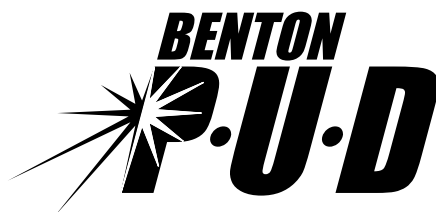


B e n t o n P U D

Comprehensive Annual Financial Report
for the
Public Utility District No. 1 of Benton County, Washington



For the fiscal year ended December 31, 2003

I n t r o d u c t o r y S e c t i o n

I n t r o d u c t o r y S e c t i o n



Comprehensive Annual Financial Report

Benton PUD
Public Utility District No. 1 of Benton County, Washington

For the fiscal year ended December 31, 2003

Prepared by
Finance and Administrative Services Department and Communications Department



Benton PUD

People with energy, working for you

Vision

We are the leader in team oriented innovation, development and implementation of successful utility services for the communities we serve.

Mission

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

Values

Excellence
Forward Focus
Integrity
Mutual Respect
Teamwork

Comprehensive Annual Financial Report



Public Utility District No. 1 of Benton County, Washington
 For the Fiscal Year Ended December 31, 2003

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of

Contents

From the Commissioners

People

The year 2003 brought many challenges and in meeting each one the capable team at Benton PUD excelled. As we reflect on the year, responding to each challenge made Benton PUD stronger financially while still providing safe, reliable service to our customers.

with

Prior to 2003, Benton PUD's financial forecast identified a need for a 15% rate increase. To lessen the impact on customers, Benton PUD chose to raise customer rates an average of 9% in January 2003 and delay for a year the additional 6% increase by using cash reserves.

From the Commissioners

energy...

Early in 2003, two significant events had an adverse impact on revenues and customer rates.

First, extremely warm weather in January through April resulted in a \$3.4 million loss in retail revenues. Second, the Bonneville Power Administration (BPA) assessed Benton PUD \$1.7 million more than planned due to BPA cost overruns and revenue shortfalls. Additionally, BPA announced plans for another wholesale rate increase in the fall. After careful consideration, Benton PUD rates were increased by 6% in July 2003 rather than January 2004.

This decision was made only after significant study and public process. Benton PUD analyzed the District's financial needs, weather conditions, customers' power use and the risks associated with all options. We held a series of customer meetings to answer questions, get customer input and listen to their concerns. To help senior customers in need, we adjusted the qualifying criteria for the Low-Income Senior Discount by changing the annual income requirement making it possible for more senior citizens to qualify.

Throughout the year, aggressive steps were taken to improve our financial picture through budget control. Capital expenditures were deferred where possible and other expenditures scrutinized to be as effective and efficient as possible even though power costs make up nearly 70% of our budget.

At a regional level, a grassroots campaign, "Write to Wright" was launched. Our customers were encouraged to let their concerns be known to Steve Wright, BPA Administrator and our congressional delegation in Washington DC. Customers shared how higher rates impact their businesses and quality of life and urged BPA to cut costs rather than raise rates. Benton PUD joined other utilities in a lawsuit against BPA to challenge BPA's decisions and contracts concerning the distribution of benefits of the federal hydropower system the agency provides to public and private utilities.

As we move forward, our team of experts at Benton PUD strives to meet all challenges while providing the outstanding reliable service our customers have come to expect. Outages continue to decline, customer service excels and stable rates remain a high priority. Benton PUD is and will continue to be an asset to our community.

working

for

you.

From the Commissioners



Robert Graves, Vice President
1969 - present



John Goldsbury, President
1969 - present



Jeff Hall, Secretary
2001 - present

From the Manager

Highlights

Although there was much focus on rates in 2003, the Commission and staff remain dedicated to all aspects of Benton PUD. This commitment, drive and enthusiasm are the catalyst to our excellent customer service and the highlights for 2003.

Commissioners Receive Prestigious Award for Service

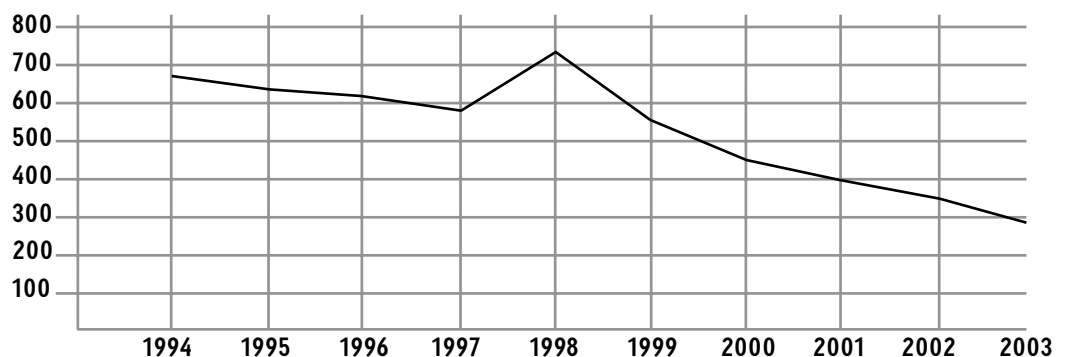
John Goldsbury and Bob Graves, Commissioners for Benton PUD, received the Washington PUD Association Lifetime Achievement Award. This honor recognizes the commitment of an outstanding individual to the philosophy and purpose of public power. The Commissioners received the award for their exceptional leadership and dedication to the ideals of the Association and public power. This was the first time this award has been presented to two winners in one year. Collectively, John Goldsbury and Bob Graves have devoted over 70 years to Benton PUD and the success of public power in the Northwest. Jeff Hall, a positive addition to the Commission, was appointed in 2001 and began his six-year term in January after a successful election.

for

2003

Outages Continue to Decline

Preventive maintenance and creative know-how have resulted in less outages again this year. In the past, squirrels have caused outages and expensive damage. After researching several options and investing in "squirrel guards", squirrel caused outages declined to only 41 with total outages for 2003 only 292, a 15% decline from last year. The use of an infrared camera to detect "hot spots" has enabled Benton PUD to find and repair problem areas before an outage occurs. Another program that prevents outages is trimming trees away from the lines resulting in less outages caused by branches falling into power lines during a storm.



Safety Demonstration Trailer

On their own time, Benton PUD linemen built an impressive safety demonstration trailer. The trailer features transformers and lines, just like what is used to deliver power to homes and businesses. With the trailer they demonstrate the dangers and power of electricity with sparks and arcs, making a lasting impression on the spectators. These demonstrations raise awareness of the dangers of electricity and the importance of being careful around power lines. It is an excellent teaching tool for people who work around power lines as well as for teaching children the importance of safety near power lines.

Wireless Network Launched

Benton PUD's community wireless network was introduced. This network gives customers access to the fiber backbone, without being prohibitively expensive. The infrastructure allows retail service providers to provide high-speed access through wireless technology which makes connection more cost effective. To introduce wireless to the community, Senator Cantwell cut the symbolic cable to launch the service. Benton PUD continues to make progress in telecommunications and embraces the open access policy that allows multiple retail service providers to utilize the infrastructure to market their services to our community.

PeopleSoft Upgrade

The PeopleSoft financial systems were upgraded to a web-based architecture to improve overall financial reporting, inventory and purchasing systems for Benton PUD. The team completed the extensive project on schedule and within budget. The system enables employees to better track and estimate project expenses and revenues as well as streamlines data transfer between departments.

Highlights

for

2003

From the Manager

Highlights

for

2003

Helping Our Community

Our employees take great pride in helping our customers – beyond their normal daily work.

Lending a hand to those in need included an employee yard sale with the proceeds going to the Community Action Committee. Benton PUD employee donations to United Way increased 20%. Our employees are also generous with their time to other non-profit organizations in our community.

Customer Satisfaction Survey

Input from our customers is important to Benton PUD. A customer survey was inserted in the billing to measure overall customer satisfaction and attitudes towards Benton PUD's customer service. Over 900 customers responded, many with comments and suggestions with 78% satisfied with Benton PUD's customer service.

These are just a few examples of dedication and accomplishments the staff and Commission of Benton PUD achieved in 2003. We look forward to a positive year in 2004.

