)
Materials and Supplies	-	(159,617)	-	(159,617)	(676,527)
Excess Revenue Fund	(364,252)	-	-	(364,252)	(225,198)
Other Accrued Expenses	(499,351)	-	-	(499,351)	(697,124)
Accounts Payable	903,636	2,228,191	-	3,131,827	145,085
Customer Deposits	-	2,441	-	2,441	9,711
Other Current Liabilities	-	(1,708,732)	-	(1,708,732)	559,918
Other Deferred Assets & Liabilities	301,318	(240,246)	-	61,072	133,813
Customer Advances for Construction	-	2,993,611	-	2,993,611	(69,399)
Net Cash Provided by Operating Activities	$ 19,328,312	$ 16,364,493	$ -	$ 35,692,805	$ 27,528,806

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

Notes to Financial Statements

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Douglas County, Washington (the District) is a municipal corporation of the State of Washington established in 1936. The District is administered by a three person Board of Commissioners, elected by the voters of Douglas County. The District is organized in two primary operating systems: the Electric Distribution System and the Wells Hydroelectric Project. The Electric Distribution System provides retail electricity and broadband communication to customers in Douglas County, Washington. The Wells Hydroelectric Project generates electricity from a hydroelectric dam located on the Columbia River.

Accounting Policies:

The accounting policies of the District conform to Generally Accepted Accounting Principals as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principals. Accounting records are maintained in accordance with the Uniform System of Accounts of the Federal Power Act, prescribed by the Federal Energy Regulatory Commission (FERC). The District's accounting records are further maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 RCW. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses. Revenues and expenses related to financing and investing activities, and any other revenues and expenses not related to the District's principal operations, are considered to be nonoperating revenues and expenses.

GASB Statement No. 20 requires that the District apply all GASB pronouncements as well as the pronouncements issued on or before November 30, 1989, by the Financial Accounting Standard Board (FASB) and its predecessor organizations, unless those pronouncements conflict with or contradict GASB pronouncements. As provided for in GASB Statement No. 20, the District has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

During 2003, the District adopted GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; GASB Statement No. 37, Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34; and GASB Statement No. 38, Certain Financial Statement Note Disclosures; all of which address financial statement presentation and disclosure. Significant reporting changes include using the direct method of the Statement of Cash Flows presentation, and reclassification of Net Assets (equity) into three components: Invested in capital assets, net of related debt; Restricted; and Unrestricted. The statements also require a Management's Discussion and Analysis introducing the financial statements and providing an overview of the District's financial activities.

Revenue Recognition:

The Distribution System recognizes revenue as billed on a monthly and bi-monthly basis. Service rates are established by the District's publicly elected Board of Commissioners. Wells Project revenues are derived through the sale of power to four major Pacific Northwest electric utilities and the Colville Confederated Tribes, under the terms of long term power sales contracts, and to the District's Electric Distribution System. Revenue for the Wells Project is billed monthly and pays all annual expenses and debt service, whether or not the project is operable.

(Continued)

Utility Plant and Depreciation:

Distribution System plant assets are stated at cost. New construction, betterments and major renewals are capitalized. Maintenance and repairs are charged to operation as incurred. Depreciation is calculated on the straight-line method over the estimated useful lives of the asset, ranging from 12.5 to 35 years and on the double-declining balance method which is applied for 5 years on vehicles. Composite rates are used for depreciation of asset groups and accordingly, no gain or loss is recorded on the disposition of an asset. When operating plant assets are retired, their estimated original cost together with removal costs, less salvage, is charged to accumulated depreciation.

Wells Project plant, including land and all related facilities, is recorded at cost. Cost is comprised of the following: **(a)** all direct construction and acquisition costs; (**b**) all indirect costs up to the commencement of initial power generated on September 7, 1967, and only those indirect costs related to the construction and acquisition since that date; and (**c**) interest costs capitalized up to certain dates, which were subsequent to the date generating units were placed in service. Under FERC accounting, interest costs would cease to be capitalized after units are placed in service. Management of the District elected to capitalize interest costs through January 1, 1969, as to the 1963 series bonds, and to September 1, 1972, as to the 1965 series bonds, because it believed this was the accounting treatment specifically prescribed in the bond resolutions and power sales contracts. Depreciation of substantially all depreciable assets is provided over estimated useful lives ranging from 15 to 95 years, using the sinking fund method (6% rate).