Jim Sanders



Fast Facts

Number of Customers: 43,459

Residential Electric Rate: (as of 04/04)

\$0.0727 per kWh plus

\$10.65 per month customer service charge (single phase)

Average Annual Residential Customer Use: 16,995 kWh

Annual Total MWh Sales: 2,400,318 (includes sales for resale)

Annual Retail MWh Sales: 1,581,000 (excludes sales for resale)

Residential 38.2%

General 32.7%

Large Industrial 3.7%

Irrigation 25.4%

Coincidental System Peak Load:

Summer – 383.9 MW

Winter – 248.2 MW

Record System Peaks:

Summer – 387 MW – July 1999

Winter – 392 MW – Feb 1996

2004 Annual Budget:

Operating Revenues - \$123.3 million

Power Supply Costs - \$80.3 million

Capital Budget, net - \$10.6 million

Service Territory: 948 square miles in Benton County

Miles of Lines:

89 miles of 115 kV transmission lines

1,445 miles of distribution lines

Substations:

36 Total – 20 of which are on the Columbia River serving large farms

Employees: 159 Total

Administrative – 94

Operations – 57

Prosser – 8

Average Employee Tenure - 9 years

Fast Facts

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public Utility District No. 1
of Benton County,
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2002

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



A handwritten signature in black ink, appearing to read "Edward Hanrahan".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer".

Executive Director



June 11, 2004

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

The Comprehensive Annual Financial Report (CAFR) of the Benton County Public Utility District (District) for the year ended December 31, 2003 is hereby submitted. The report is designed to assess the District's financial condition, educate readers about District services, and examine current challenges facing the District.

Responsibility for Report

The management of the District is responsible for preparing the information in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles (GAAP) applied on a consistent basis and include amounts that are based on management's best estimates and judgments. To provide a reasonable basis for making these representations, management has established and maintains a comprehensive internal control framework that includes organizational, administrative and accounting processes. The internal control system provides reasonable assurance as to the integrity and reliability of the financial statements, the safeguarding of assets from unauthorized use or disposition, and that business transactions are conducted in compliance with State laws and regulations. However, because the cost of internal controls should not outweigh their benefits, the District's system of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Independent Audit

The District's financial statements have been audited by the Washington State Auditor's Office. Management has made available to them all financial records and related data necessary to complete the audit. Management considers and takes appropriate action on audit recommendations concerning internal control procedures, financial matters, and legal compliance.

The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal years ended December 31, 2003 and 2002 are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the years ended December 31, 2003 and 2002 are fairly presented in conformity with generally accepted accounting principles. The auditor's report is presented at the beginning of the financial section of this report.

Report Format

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

The CAFR is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes the letter of transmittal and other material that may be useful in understanding the District. The Financial Section contains the MD&A, the auditor's report, and financial statements with accompanying notes. The Statistical Section provides unaudited 10-year trend data for selected financial, operational and demographic information about the District's service territory that is intended to be helpful in assessing the District's financial condition.

Profile of the District

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

The District is a statutory preference customer of the Bonneville Power Administration and purchases most of its power from Bonneville. The District's remaining power supply requirements are supplied by various District-owned generation and contract purchases (see Note 10). Although the District's power supply is projected to be surplus for most months of the year, the District will sell any surplus and purchase any resource shortfall in the wholesale power market.

The District owns and operates a 27 MW natural gas fired simple-cycle combustion turbine that was constructed during 2001. The District's properties include 36 substations, approximately 89 miles of 115kV transmission line, 1,445 miles of distribution lines, and other buildings, equipment, stores and related facilities.

The District is located in southeastern Washington, encompassing approximately 948 square miles of Benton County and including the incorporated cities of Kennewick, Benton City, and Prosser (the Benton County seat). The District's largest city, Kennewick, as well as the City of Richland in Benton County (outside of the District), and the City of Pasco in adjacent Franklin County, make up what is known as the Tri-Cities.

Annual Budget

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

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

Local Economy

Benton County's economy is based on four major industries: agriculture, food processing, manufacturing, and nuclear-related technology. Farmland comprises the majority of Benton County's land area. Many corporate farms are located in the District encompassing over 100,000 acres of irrigated and dry land crops. Irrigation has led to increased productivity and a wide variety of crops including potatoes, apples, corn, cherries, wine grapes, hops, wheat, onions, concord grapes, hay, and hard and soft fruits. These crops are shipped to both domestic and export markets. With the strength of farm production throughout the County, food processing has become a major factor in the Benton County economy. Production and processing of wine grapes is of significant importance to the County's economy. Other food processing industries include frozen potato products, frozen peas and cut corn. Fruit packing and cold storage also provide significant employment.

Manufacturing activities within the County include a large fertilizer/agricultural products plant and manufacturing of zirconium and titanium alloy tubing used for fuel rods, the aerospace industry (hydraulic landing gear), the medical industry (human bone surgery), golf clubs, bicycles, ski poles and tennis rackets. Other industries in the region include paper and cardboard container plants and production of nuclear fuel pellets and rods.

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

Hanford employment continued to drive job growth in the Tri-Cities during 2003 with non-farm employment increasing by 1.6% over the prior year. Job growth occurred in construction, health care, real estate, retail sales, finance and insurance industries. Home building increased over 2002 with 1,915 permits issued in Benton and Franklin counties, and commercial construction came from several new employers moving into the region, as well as expansion from established employers. In addition, employment has nearly peaked at Bechtel National's \$5.7 billion construction project at Hanford to build a vitrification plant to turn liquid radioactive waste into stable rods of solid glass.

The Tri-Cities has also become a major retail hub for communities throughout southeastern Washington and northeastern Oregon leading to continued growth in the retail service industry, up 3.2% during the year.

Long-Term Financial Planning

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

The District has adopted a comprehensive set of financial policies for purposes of managing the District's finances. The policies cover such issues as liquidity, debt service coverage, debt financing, retail rates, power supply risk, credit risk, investment policies and practices, insurance, integrated planning, budgetary and procurement controls, and financial reporting. The financial policies call for developing financial plans to maintain cash reserves sufficient to provide funding for 90 days of non-power expenses and funding for unanticipated power costs based on 10% of gross power expenses for the planned year's budget, a minimum debt service coverage of 1.75 times annual debt service, and a long-term goal of financing no more than 40% of gross non-generation capital improvements from bond proceeds over a rolling ten-year period. The Commission periodically reviews these policies and approved a comprehensive update in August 2003.

Cash Management and Investments

The District invests its available funds in a manner that minimizes the District's risk of financial loss, maintains necessary liquidity, and achieves maximum yield consistent with the foregoing criteria. State law and the District policy permit investing in direct obligations of the U.S. government and its agencies, the State Treasurer's Local Government Investment Pool, certificates of deposit with banks that are qualified public depositories of the State of Washington, repurchase agreements collateralized by securities backed by the full faith and credit of the U.S. Government, or other investments allowed by State law. Investments are generally made so that securities can be held to maturity.

Risk Management

The District maintains a comprehensive insurance program that includes liability and standard insurance coverage for personal property, automobile, public officials and equipment, except unemployment insurance for which the District has elected to become self-insured. The District is a member of the Public Utility Risk Management Services Self-Insurance Fund, which is currently composed of 20 members. Additional information on the District's risk management program is included in Note 11 of the Notes to the Financial Statements.

As an integral part of its overall risk management program, the District has instituted an Energy Risk Management Policy designed to manage the price, volume, and credit risk associated with its power supply activities. The District has formed a Risk Management Committee to provide primary operational risk oversight of power trading operations.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended December 31, 2002. This was the first year that the District has applied for and achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

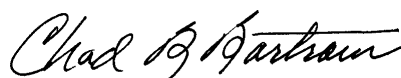
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,

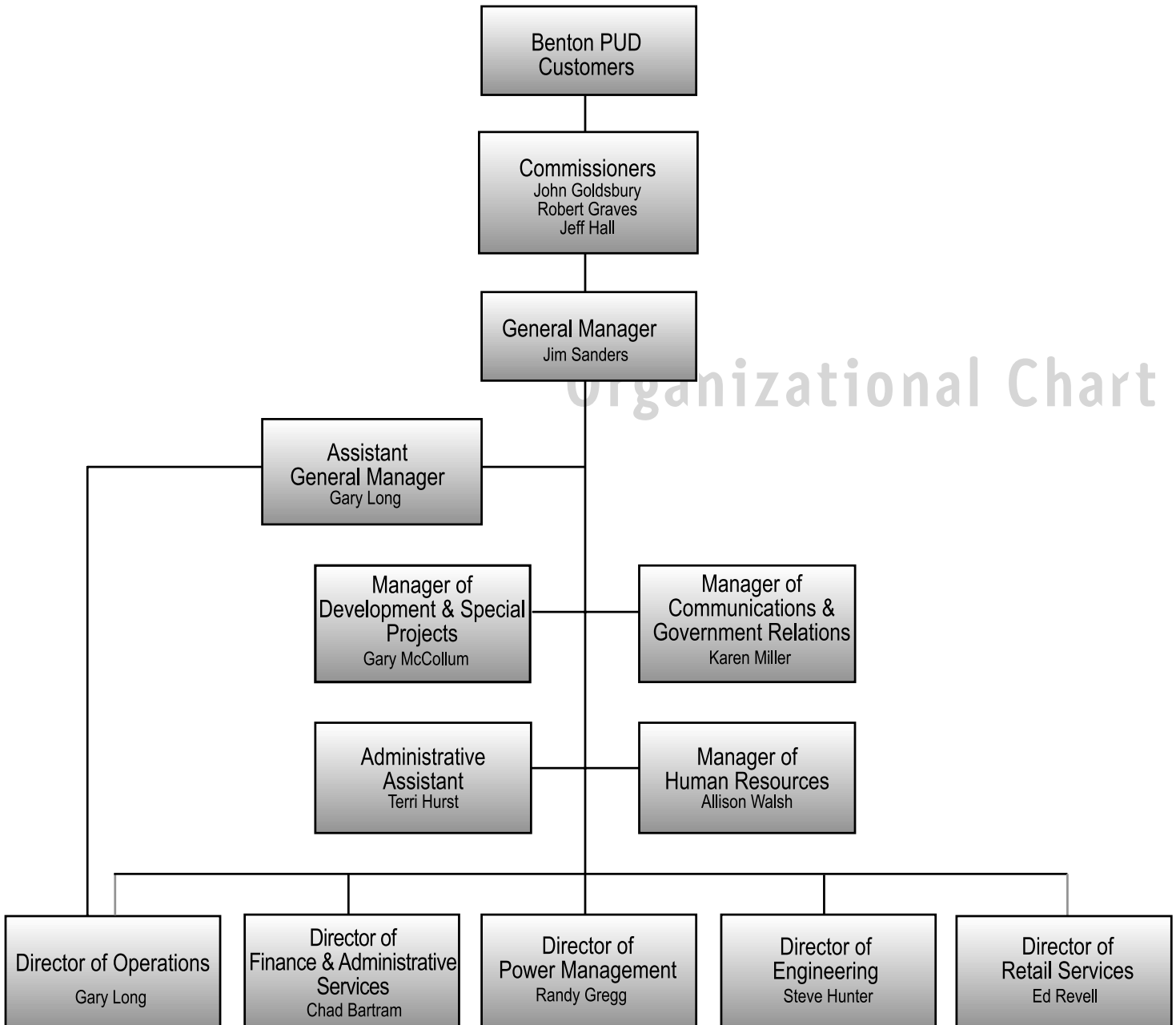


James W. Sanders
General Manager



Chad B. Bartram
Director of Finance and Administrative Services

Organizational Chart



F i n a n c i a l S e c t i o n

F i n a n c i a l S e c t i o n





**Washington State Auditor
Brian Sonntag**

Sunset Building
PO Box 40021
Olympia, Washington 98504-0021

(360) 902-0370
FAX (360) 753-0646
TDD Relay 1-800-833-6388
<http://www.sao.wa.gov>

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Benton County Public Utility District No. 1
January 1, 2003 through December 31, 2003

April 8, 2004

Board of Commissioners

We have audited the accompanying basic financial statements of the Benton County Public Utility District No. 1, Benton County, Washington, as of and for the years ending December 31, 2002 and December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the Public Utility District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our financial audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Benton County Public Utility District No. 1, Benton County, Washington, as of December 31, 2002 and December 31, 2003, and the changes in financial position and cash flows, where applicable, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, during the years ending December 31, 2002 and December 31, 2003, the District implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*.

The Management's Discussion and Analysis 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 inquires 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.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Management's Discussion and Analysis

This section provides an overview and analysis of key data presented in the basic financial statements for the years ended December 31, 2003 and 2002, with additional comparative data for 2001. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

Overview of the Financial Statements

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

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

The basic financial statements, presented on a comparative format for the years ended December 31, 2003 and 2002, are comprised of:

- **Balance Sheets:** The District presents its statement of position using the balance sheet format. The Balance Sheets reflect the assets, liabilities and net assets (equity) of the District at year-end. The net assets section of the Balance Sheets is separated into three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District had no restricted net assets at December 31, 2003 or 2002. The asset and liability sections of the Balance Sheets are presented in reverse order of liquidity, consistent with the presentation commonly used within the electric utility industry.
- **Statements of Revenues, Expenses, and Changes in Fund Net Assets:** These statements reflect the transactions and events that have increased or decreased the District's total economic resources during the period. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or nonoperating based on the nature of the transaction.
- **Statements of Cash Flows:** The Statements of Cash Flows reflect the sources and uses of cash separated into three categories of activities: operating, capital and related financing, and investing. The fourth category, noncapital financing, is not presented within these statements since there was no activity during these years. The District does not include cash equivalents within its definition of cash.

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

Condensed Comparative Financial Information

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

Balance Sheet (in thousands)

	2003	2002	Increase (Decrease) 2003-2002	% Change 2003-2002	2001
Capital Assets	\$123,699	\$121,810	\$1,889	2%	\$111,673
Current & Other Assets	46,425	53,699	(7,274)	-14%	45,864
Total Assets	\$170,124	\$175,509	(\$5,385)	-3%	\$157,537
Long-Term Liabilities	\$80,115	\$80,022	\$93	0%	\$66,626
Other Liabilities	15,304	22,645	(7,341)	-32%	16,501
Total Liabilities	\$95,419	\$102,667	(\$7,248)	-7%	\$83,127
Invested in Capital Assets, Net of Related Debt	\$46,564	\$54,258	(\$7,694)	-14%	\$48,669
Unrestricted	28,141	18,584	9,557	51%	25,741
Total Net Assets	\$74,705	\$72,842	\$1,863	3%	\$74,410

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

	2003	2002	Increase (Decrease) 2003-2002	% Change 2003-2002	2001
Operating Revenues					
Retail Energy Sales	\$99,075	\$92,901	\$6,174	7%	\$69,513
Sales for Resale	33,066	13,629	19,437	143%	11,456
Other	1,518	1,650	(132)	-8%	2,034
Nonoperating Revenues					
Interest Income	248	551	(303)	-55%	1,051
Gain Joint Venture	—	—	—	N/A	57
Total Revenues	133,907	108,731	25,176	23%	\$84,111
Operating Expenses					
Power Supply	\$97,033	\$83,756	\$13,277	16%	\$53,704
Operations and Maintenance	14,251	13,424	827	6%	14,653
Taxes/Depreciation/Amortization	19,115	16,454	2,661	16%	13,101
Nonoperating Expenses					
Interest Expense	3,888	3,112	776	25%	2,315
Debt Discount & Expense					
Amortization	245	136	109	80%	36
Loss in Joint Venture	444	368	76	21%	—
Total Expenses	134,976	117,250	17,826	15%	\$83,809
Income (Loss) Before Contributions	(1,069)	(8,519)	7,450	87%	302
Capital Contributions	2,932	6,951	(4,019)	-58%	1,326
Change in Net Assets	1,863	(1,568)	3,431	219%	1,628
Beginning Net Assets	72,842	74,410	(1,568)	-2%	72,782
Ending Net Assets	\$74,705	\$72,842	\$1,863	3%	\$74,410