Receivables:

Distribution System uncollectible accounts are estimated based on an experience percentage of sales to ultimate consumers. The District's Commissioners approve all write-offs.

The Wells Project does not have an allowance for uncollectable accounts.

Inventories:

Inventories are valued at average cost, which approximates the market value.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the District considers all short-term investments with a remaining maturity of three months or less when purchased to be cash equivalents. This definition of cash equivalents excludes investments with a maturity of less than three months, which are pooled with investments with longer maturity periods.

Investments and Deposits:

Investments of the District are in the form of time certificates, deposits with banks, direct obligations of the U.S. Government, and a Repurchase Agreement with underlying securities consisting of Government National Mortgage Association (GNMA) securities, which are fully guaranteed by the U.S. Government, pursuant to the requirements of Chapter 39.58 RCW and the District's master bond resolutions. The District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (PDPC). Time certificates, U.S. Government obligations, and the Repurchase Agreement are recorded at amortized cost, cost, and cost plus contractual earnings, respectively. The District's practice is to hold all investments to maturity.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. The District has no formal policy addressing custodial credit risk. However, due to the nature of the District's investments and deposits, as described above, such risk to the District is insignificant.

(Continued)

Unamortized Debt Expense:

Costs related to the sale of bonds are deferred and amortized on the straight-line method over the lives of the various bond issues. The straight-line method results in amortization not significantly different than that which would result from use of the interest method of amortization.

Excess Revenue Fund:

The Wells Project Excess Revenue Fund represents working capital in the Revenue Fund, as defined in the bondholders' resolution, in excess of the amount of working capital required by the power sales contracts.

Compensated Absences:

Employees accrue personal leave to be used for vacation, sick, and family leave purposes. Annual leave granted each employee varies in accordance with years of service and may be carried forward from year-to-year, capped at a maximum bank of 1,200 hours. The District records the cost of personal leave as the leave is taken. The liability for compensated absences is recorded as a current liability. The following changes occurred in the District's compensated absences liability:

	Balance December 31, 2005	Increase	Decrease	Balance December 31, 2006
Compensated Absences - Distribution System	$ 739,114	$ 746,600	$ 768,235	$ 717,479
Compensated Absences - Wells Project	1,007,149	1,510,855	1,284,862	1,233,142
Totals	$ 1,746,263	$ 2,257,455	$ 2,053,097	$ 1,950,621

Accounting Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount 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 those estimates.

(Continued)

Reclassifications:

The following prior year balances have been reclassified to be consistent with the current year presentation:

- $600,000 intra-district note receivable on the balance sheet was reclassified as a non-current asset
- cash and investment balances on the balance sheet were separated and reclassified for improved clarity
- $13,500,000 bond proceed was moved from capital and related financing activities to non-capital financing activities

	Audited 2005	Wells	Distribution	Restated 2005	
BALANCE SHEET					
Current Assets					**Current Assets**
	-	331,864		$ 331,864	Construction Funds - Cash
Construction Funds	$ 74,553,418	(331,864)		74,221,554	Construction Funds - Investments
Debt Repayment Funds	9,517,759			9,517,759	Debt Repayment Funds
Reserve & Contingency Fund	5,542,764	(5,025,000)		517,764	Reserve & Contingency Fund - Cash
	-	5,025,000		5,025,000	Reserve & Contingency Fund - Inv.
Wells Project Relicensing Fund	9,692,911			9,692,911	Wells Project Relicensing Fund
Total Restricted	99,306,852			99,306,852	Total Restricted
Cash	2,232,574		22,202,002	24,434,576	Cash
Investments	28,798,247		(22,202,002)	6,596,245	Investments
Rate Stabilization Fund	12,000,000			12,000,000	Rate Stabilization Fund
Receivables - Net	8,925,659		(600,000)	8,325,659	Receivables - Net
Materials and Supplis	3,502,040			3,502,040	Materials and Supplis
Other Current & Accrued Assets	3,512,253			3,512,253	Other Current & Accrued Assets
Total Unrestricted	58,970,773			58,370,773	Total Unrestricted
Total Current Assets	$ 158,277,625			$ 157,677,625	Total Current Assets
Non-Current Assets					**Non-Current Assets**
	-		600,000	600,000	Intradistrict Note Receivable
STATEMENT OF CASH FLOWS					
Cash Flows from Capital Financing Activities					**Cash Flows from Capital Financing Activities**
Proceeds from Bond Issuance	$ 87,585,000	(13,500,000)		74,085,000	Proceeds from Bond Issuance
Cash Flows from Non-Capital Financing Activities					**Cash Flows from Non-Capital Financing Activities**
Proceeds from Bond Issuance	-	13,500,000		$ 13,500,000	Proceeds from Bond Issuance

NOTE 2 – DEPOSITS AND INVESTMENTS

Investments: The District had the following investments as of December 31, 2006 and 2005, respectively:

	Wells		Distribution	
	2006	**2005**	**2006**	**2005**
Municipal Money Market	$ -	$ -	$ 25,745,843	$ 22,202,002
U.S. Treasury Securities	-	-	1,101,117	2,666,000
Repurchase Agreement	69,707,155	70,255,844	-	-
Certificates of Deposit	10,507,233	16,244,713	31,334,501	27,801,338
Total	$ 80,214,388	$ 86,500,557	$ 58,181,461	$ 52,669,340

NOTE 3 – UTILITY PLANT

The following changes occurred in the District's utility plant:

Electric Plant Assets	**December 31, 2005**	**Increase**	**Decrease**	**December 31, 2006**
Hydraulic Generation	$ 198,804,539	$ 7,733,939	$ 1,623,006	$ 204,915,472
Transmisssion	21,914,720	385,055	80,198	22,219,577
Distribution	102,423,907	4,373,572	881,714	105,915,765
General	43,783,415	2,707,518	859,190	45,631,743
Miscellaneous	1,046,681	-	-	1,046,681
Subtotal	367,973,262	15,200,084	3,444,108	379,729,238
Construction Work in Progress	13,391,017	15,573,552	13,749,393	15,215,176
Less: Accumulated Depreciation	(107,696,516)	3,055,031	9,503,155	(114,144,640)
Net Utility Plant	$ 273,667,763	$ 33,828,667	$ 26,696,656	$ 280,799,774

NOTE 4 – SHORT-TERM DEBT

The District had no short-term debt activity during 2006, and had no outstanding short-term debt at December 31, 2006.

(Continued)