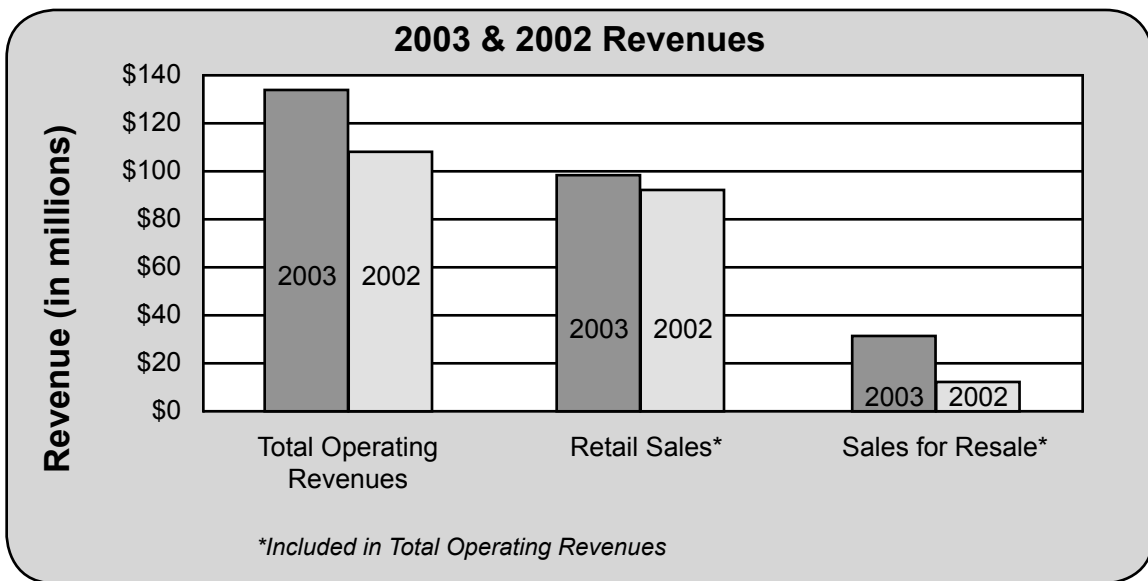
Financial Analysis

During 2003, the District's overall financial position and results of operation improved. The District's net assets increased by \$1.9 million compared to a decrease in net assets of \$1.6 million in 2002. The increase in net assets in 2003 resulted primarily from a 24% increase in operating revenues offset by a 15% increase in operating expenses.

Provided below is a year-over-year analysis of the change in net assets by major component of income, with a primary focus on changes between 2003 and 2002.

Operating Revenues

From 2002 to 2003, revenues from sales to retail customers increased \$6.2 million (7%) due to the implementation of increases in average retail rates of 9% and 6% in January 2003 and July 2003, respectively. These retail rate increases were associated primarily with increases in wholesale power costs charged by the Bonneville Power Administration (BPA), the District's primary provider of electric power. Total retail energy kilowatt-hour sales remained static between 2003 and 2002, however, customer classes with higher retail rates used less energy during 2003.



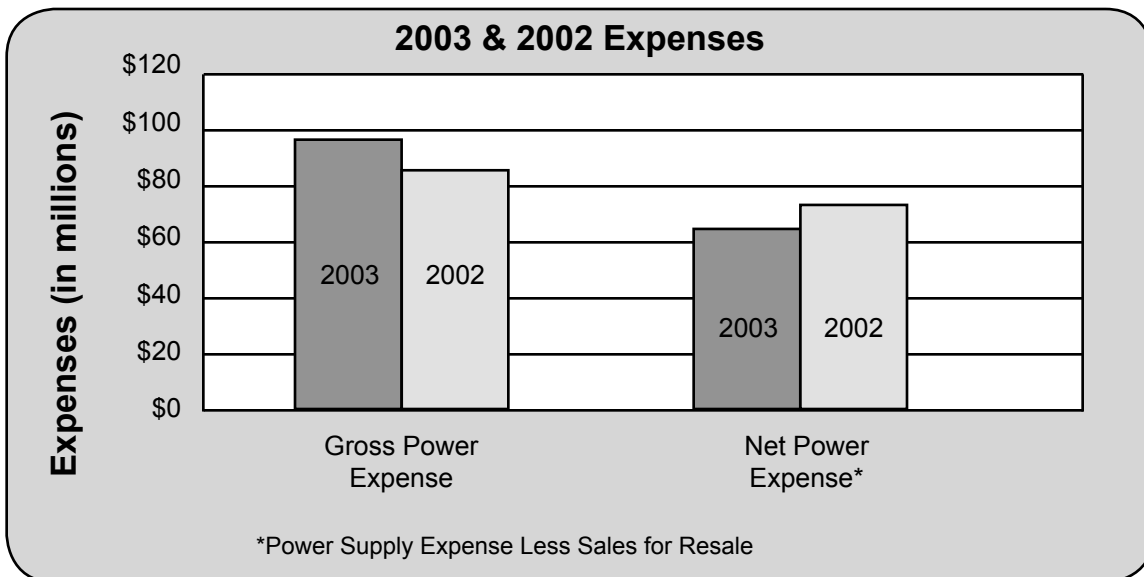
Between 2001 and 2002, revenues from sales to retail customers increased \$23.4 million (34%) due to the implementation of a 35% increase in average retail rates on October 1, 2001. The October 2001 rate increase was timed to coincide with a 46% increase in wholesale power rates assessed by BPA.

From 2002 to 2003, revenues from wholesale energy sales (Sales for Resale) increased by \$19.4 million (143%). This change resulted from a significant increase in wholesale energy prices as well as a significant rise in megawatt-hours (MWh) sold into the wholesale market. During 2003, wholesale electricity prices in the Pacific Northwest recovered from historically low levels a year earlier. The District averaged \$38.60 per MWh in Sales for Resale during 2003 compared to \$22.10 per MWh in 2002. The increase in electricity sold into the wholesale market was primarily related to increased operation of the Frederickson power plant (Frederickson), a 250 megawatt combined-cycle combustion turbine fueled by natural gas. The District owns the rights to 50 MW of capacity in Frederickson. Higher wholesale energy prices throughout the Northwest resulted in Frederickson being more economical to operate, leading to increased generation and sales.

From 2001 to 2002, wholesale revenues increased \$2.2 million (19%). During 2001, low water levels in the Columbia River system reduced hydroelectric generation, resulting in a significantly reduced power supply in the Pacific Northwest. Water levels in 2002 were more indicative of average conditions leading to more hydroelectric energy available to the District through its contracts with BPA.

Operating Expenses

From 2002 to 2003, Power Supply expense increased by \$13.3 million (16%) largely as a result of the increased operation of Frederickson. This increase in expenses was more than offset by the increase in revenues realized from the sale of electricity into the wholesale market (see Operating Revenues). Net power expense (Power Supply expense less Sales for Resale) decreased \$6.2 million from 2002 to 2003. The District uses net power expense as a means to measure overall financial performance related to power supply management.



From 2001 to 2002, Power Supply expense increased by \$30.1 million primarily as the result of a 46% increase in wholesale power costs implemented by BPA during late 2001.

From 2002 to 2003, District internal operations and maintenance expenses increased by \$0.8 million (6%), following a \$1.2 million (8%) reduction in these expenses from 2001 to 2002. Overall, the District has maintained 2003 internal expenses below 2001 levels. These reductions were associated with a District-wide effort to reduce internal operations and capital costs in order to mitigate the effects of significant increases in Power Supply expense.

From 2002 to 2003, taxes assessed by state and municipal governments increased by \$0.9 million (9%) largely as a result of the increase in retail rates. Depreciation and amortization increased by \$1.8 million (25%) as a result of changes in the depreciable lives of information technology systems and other assets.

From 2001 to 2002, taxes assessed by state and municipal governments increased by \$2 million (27%) as a result of the increase in retail rates. Depreciation and amortization increased by \$1.3 million (23%) as a result of a generation plant being placed in-service.

Other Income & Expense

During 2003, interest expense increased \$0.8 million (25%) due to the December 2002 bond issue (see Capital Asset and Long Term Debt Activity). Investment income declined \$0.3 million (55%) due to general decreases in investment rates and lower average investment balances.

Capital Contributions

During 2003, Capital Contributions decreased by \$4 million. 2002 contributions included \$5.3 million associated with the building of an interconnection facility for the Nine Canyon Wind Project.