NOTE 5 – LONG-TERM DEBT

Wells Hydroelectric Project

	Purpose	Balance 12/31/2005	Additions	Reductions	Balance 12/31/2006	Due Within One Year
Series of 1986A, term bonds maturing September 1, 2018, interest at 8.75%	Turbine Runner Replacement	$ 14,080,000	$ -	$ 14,080,000	$ -	$ -
Series of 1986B, term bonds maturing September 1, 2006, interest at 8.75%	Turbine Runner Replacement	485,000	-	485,000	-	-
Series of 1999A, serial bonds maturing annually to September 1, 2019 and term bonds maturing September 1, 2029; interest at 5.25% - 6.125%	Land Purchases, Recreation Action Plan & Habitat Conservation Plan	9,340,000	-	190,000	9,150,000	200,000
Series of 1999B, serial bonds maturing annually to September 1, 2009, interest at 5.05% - 5.20%	Land Purchases, Recreation Action Plan & Habitat Conservation Plan	515,000	-	120,000	395,000	125,000
Series of 2000A, serial bonds maturing annually to September 1, 2010 and term bonds maturing September 1, 2015 and 2018, interest at 5.75% - 6.35%	Refunding	7,460,000	-	395,000	7,065,000	420,000
Series of 2003A, serial bonds maturing annually to September 1, 2018, interest at 2.75% - 5.25%	Refunding	13,470,000	-	470,000	13,000,000	440,000
Series of 2003B, serial bonds maturing annually to September 1, 2018, interest at 2.60% - 5.00%	Refunding	53,290,000	-	5,730,000	47,560,000	5,940,000
Series of 2003C, serial bonds maturing September 1, 2014 through 2018, interest at 4.125% - 5.00%	Refunding	31,905,000	-	-	31,905,000	-
Series of 2005A, serial bonds maturing annually to September 1, 2030 and 2035, interest at 3.70% - 5.00%	Capital Improvements	43,010,000	-	530,000	42,480,000	740,000
Series of 2005B, serial bonds maturing annually September 1, 2026 and term bonds maturing September 1, 2022, 2030 and 2035, interest at 3.20% - 5.25%	Refunding, Capital Improvements, and Colville Settlement	35,580,000	-	515,000	35,065,000	685,000
Series of 2005C, serial bonds maturing annually to September 1, 2014 and term bonds maturing September 1, 2018, interest at 4.283% - 5.112%	Colville Settlement	8,995,000	-	485,000	8,510,000	550,000
Series of 2006A, serial bonds maturing September 1, 2007 through 2016, interest at 4.50% - 5.00%	Refunding	-	9,875,000	-	9,875,000	410,000
Series of 2006A, bonds maturing September 1, 2018, interest at 5.00%	Refunding	-	2,320,000	-	2,320,000	-
Series of 2006B, bonds maturing September 1, 2007, interest at 5.60%	Refunding	-	1,085,000	-	1,085,000	1,085,000
Total revenue bonds		$ 218,130,000	$ 13,280,000	$ 23,000,000	$ 208,410,000	$ 10,595,000

Following is a summary of future debt service requirements for Wells Project revenue bonds outstanding at December 31, 2006:

	Principal	Interest	Total
2007	$ 10,595,000	$ 9,824,013	$ 20,419,013
2008	11,130,000	9,275,400	20,405,400
2009	11,075,000	8,872,282	19,947,282
2010	11,540,000	8,407,387	19,947,387
2011	11,965,000	7,979,175	19,944,175
2012-2016	65,580,000	31,144,416	96,724,416
2017-2021	34,300,000	16,391,690	50,691,690
2022-2026	16,965,000	11,146,994	28,111,994
2027-2035	35,260,000	8,418,423	43,678,423
Total	$ 208,410,000	$ 111,459,780	$ 319,869,780

Interest on all bonds for the Wells Hydroelectric Project is payable on March 1 and September 1. All bond covenants were complied with for fiscal years 2006 and 2005.

Advance Debt Refunding

In December 2003 the Wells Project issued its Wells Hydroelectric Revenue Bonds, Refunding Series 2003A, 2003B, 2003C, and 2003D (the “2003 Bonds”), in the total par amount of $111,340,000. The 2003 Bonds advance refunded the following outstanding bonds:

Bond Series	Amount Outstanding
1963	$ 93,955,000
1965	5,500,000
1978	2,720,000
1993A	14,810,000
1993B	1,165,000
Total Refunded	$ 118,150,000

This advance refunding resulted in a reduction of $10,167,000 in total Wells Project debt service over the next 15 years and an economic gain (difference between the present values of the old and new debt service requirements) of $2,504,000.

In July 2005, the Wells Project issued its Wells Hydroelectric Revenue and Refunding Bonds, Series 2005A, 2005B, and 2005C (the 2005 Bonds), in the total par amount of $87,585,000. The issuance of the 2005 Bonds resulted in a premium of $2,027,482. A portion of the 2005 Bonds refinanced and legally defeased $5,160,000 of the outstanding 1999B Bonds. This refinancing resulted in a reduction of $1,058,000 in total Wells Project debt service over the next 24 years and an economic gain (difference between the present values of the old and new debt service requirements) of $358,000.

In August 2006, the Wells Project issued its Wells Hydroelectric Revenue Refunding Bonds, Series 2006A and 2006B (the 2006 Bonds), in the total par amount of $13,280,000. The issuance of the 2006 Bonds resulted in a premium of $251,744. The 2006 Bonds refinanced and legally defeased $14,080,000 of the 1986A Bonds, which was the remaining outstanding balance of 1986A Bonds. This refinancing resulted in a reduction of $4,774,000 in total Wells Project debt service over the next 12 years and an economic gain (difference between the present values of the old and new debt service requirements) of $2,214,000.

(Continued)

Debt service on these refunded bonds and other outstanding Wells Project bonds which were refunded in prior years is met by cash and investments held in irrevocable trust with an escrow agent. As of December 31, 2006, the escrow agent was holding cash and investments of $40,366,000 which are expected to fully fund debt service on all outstanding Wells Project refunded bonds. The trust account assets and the liability for the corresponding refunded bonds are not included in the District's financial statements.

Distribution System

In January 2004, $18,420,000 of revenue bonds were issued for capital improvements to electrical facilities. These bonds are non-voted State I.D. No. 252.11. The bonds will mature and be retired during the next five years ending December 31 as follows:

	Principal	Interest	Total
2007	$ 680,000	$ 527,506	$ 1,207,506
2008	695,000	512,206	1,207,206
2009	715,000	486,144	1,201,144
2010	735,000	466,481	1,201,481
2011	760,000	445,534	1,205,534
2011-2023	9,505,000	3,039,466	12,544,466
Total	$ 13,090,000	$ 5,477,337	$ 18,567,337

The 2004 Distribution bonds are serial bonds through 2020 and term bonds maturing in 2021, 2022 and 2023. Interest rates range from 2.0% to 5.00% and interest is payable on June 1 and December 1. The bondholders' resolution requires the District to maintain at least 125% coverage for debt service. The required coverage was maintained in 2006 and 2005.

NOTE 6 – OTHER COMMITMENTS AND CONTINGENCIES

a) Colville Confederated Tribes Settlement

In January 2003 the Colville Confederated Tribes ("Tribes") presented an economic consultant's study indicating the District owed the Tribes approximately $950,000,000 for past annual charges and approximately $18,000,000 annually for use of freeboard lands previously considered tribal lands and one-half of the bed of the Okanogan and Columbia Rivers bordering the Colville Reservation. The District had been aware of a claim made by the Tribes for the use of the bed of the river for years, but there had never been a claim to shore land that the District owns. The bed of the river claim had surfaced on several occasions, during the previous 25 years, but the Tribes chose not to pursue it seriously until January 2003. The Tribes' claim in 2003 included annual charges, past and future, for all of the lands that the District previously acquired in fee title from allottees, individuals of the Tribes, and the Bureau of Indian Affairs, as well as for one-half of the bed of the Okanogan and Columbia Rivers abutting the Colville Reservation. The District has recorded fee title deeds to all of the shore land below Project Boundary abutting the Colville Reservation.

In 2004 the District and the Tribes entered into a settlement of this claim which provided for a $13,500,000 cash payment and the transfer of land with a book value of $958,140 to the Tribes. Additionally the District agreed to sell to the Tribes 4.5% of the output of the Wells Project through August 31, 2018, and 5.5% thereafter, at Wells Project cost, for so long as the District holds a license for the Wells Project. In return the Tribes granted and affirmed all land rights previously conveyed by the Tribes to the District; granted to the District overflow rights to the bed of the Okanogan and Columbia Rivers; covenanted not to compete for a license for the Wells Project and to support the District's relicensing application; and granted the District certain water rights in connection with the Wells Project.

The cash portion of the settlement was paid in July 2005, financed with Wells Project Revenue Bonds, and is reported as a deferred charge on the balance sheet, to be amortized over the corresponding revenue bond debt service period. The land portion of the settlement was transferred in March 2005.