Summary of Financial Position

The overall financial position of the District improved during 2003 with an increase in net assets of \$1.9 million. The improvement in financial condition was based on these primary factors:

- The District implemented average retail rate increases of 9% and 6% in January 2003 and July 2003, respectively. In October 2001, the District increased average retail rates by 35%. These increases were part of an overall plan to gradually increase retail rates to compensate for significant increases in wholesale power costs that occurred in 2001 and 2002.
- The District purchases power from BPA under Slice/Block Power Purchase Agreements. These agreements provide for BPA to charge for power delivered to Slice Contract customers based on estimated costs. At the completion of each of BPA's fiscal years ending September 30th, BPA calculates an annual "true-up" of actual to estimated expenditures. The resulting charge or credit is then invoiced to customers based on their proportionate share of the true-up. In November 2003, BPA announced that savings resulting from bond refundings and other cost reductions efforts would result in a credit to individual customer accounts. The amount credited to Benton PUD for 2003 was \$2.4 million. In 2002, the District was charged a true-up of \$4 million related to BPA revenue shortfalls and cost overruns. Largely as a result of these true-ups, net power expense dropped by \$6.2 million from 2002 to 2003.

District financial policies require that financial plans be developed to maintain minimum end-of-year cash and investment balances contained within unrestricted accounts sufficient to: 1) provide funding for 90 days of non-power expenses based on the planned year's operating budget, and 2) provide funding for unanticipated power costs based on 10% of gross power expenses for the planned year's budget. The District's unrestricted cash and investment balances totaled \$18.2 million, \$17.1 million and \$27 million at December 31, 2003, 2002 and 2001, respectively. Actual balances exceeded the minimum required level for each year.

In accordance with District financial policies and covenants established within the District's bond resolutions, the District is required to maintain and collect rates and charges sufficient to provide Net Revenues (defined as net income less depreciation, amortization, and interest expense) in each fiscal year in an amount at least equal to 1.25 the Annual Debt Service. For the years ended 2003, 2002 and 2001, the District's debt service coverage was 4.45, 2.57 and 1.69, respectively.

Capital Asset and Long Term Debt Activity

During 2003, gross capital additions totaled \$10 million. Capital contributions associated with these additions totaled \$2.9 million. Capital additions were associated with improvements to existing infrastructure, a 2% growth in customers served by the District, and the continued build-out of high-speed internet and telecommunications capabilities within the District's service territory.

During 2002, gross capital additions totaled \$17.6 million. Capital contributions associated with these additions totaled \$7 million. 2002 capital additions included \$5.3 million associated with the building of an interconnection facility for the Nine Canyon Wind Project, for which the District was fully reimbursed.

There were no long term debt issuances in 2003. In November 2002, the District issued \$17,305,000 principal amount of Electric Revenue Bonds, Series 2002, the proceeds of which were used for reimbursement of capital expenditures, to fund future capital expenditures, fund the Bond Fund Reserve Account and pay bond issuance costs. In December 2001, the District issued \$33,360,000 principal amount of Electric Revenue and Refunding Bonds, Series 2001A, the proceeds of which were used for reimbursement of capital expenditures, and to repay a line of credit, fund future capital expenditures, refund specified outstanding bonds and pay bond issuance costs.

During 2003, the District sought updates to its existing credit ratings with Moody's and Standard & Poor's (S&P). The District's rating from Moody's was affirmed at A3, stable outlook. The District's rating from Standard & Poor's (S&P) was upgraded from BBB to BBB+, stable outlook. The District also requested an initial rating from Fitch, which assigned a rating of BBB+, positive outlook. Fitch cited historically good financial performance, a favorable and growing service territory, and a defined power supply strategy as the basis for their rating and outlook.

Debt service payments totaled \$4.1 million in 2003, \$3.4 million in 2002 and \$5.7 million in 2001. In accordance with bond resolutions, the District defeased \$4 million of outstanding parity bonds maturing in 2003.

Additional information about the District's capital assets and long-term debt is presented in Notes 2 and 6.

Other Significant Matters

In April 2004, the District implemented a 2.6% reduction in retail rates. This decrease was associated with lower than anticipated increases in BPA wholesale power rates. Due to significant uncertainties related to BPA's costs and revenues, BPA may be required to raise wholesale rates in the future. Any additional increase in rates charged by BPA would likely require a corresponding increase in the District's retail rates.

Balance Sheet

As of December 31, 2003 and 2002

ASSETS	2003	2002
UTILITY PLANT (Note 2)		
Electric Plant in Service	\$195,322,217	\$186,346,166
Plant Held for Future Use	388,589	388,589
Construction Work in Progress	2,297,375	1,744,912
Less: Accumulated Depreciation	(74,308,939)	(66,670,057)
<i>Net Utility Plant</i>	123,699,242	121,809,610
RESTRICTED ASSETS		
Bond Fund - Principal & Interest	1,663,317	919,959
Bond Reserve	812,537	812,537
Construction Account	1,190,254	11,428,196
<i>Total Restricted Assets</i>	3,666,108	13,160,692
LONG-TERM ASSETS		
Ownership Interest - PRM (Note 12)	435,815	595,348
CURRENT ASSETS		
Cash & Working Funds	3,146,688	6,307,209
Investments	15,061,189	10,814,342
Accounts Receivable, net	10,553,573	6,441,731
Accrued Unbilled Revenues	4,000,000	3,562,000
Notes Receivable	-	211,816
Inventory - Materials & Supplies	3,817,664	3,769,308
Prepaid Expenses	110,605	167,492
Accrued Interest Receivable	-	142,890
Accrued Electric Revenue	2,344,612	2,481,367
<i>Total Current Assets</i>	39,034,331	33,898,155
DEFERRED CHARGES (Note 4)	3,288,918	6,044,822
TOTAL ASSETS	\$170,124,414	\$175,508,628
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$46,564,150	\$54,257,706
Unrestricted	28,140,550	18,584,694
<i>Total Net Assets</i>	74,704,700	72,842,400
LONG-TERM DEBT (Note 6)		
Revenue Bonds	79,105,000	79,105,000
Unamortized Premium & Discount & Loss on Defeasance	1,009,884	916,871
<i>Total Long-Term Debt</i>	80,114,884	80,021,871
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued Interest Payable	686,316	690,725
CURRENT LIABILITIES		
Warrants Outstanding	246,343	319,177
Accounts Payable	8,136,107	14,300,115
Customer Deposits	659,572	474,567
Accrued Taxes Payable	2,792,822	3,810,122
Other Accrued Liabilities	2,209,810	1,588,318
<i>Total Current Liabilities</i>	14,044,654	20,492,299
DEFERRED CREDITS & OTHER LIABILITIES (Note 4)	573,860	1,461,333
TOTAL NET ASSETS AND LIABILITIES	\$170,124,414	\$175,508,628

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the years ended December 31, 2003 and 2002

	2003	2002
OPERATING REVENUES		
Sales of Electric Energy - Retail	\$99,074,832	\$92,900,867
Energy Sales for Resale	33,065,979	13,629,442
Transmission of Power for Others	268,955	419,896
Broadband Revenue	52,876	6,538
Other Revenue	1,196,174	1,223,392
<i>Total Operating Revenues</i>	133,658,816	108,180,135
OPERATING EXPENSES		
Power Supply & Generation	97,032,674	83,756,486
Transmission Operation & Maintenance	216,643	174,812
Distribution Operation & Maintenance	5,991,928	5,063,932
Broadband Expense	288,320	159,489
Customer Accounting, Collection and Information	2,855,307	2,882,675
Public Purpose	395,107	386,939
Administrative & General Expense	4,502,408	4,756,135
Taxes	10,315,133	9,415,620
Depreciation & Amortization	8,800,473	7,038,619
<i>Total Operating Expenses</i>	130,397,993	113,634,707
OPERATING INCOME (LOSS)	3,260,823	(5,454,572)
NONOPERATING REVENUES & EXPENSES		
Interest Income	248,093	551,108
Interest Expense	(3,887,870)	(3,111,569)
Debt Discount & Expense Amortization	(245,253)	(135,733)
Gain (Loss) in Joint Ventures	(444,361)	(368,388)
<i>Total Nonoperating Revenues & Expenses</i>	(4,329,391)	(3,064,582)
INCOME (LOSS) BEFORE CONTRIBUTIONS	(1,068,568)	(8,519,154)
CAPITAL CONTRIBUTIONS	2,930,868	6,951,770
CHANGE IN NET ASSETS	1,862,300	(1,567,384)
TOTAL NET ASSETS, BEGINNING OF YEAR	72,842,400	74,409,784
TOTAL NET ASSETS, END OF YEAR	\$74,704,700	\$72,842,400