The Wells Project's four investor-owned Power Purchasers approved the settlement, as evidenced by an Endorsement Agreement between the Power Purchasers and the District dated November 1, 2004. The District, the Tribes, and the Power Purchasers filed a joint application with the Federal Energy Regulatory Commission ("FERC") seeking approval of the Colville Settlement Agreement and the Colville Power Sales Contract. FERC formally approved the contracts on February 11, 2005.

b) <u>Power Purchasers Settlement Agreement</u>

Under this agreement the District must offer certain temporary, non-firm energy to the Wells Project Power Purchasers under two pricing strategies which are subject to annual adjustments. Annual adjustments are made when the Wells Annual Power Cost has been determined; after the end of each Wells fiscal year. The adjustment is based on the computed excess of District reserved share power and effectively adjusts the Power Purchaser's cost of this energy to the Wells Annual Power Cost Rate. The District estimates the adjustment to revenue required by this agreement each month.

c) <u>Memorandum of Understanding with Okanogan County PUD</u>

The District and Okanogan PUD entered into a Memorandum of Understanding granting Okanogan the first right of refusal to any power and energy the District makes available after meeting the needs within Douglas County and contractual commitments in place on the date of the Memorandum. The two Districts also committed to negotiate a Power Sales Contract intended to allocate an additional 22% share of the output of Wells Project to Okanogan after expiration of the current Power Sales Contracts in 2018. The additional share is contingent upon each of the following: (1) The District and Okanogan PUD successfully relicensing the Project and obtaining 100% of the Project output; (2) the new license entitling the District to 92 percent of the output and Okanogan PUD to 8 percent of the output of the Project; and (3) the District's compliance with the Power Sales Contracts with each of the four Wells Power Purchasers. Okanogan PUD and the District are in the process of negotiating a long-term power sales contract.

d) <u>Endangered Species</u>

Several species of fish in the vicinity of the Wells Project are listed as threatened or endangered under the Endangered Species Act. Steelhead and spring chinook were listed as endangered species on August 18, 1998 and March 16, 1999, respectively. Bull trout were listed as a threatened species on June 10, 1998. Summer chinook salmon migrating above Rock Island Dam were petitioned for listing in June 1993; however, the National Marine Fisheries Service declined to list summer chinook.

The District has negotiated with state and federal fisheries resource agencies and Indian tribes, a multispecies Habitat Conservation Plan ("HCP"). The HCP species are spring chinook, summer/fall chinook, steelhead, sockeye, and coho salmon. The purpose of the HCP is to have legally enforceable measures in place to either avoid a listing under the Endangered Species Act ("ESA") or, in the event of a listing, allow continued operation of the Wells Project under an incidental take permit. The HCP satisfies all FERC relicensing and ESA requirements for the Plan species. FERC approved the HCP in June of 2004 and amended the Wells Project license accordingly. At the District's request, FERC also issued an Order on Rehearing in November 2004, clarifying several technical items.

Bull trout have been observed at the Wells Project but are not covered in the HCP. The United States Fish and Wildlife Service issued a biological opinion for bull trout for the operations of the Wells Project under the terms of the HCP in May of 2004. Under the amended Wells license FERC has the authority to require the District to carry out specified measures for the purpose of participating in the development and implementation of a bull trout recovery plan.

There is extensive litigation in the federal court system under the ESA, challenging actions taken by the responsible federal agencies in regard to anadromous fish. Future legal actions to protect fish may have a significant impact on the amount

(Continued)

and/or cost of power generated at the Wells Project. As the ultimate outcome of the matter is not determinable, no accruals have been made to the financial statements.

e) Land Acquisition

Recent surveys by the District's contracted surveyors have revealed errors on portions of the original survey of the Wells Project. There are a few locations where the Wells Project boundary is under water. The District has determined that the appropriate course of action will involve relocation of portions of the Wells Project boundary, which will require acquisition of additional property rights at these locations. A property owner with water from the Wells Project encroaching on his property could pursue legal action in order to remedy the situation. The District intends to vigorously pursue acquisition in fee title of any lands upon which the Wells Reservoir is encroaching.