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

Statement of Cash Flows

For the years ended December 31, 2003 and 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Counterparties	\$129,108,974	\$105,510,981
Cash Paid to Suppliers and Counterparties	(105,269,844)	(87,261,475)
Cash Paid to Employees for Services	(9,547,917)	(9,309,794)
Taxes Paid	(11,322,254)	(9,035,189)
<i>Net Cash Provided (Used) by Operating Activities</i>	2,968,959	(95,477)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(10,189,518)	(16,593,739)
Proceeds from Sale of Revenue Bonds	-	17,185,495
Bond Issuance Costs	(2,237)	(233,045)
Bond Principal Paid	(712,500)	(5,032,673)
Bond Interest Paid	(4,117,898)	(3,873,087)
Conservation Incentives Paid	(192,325)	(970,531)
Capital Contributions	2,930,868	6,951,770
Proceeds from Sale of Assets	56,876	32,545
<i>Net Cash (Used) by Capital and Related Financing Activities</i>	(12,226,734)	(2,533,266)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	390,983	836,102
Proceeds from Sale of Investments	37,634,828	57,733,075
Purchase of Investments	(31,643,733)	(51,392,257)
Assessments to Joint Venture	(284,824)	(278,586)
<i>Net Cash Provided (Used) by Investing Activities</i>	6,097,254	6,898,333
NET INCREASE IN CASH	(3,160,521)	4,269,590
CASH BALANCE, BEGINNING OF YEAR	6,307,209	2,037,619
CASH BALANCE, END OF YEAR	\$3,146,688	\$6,307,209

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	\$3,260,823	(\$5,454,572)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation & Amortization	8,800,473	7,038,619
Unbilled Revenues	(438,000)	(3,562,000)
Decrease (Increase) in Accounts Receivable	(4,111,842)	245,828
Decrease (Increase) in Notes Receivable	211,816	200,298
Decrease (Increase) in Inventories	(48,356)	413,482
Decrease (Increase) in Prepaid Expenses	56,886	(12,666)
Decrease (Increase) in Accrued Electric Revenue	136,755	(1,921,712)
Decrease (Increase) in Miscellaneous Assets	11,428	(6,903)
Decrease (Increase) in Deferred Purchased Power Costs	(624,904)	178,046
Decrease (Increase) in Deferred Regulatory Charges	3,048,999	(3,124,744)
Increase (Decrease) in Deferred Regulatory Credits	(1,124,891)	1,200,636
Increase (Decrease) in Warrants Outstanding	(72,834)	(329,436)
Increase (Decrease) in Accounts Payable	(6,164,008)	4,287,050
Increase (Decrease) in Accrued Taxes Payable	(1,017,300)	1,762,813
Increase (Decrease) in Customer Deposits	185,005	(119,733)
Increase (Decrease) in Other Current Liabilities	621,492	(190,178)
Increase (Decrease) in Deferred Credits	237,417	(700,305)
Net Cash Provided (Used) by Operating Activities	\$2,968,959	(\$95,477)

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 & 2002**

NOTE 1 - SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Benton County, Washington (the District) is a municipal corporation of the State of Washington established in 1934 for the purpose of engaging in the purchase, generation, transmission, distribution and sale of electric energy. Additionally, the District is authorized under state law to provide wholesale telecommunication services. The District operates a 27 MW natural gas fired simple cycle combustion turbine (Finley CT) that was constructed during 2001. The District is governed by an elected three-member board.

The District serves Benton County exclusive of most of the City of Richland, the U.S. Department of Energy's operations on the Hanford Reservation, the City of West Richland and those rural areas of the County which are served by the Benton Rural Electric Association. Cities in the District's service area include Kennewick, population 57,900, Prosser, population 4,940, and Benton City, population 2,790. The District maintains its administrative offices in the City of Kennewick.

The District's service area comprises approximately 948 square miles of Benton County. The District's properties include 36 substations, approximately 89 miles of 115kV transmission line, 1,445 miles of distribution lines, and other buildings, equipment, stores and related facilities.

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

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements, as well as all applicable Financial Accounting Standards Board (FASB) statements and interpretations, except for those that conflict with or contradict GASB pronouncements. The following is a summary of the more significant policies:

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

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The objective of this statement is to enhance the understandability and usefulness of the external financial reports to the citizenry, legislative and oversight bodies, bondholders and creditors. The District adopted this statement in 2002. This statement requires certain formatting changes to the financial statements, a new section called management's discussion and analysis, and certain other required supplementary information.

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

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

Buildings and Improvements	40 years
Generation Plant	20 years
Electric Plant - Transmission	25 - 33 years
Electric Plant - Distribution	10 - 33 years
Electric Plant - Broadband	10 - 20 years
Transportation Equipment	16 years
General Plant & Equipment	3 - 14 years

Initial depreciation on utility plant is recorded in the year subsequent to purchase. Composite rates are used for asset groups and, accordingly, no gain or loss is recorded on the disposition of an asset unless it represents a major retirement. The composite depreciation rate was approximately 4.64% in 2003 and 4.30% in 2002. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation.

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

- c) Allowance for Funds Used During Construction (AFUDC): AFUDC represents the estimated costs of financing construction projects and is computed using the District's long-term borrowing rate. The allowance totaled \$194,760 and \$510,242 in 2003 and 2002, respectively, and is capitalized as part of the cost of the project and reflected as a reduction of interest expense.
- d) Asset Retirement Obligation: The District has adopted FASB Statement of Financial Accounting Standard (SFAS) No. 143, *Accounting for Asset Retirement Obligations*. This statement requires the District to recognize the fair value of a liability associated with the retirement of a long-lived asset, such as the Finley CT, in the period in which it is incurred. See Note 5 for discussion regarding the impact of adopting SFAS No. 143.
- e) Restricted Assets: In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. These assets are restricted for specific uses including debt service, bond reserve and capital additions.
- f) Cash and Investments: For purposes of the Statement of Cash Flows, cash includes unrestricted and restricted cash balances. Short-term highly liquid investments are not considered to be cash equivalents. See Note 3.
- g) Accounts Receivable: The percentage-of-sales allowance method is used to estimate uncollectible accounts. The reserve is then reviewed for adequacy against an aging schedule of accounts receivable. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis.
- h) Notes Receivable: The note receivable relates to an agreement with a large customer for a line extension and substation expansion at an original cost of \$950,000 to be repaid to the District through a five-year contribution in aid of construction payment schedule. The note was paid in full during 2003.
- i) Inventories: Inventories are valued at average cost, which approximates the market value.
- j) Derivative Instruments: The District has adopted FASB SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. These statements require that the fair value of all derivative financial instruments be recognized as either assets or liabilities on the District's balance sheet. Changes during a period in the fair value of a derivative instrument are included in earnings for the period. The District has reviewed its various contractual arrangements to determine applicability of these standards. The District's contract to purchase natural gas supply and transportation, as well as certain put options and financial swaps for electricity, are considered to be derivatives under SFAS No. 133 and 138 criteria.

The District has adopted GASB Technical Bulletin (TB) 2003-01, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, effective for 2003. The following disclosures are provided in conformity with this guidance.

Objective & Strategies:

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

- Combustion Turbines – The District purchases gas for future periods to generate electricity when the plant is economically viable on a marginal basis for that period based on parameters set by the Risk Management Committee. If load projections indicate that the District does not require the electricity to serve its customers, an equivalent quantity of power will concurrently be sold or otherwise hedged for the same period.
- Surplus Purchased Power Resources – The District hedges projected surpluses in future periods by selling power or by purchasing put options. Surplus power is generally sold forward at a fixed-price, either physically or financially, when the probability of surplus is very high; surplus power is hedged through the purchase of physical or financial put options when the projected surplus is less certain, but nevertheless expected to be available under expected scenarios.
- Deficit Power Resources – The District hedges projected power resource deficits in future periods by purchasing power or by purchasing power call options (or if the Frederickson Project (see Note 10) is economically viable for the period, by buying gas or gas call options). Power is generally purchased to cover projected deficits at a fixed price, either physically or financially, when the probability of the deficit position is very high; such deficit positions are hedged through the purchase of physical or financial call options when the projected deficits are less certain, but nevertheless expected under the approved planning conditions.

Derivatives authorized under the Risk Management Policy and employed by the District include:

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

As of December 31, 2003, the following derivative products were outstanding:

- Physical power and natural gas forward purchases and sales
- Physical monthly and daily power puts
- Fixed for floating financial power swaps
- Financial daily power put options
- Monthly power put swaptions

The fair value of these derivative instruments is provided in Note 10. There is no associated debt for these instruments at December 31, 2003 or 2002.

GASB TB 2003-01 mandates disclosures for six different types of risk that can arise in connection with derivatives to the extent these risks are actually present.

- Credit Risk – The District has developed a credit policy that establishes guidelines for setting credit limits and monitoring credit exposure on a continuous basis. The policy addresses frequency of counterparty credit evaluations, credit limits per specific counterparty and counterparty credit concentration limits. A summary of counterparty credit exposure related to derivatives is provided in Note 10.

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

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

- Basis Risk - The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. At December 31, 2003, there are no derivative transactions outstanding that carry basis risk. As applicable, all power related transactions are to be settled on the relevant Mid-Columbia index, and all gas transactions are to be settled on the relevant Sumas/Huntingdon index. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.
- Termination Risk - As of December 31, 2003, no termination events have occurred, and there are no outstanding transactions with material termination risk. None of the outstanding transactions have early termination provisions except in the event of default by either counterparty. Events of default are generally related to (i) failure to make payments when due, (ii) failure to provide and maintain suitable credit assurances as required, (iii) bankruptcy or other evidence of insolvency, or (iv) failure to perform under any material provision of the agreement. Failure to provide or receive energy or natural gas under physical commodity transactions does generally not fall under the events of default provisions, unless the non-performing party fails to pay the resulting liquidated damages as they become due.
- There is no rollover, interest rate, or market access risk for these derivative products at December 31, 2003.

- k) Deferred Regulatory Charges/Credits: The Board of Commissioners establishes rates for the District designed to recover the costs of providing services. As a result, the District qualifies for the application of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, which allows for the deferral of unrecognized gains or losses. The Board approved a resolution that allows the change in the fair value of derivative instruments during the period to be deferred and recorded as regulatory assets and/or liabilities. As of December 31, 2003, the District recorded unrealized losses of \$75,745 and unrealized gains of \$299,665 related to derivative instruments. As of December 31, 2002, an unrealized loss of \$1.4 million in the fair value of derivative instruments was deferred and amortized during 2003. All other power supply contracts are considered to be normal purchases and sales under SFAS Nos. 133 and 138 and, as such, were not subject to the fair value recording requirements of these statements.

In May 2002, the Bonneville Power Administration (BPA) announced that potential cost overruns and revenue shortfalls might require the agency to assess additional costs to customers as allowed under Slice/Block Power Purchase Agreements (Slice Customers). The additional costs, or "true-up", were estimated to be \$33 million and were related to power to be supplied during BPA's fiscal year ending September 2002. The District's share of these potential additional costs was estimated to be \$2.3 million. In December 2002, BPA officially assessed Slice Customers \$51 million payable in January 2003. The District's share of the official amount was \$4 million or \$1.7 million higher than the May 2002 estimate. As of December 2002, the District opted to recognize \$2.3 million of the true-up as current year operating expense, but defer \$1.7 million as a regulatory asset under SFAS No. 71 to be amortized over a period not to exceed two years. This deferral was fully amortized in 2003.

- l) Debt Premium, Discount and Expense: Original issue and reacquired bond premiums, discounts and expenses relating to revenue bonds are amortized over the terms of the respective bond issues using the bonds outstanding method. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, losses on debt refundings have been deferred and amortized over the shorter of the remaining life of the old or new debt.
- m) Revenue Recognition: Revenues include an estimate for energy delivered to customers between the last billing date and the end of the year. This amount is reflected in the accompanying financial statements as Accrued Unbilled Revenue. Previous to 2002, unbilled revenues were believed to be immaterial and were not accrued in accordance with State Auditor Bulletin No. 409, dated October 27, 1987. This had the effect of increasing revenues and current assets by \$3.6 million for the year ended December 31, 2002.
- n) Contributed Capital: GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, was adopted by the District effective January 1, 2001. The statement requires that nonexchange transactions, such as contributed capital, be recognized as revenue in the current year. Capital contributions of \$2.9 million and \$7.0 million are reported for 2003 and 2002 on the statement of revenues, expenses and changes in fund net assets as a result of the adoption of this statement.

Contributed capital for the District consists mainly of line extension fees and donated plant. Line extension fees represent amounts collected to recover the costs of installing new lines. Line extension fees and donated plant are recorded at fair market value.

- o) Compensated Absences: Employees earn personal leave in accordance with length of service. The District accrues the cost of personal leave in the year when earned. Personal leave may accumulate to a maximum of 1,200 hours and is payable upon resignation, retirement or death. The liability for unpaid leave benefits and related payroll taxes was \$1,555,908 and \$1,457,756 at December 31, 2003 and 2002, respectively.
- p) Use of Estimates: The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.
- q) Significant Risk and Uncertainty: The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include prices on the wholesale market for short-term power, interest rates, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other Endangered Species Act issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance, and/or licensing of facilities, other governmental regulations, and the deregulation of the electrical utility industry.

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

- r) Reclassifications: Certain 2002 account balances have been reclassified to conform to the 2003 presentation.

NOTE 2 – UTILITY PLANT

Utility plant activity for the year ended December 31, 2003 was as follows:

Electric Plant Assets	Balance Dec. 31, 2002	Increase	Decrease	Balance Dec. 31, 2003
Land and Intangible Plant	\$ 2,178,981	\$ 19,842	\$ -	\$ 2,198,823
Transmission	6,767,249	95,364	(1,790)	6,860,823
Generation	20,464,295	131,726	-	20,596,021
Distribution	129,493,256	6,499,674	(814,605)	135,178,325
General	27,442,385	3,276,874	(231,034)	30,488,225
Subtotal	186,346,166	10,023,480	(1,047,429)	195,322,217
Plant Held for Future Use	388,589	-	-	388,589
Construction Work in Progress	1,744,912	3,825,114	(3,272,651)	2,297,375
Less Accumulated Depreciation for:				
Transmission	(2,504,179)	(242,857)	-	(2,747,036)
Generation	(872,969)	(1,190,120)	-	(2,063,089)
Distribution	(57,832,303)	(5,431,119)	889,654	(62,373,768)
General	(5,460,606)	(1,868,629)	204,189	(7,125,046)
Total Accumulated Depreciation	(66,670,057)	(8,732,725)	1,093,843	(74,308,939)
Net Utility Plant	\$121,809,610	\$ 5,115,869	(\$3,226,237)	\$123,699,242

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits: 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 Public Deposit Protection Commission (PDPC).

Investments: As required by State law and District Resolution, all investments of the District's funds are obligations of the U.S. Government and its agencies, the State Treasurer's Local Government Investment Pool, bankers' acceptances, certificates of deposit with Washington State banks and savings and loan institutions, tri-party repurchase agreements collateralized by securities backed by the full faith and credit of the U.S. Government, or other investments allowed by statute.

Investments are reported at fair value. The State Treasurer's Local Government Investment Pool (LGIP) is a 2a7-like pool and investments in the LGIP are reported based on the pool's share price. The reported value of the pool is the same as the fair value of the pool shares. The LGIP is governed by the State Finance Committee and is administered by the State Treasurer.

It is management's intent to hold securities until maturity. Cash and investments at December 31, 2003 were as follows:

Account	Cash	Investments	Total
Bond Fund	\$ -	\$ 1,663,317	\$ 1,663,317
Bond Reserve	-	812,537	812,537
Construction Account	-	1,190,254	1,190,254
Unrestricted	3,069,511	6,907,619	9,977,130
Rate Stabilization	20,591	2,874,554	2,895,145
Contingency & Replacement	56,586	5,279,016	5,335,602
Total	\$3,146,688	\$18,727,297	\$21,873,985

At December 31, 2002, the fair value of cash and investments was \$30,282,243.

There was no use of funds in the Rate Stabilization account during 2002 or 2003.

The District's investments are categorized to give an indication of the risk assumed at year-end. Category 1 includes investments that are either insured, registered or held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent but not in the District's name.