f) Energy Northwest – Nine Canyon Wind Project

The Nine Canyon Wind Project is located eight miles southwest of Kennewick, Washington in the Horse Heaven Hills. The project was developed in two phases. Phase I consists of thirty seven 1.3 MW wind turbine generators and Phase II consists of an additional twelve 1.3 MW units. The District is responsible for 6.25% of Phase I debt service and 43.59% of Phase II debt service, and 15.4% of operations and maintenance costs.

g) Douglas PUD – Chelan PUD Power Sales Contract

The District has a long term power sales contract with Chelan PUD to purchase 2.77% of the output of Chelan PUD's Rocky Reach Project. The contract is a take-or-pay contract requiring the District to pay costs associated with operation, maintenance, renewals and replacements to Rocky Reach, whether or not the project is operable or operating. The initial term of the power sales contract expires on October 31, 2011. The District recently exercised its option to extend the contract and purchase an additional 2.77% (5.54% total) of the output. The District has the right to extend the term of the contract for five successive 10-year periods. Discussions with Chelan PUD are on-going regarding the appropriate pricing for its post 2011 share of Rocky Reach output.

h) Avista Energy Long-Term Firm Power Agreement

The District entered into an agreement with Avista Energy, Inc. to exchange power from October 1, 2000 through July 31, 2017. The District is obligated to deliver fixed annual amounts of energy totaling 1.9 million MWh of energy to Avista from October 1, 2000 through March 31, 2006; and Avista is obligated to deliver a like amount of firm energy to the District from August 1, 2006 through July 31, 2017. Coral Energy Holding L.L.C. acquired substantially all of the operating assets of Avista Energy. As a result of this acquisition, contracts between the District and Avista Energy were assigned to Coral on June 30, 2007.

i) Relicensing

The Wells Project License expires May 31, 2012. The District intends to use its best efforts to obtain a new license. Pursuant to the Integrated Licensing Process, in December 2006, the District filed 1) a Notice of Intent to relicense the Wells Project and 2) a Pre-Application Document with the FERC. The District will seek a 50 year license.

j) Generating Unit

In February 2005, Generating Unit 1 ("Unit 1") at the Wells Project experienced a fault in the generator windings and was taken out of service. The District awarded a contract to have the unit rebuilt. Including change orders the contract amount was $5.5 million. The rebuild was completed and Unit 1 retuned to service in June 2006. The other nine generating units will be rebuilt over the next several years.

The District had an insurance policy covering the failure of Unit 1. The District settled its claim with the insurance carrier for $3.6 million in February 2006, and applied those funds to the rebuild of Unit 1. The remaining cost of the Unit 1 repair was paid with bond proceeds, as will be the cost to rebuild the other nine generating units.

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NOTE 7 – PENSION PLANS, DEFERRED COMPENSATION PLANS

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirements Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380.

The PERS system includes two defined benefit pension plans, Plan 1 and Plan 2, and a combination defined benefit/defined contribution plan, Plan 3. Participants who joined the system by September 30, 1977, are Plan 1 members. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The average pension is two percent of the average final compensation per year of service, capped at 60 percent.

Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. Plan 2 retirements prior to age 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at three percent annually.

Plan 3 members may retire with at least 10 years of service; or five years, including twelve months that were earned after age 54; or 5 service credit years earned in Plan 2 prior to June 1, 2003.

Employer and employee contribution rates are established periodically by the State Legislature. The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2006 were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	3.69%*	3.69%*	3.69%*
Employee	6.00%	3.50%	Variable 5-15% employee selected

*employer rates include an administrative expense fee of .19%

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

	PERS Plan1	PERS Plan 2	PERS Plan 3
2006	$33,066	$334,946	$13,383
2005	22,136	193,378	7,054
2004	17,542	129,618	4,964

The District also offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(a) permitting employees to defer a portion of their salary until future years. The District provides a 50% match of employee contributions capped at a percentage of employee regular straight-time wages for the pay period equal to 7.32%, less the PERS 2 employer contribution percentage. At January 1, 2007 the cap was frozen at 2% of regular straight-time wages. The deferred compensation is not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

NOTE 8 – DEFERRED DEBITS AND CREDITS

Distribution System

The Distribution System had deferred debits of $3,897,796 and $3,651,003 respectively at December 31, 2006 and 2005. The deferred debits consist of preliminary survey and investigation, such as wind development costs, undistributed balances in clearing accounts, miscellaneous work in progress and retiree benefits. The employee benefits are amortized and the remaining deferred debits are capitalized or expended according to generally accepted accounting principles. The Distribution System had deferred credits of $3,111,393 and $90,321 respectively at December 31, 2006 and 2005. The deferred credits consist of funds retained for contract performance, secured funds for installation costs, and retiree benefits.

Wells Hydroelectric Project

The Wells Hydroelectric Project has deferred debits of $32,031,712 and $34,244,237 respectively at December 31, 2006 and 2005. The deferred debits consist of improvements to recreational facilities, repair and maintenance costs, miscellaneous fish improvements, preliminary survey and investigation, and miscellaneous clearing accounts. The deferred debits are amortized over the life of the 1986, 1990 and 1993 bonds which were issued to fund the projects except for the miscellaneous clearing accounts which are cleared annually. The Wells Hydroelectric Project has deferred credits of $460,699 and $523,633 respectively at December 31, 2006 and 2005. The deferred credits consist of funds retained for contract performance and power cost adjustments not yet taken by Power Purchasers.

NOTE 9 – BROADBAND SERVICES

Douglas County Community Network (DCCN):

Since the 1960's the District has owned and operated data communication facilities that provide communication for District electrical equipment, employees and office equipment. The communication system has grown to become an integral part of the District's electrical system, providing remote monitoring, switching, metering, internal communication, and security to District assets. In 2000 the Washington State Legislature gave Public Utility Districts the authority to offer wholesale telecommunication services. The District named its broadband network the Douglas County Community Network (DCCN). DCCN provides wholesale broadband data communication services to customers of the District. As of December 31, 2006 the District has capitalized $13.9 million dollars of communication equipment.

Douglas County Community Network	2006
Operating Revenue:	
Wholesale Broadband Residential & Business	$ 293,538
Broadband Governmental	248,538
Colocation & Bandwidth	57,587
	$ 599,663
Operating Expenses:	
Operation & Maintenance	559,957
Administration and General	29,476
	$ 589,433

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Northwest Open Access Network (NoaNet):

The District, along with 14 other Washington State Public Utility Districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over Public Benefit Fibers leased from Bonneville Power Administration, throughout the State of Washington for assisting its members in the efficient management of load, conservation and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001.

In July 2001, NoaNet issued $27 million in telecommunications network revenue bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations and maintenance. The Bonds are currently being redeemed and remain outstanding through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. As of December 2006, $21,675,000 (unaudited) of the bonds remain outstanding. In addition, NoaNet opened a line of credit with Bank of America to fund capital expenditures. The line of credit is not being fully utilized; $5 million (unaudited) remains outstanding at December 31, 2006. Each member of NoaNet has entered into a repayment agreement to guarantee the debt of NoaNet. The District's guarantee of NoaNet's liabilities is limited to a 5.74% interest.

The management of NoaNet anticipates meeting operating costs through profitable operations; however members have been contributing to help meet debt service obligations. A NoaNet annual report may be obtained by writing to Northwest Open Access Network, 3511 Norfolk Court, Olympia, WA 98501. NoaNet's web site is www.noanet.net.

Directory of Officials

Elected Commissioners:	Term:	Expiration:
Lynn M. Heminger, President	6	December 2008
Ronald E. Skagen, Vice President/ Asst. Secretary	6	December 2012
T. James Davis, Secretary/Treasurer	6	December 2010

Appointed Officials:

William C. Dobbins, Manager

Wyatt W. Scheibner, Treasurer

Zach D. Gormley, Auditor

Garfield R. Jeffers, Attorney

Mailing Address:

District
Public Utility District No. 1 of Douglas County
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East Wenatchee, WA 98802

Attorney
Jeffers, Danielson, Sonn & Aylward, P.S.
PO Box 1688
Wenatchee, WA 98807-1688