Type of Investment	Risk Category				Fair Value
	1	2	3	Total	
Repurchase Agreements	\$ -	\$500,000	\$ -	\$500,000	\$500,000
Subtotal	\$ -	\$500,000	\$ -	\$500,000	\$500,000
Investments not subject to categorization:					
Local Government Investment Pool				18,227,297	18,227,297
Total				\$18,727,297	\$18,727,297

NOTE 4 – DEFERRED CHARGES AND DEFERRED CREDITS

Deferred charges and deferred credits as of December 31 consisted of the following:

Deferred Charges	2003	2002
Unamortized Debt Expense	\$1,266,111	\$1,416,114
Deferred Regulatory Charges	75,745	3,124,744
Derivative Asset	299,665	-
Deferred Purchased Power Costs	457,600	132,361
Deferred Conservation Costs	1,189,760	1,360,138
Other Deferred Charges	37	11,465
Total	\$3,288,918	\$6,044,822

See Note 1(k) for an explanation of deferred regulatory charges and credits.

Deferred Credits & Other Liabilities	2003	2002
Customer Advances – Line Extensions	\$ 8,634	\$ 10,312
Unclaimed Property	42,597	38,369
Deferred Regulatory Credits	299,665	-
Derivative Liability	75,745	1,200,636
Deferred Capital Contributions	-	211,816
Asset Retirement Obligation – Finley CT	146,940	-
Other	279	200
Total	\$573,860	\$1,461,333

Deferred charges include programmatic conservation and weatherization costs incurred for purposes of load reduction and energy efficiency. These costs are being recovered over five years to coincide with credits on the District's power bill from the Bonneville Power Administration.

NOTE 5 – ASSET RETIREMENT OBLIGATION (ARO)

The District adopted SFAS No. 143, *Accounting for Asset Retirement Obligations* in 2003. This statement requires the District to recognize the fair value of a liability for an ARO for legal obligations related to the retirement of tangible long-lived assets. Upon initial recognition of a measurable ARO, the asset retirement cost is capitalized by increasing the carrying amount of the related long-lived asset by the same amount as the liability. The asset retirement cost is subsequently allocated to expense over its useful life. In periods subsequent to initial measurement, changes are recognized in the liability for an ARO resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

The District has identified a legal obligation related to the retirement of the Finley CT. Upon termination of the agreement with the landowner of the Finley CT site, the District is obligated to remove equipment and systems from the site and surrender the site in the same condition as received. During 2003, the District recorded an ARO of \$190,380 at its net present value of \$146,940, and increased depreciable assets by \$146,940.

NOTE 6 - LONG TERM DEBT

During the year ended December 31, 2003, the following changes occurred in long-term debt:

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
1995 Electric Revenue Bonds, due in annual installments of \$365,000 - \$830,000 through November 1, 2015; interest at 4.2% - 5.6%.	\$7,570,000	\$ -	\$ -	\$7,570,000	\$470,000
1996 Electric Revenue Refunding Bonds, due in annual installments of \$2,015,000 - \$3,475,000 through November 1, 2004; interest at 4.75% - 6.0%.	3,475,000	-	-	3,475,000	3,475,000
1997 Electric Revenue and Refunding Bonds, due in annual installments of \$180,000 - \$2,455,000 through November 1, 2017, interest at 4.5% - 5.8%.	17,395,000	-	-	17,395,000	330,000
2001A Revenue and Refunding Bonds, due in annual installments of \$300,000 - \$2,900,000 through November 1, 2021; interest at 3.75% - 5.625%.	33,360,000	-	-	33,360,000	-
2002 Revenue Bonds, due in annual installments of \$1,220,000 - \$2,005,000 through November 1, 2022; interest at 3.60% - 4.75%.	17,305,000	-	-	17,305,000	-
Subtotal	\$79,105,000	-	-	\$79,105,000	\$4,275,000
Plus: Unamortized discount & premium	1,798,820	-	179,935	1,618,886	-
Less: Unamortized loss on refundings	(881,949)	-	(272,947)	(609,002)	-
Total Long-Term Debt	\$80,021,871	\$ -	(\$93,012)	\$80,114,884	\$4,275,000

Future debt service requirements on these bonds are as follows:

Year	Principal	Interest	Total
2003	\$ -	\$4,087,039	\$4,087,039
2004	4,275,000	4,117,897	8,392,897
2005	3,615,000	3,870,008	7,485,008
2006	3,785,000	3,698,327	7,483,327
2007	3,955,000	3,519,490	7,474,490
2008-2012	21,895,000	14,377,338	36,272,338
2013-2017	21,800,000	8,678,909	30,478,909
2018-2022	19,780,000	2,880,339	22,660,339
Total	\$79,105,000	\$45,229,347	\$124,334,347

In November 2002, the District issued \$17.3 million in Electric Revenue Bonds, Series 2002. The proceeds provided funds to make certain capital improvements to the electric system, capitalize interest and pay issuance costs. Simultaneously with the issuance of the bonds, the District defeased outstanding parity bonds maturing in 2003.

Proceeds from the refunding bonds and the District were placed in separate irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not reflected in the District's financial statements. At December 31, 2002, \$4,040,000 of bonds outstanding were considered defeased.

The District's bond reserve requirement for issues prior to 2002 is satisfied by a surety policy in the amount of \$5,108,146 issued by Ambac Assurance Corporation. The 2002 bond issue requires the District to fund reserves in an amount equal to the average annual debt service. The reserve was fully funded November 2002 in the amount of \$812,537.

NOTE 7 - PENSION PLANS

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

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

Plan Description

PERS is a cost-sharing multiple employer cost-sharing retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; non-certificated employees of school districts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. 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 annual pension is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66, a cost-of-living allowance is granted based on years of service credit and is capped at three percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. 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. The average final compensation is based on the greatest compensation during any 60 eligible consecutive compensation months excluding any type of severance pay. Plan 2 retirements prior to age 65 are actuarially reduced. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any 60 eligible consecutive compensation months. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,167 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2002:

Retirees and Beneficiaries Receiving Benefits	63,756
Terminated Plan Members Entitled To but Not Yet Receiving Benefits	19,152
Active Plan Member Vested	98,994
Active Plan Members Nonvested	55,191
Total.....	237,093

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from five to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with the Revised Code of Washington (RCW) Chapters 41.40 and 41.45.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2003, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer *	1.40%	1.40%	1.40%**
Employee	6.00%	1.18%	***

* The employer rates include the administrative expense fee currently set at 0.22%.

** Plan 3 defined benefit portion only.

*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2003	\$19,318	\$101,483	\$3,905
2002	\$25,238	\$109,951	\$ 304
2001	\$58,278	\$215,779	-

Excess Compensation

A cash-out of accrued personal leave at termination in excess of 240 hours qualifies as "excess compensation" for PERS Plan 1 members. Excess compensation is included as part of a participant's average final compensation. When a payment is made that qualifies as excess compensation, the employer is billed for the resulting increase to the retiree's benefit to offset the increased cost to the Department of Retirement Systems. The bill is based on the present value of the increase to retiree's benefit. Present value is calculated using actuarial tables developed by the Office of the State Actuary and adopted into Washington Administrative Code by the Department of Retirement Systems. Beginning in 2003, the District accrued a liability for future "excess compensation" bills based on personal leave bank balances of PERS Plan 1 employees and actuarial numbers provided by the Office of the State Actuary. The liability for PERS Plan 1 excess compensation was \$382,282 at December 31, 2003.

NOTE 8 - DEFERRED COMPENSATION PLANS

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(a) permitting employees to defer a portion of their salary until future years. The District 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. 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.

The District established a new deferred compensation plan, the Retirement Health Savings Plan, for its non-bargaining employees during 2003. This plan is an employer-sponsored health benefit saving plan that allows employees to accumulate assets to pay for eligible medical expenses at retirement on a tax-free basis. Eligible employees may make a one-time irrevocable choice to contribute up to 20% of base pay and up to 100% of accrued personal leave at separation of service, and an irrevocable choice on an annual basis to contribute up to 120 hours of prospective personal leave accrual. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

The District consolidated its vacation and sick leave program to a personal leave program May 1, 1993. Accrued unused sick leave balances for active employees as of April 30, 1993 were frozen and converted to a supplemental leave benefit (SLB). The SLB may be used by employees to make up the difference between a short-term disability benefit and 100% of gross pay or on a one-time basis, restore work hours required for short-term disability eligibility. At death, the District is obligated to pay 100% of the SLB cash value to the employee's beneficiary. At retirement, the District is obligated to deposit 30% of the SLB cash value into the retiring employee's Voluntary Employee Beneficiary Association Trust account. Beginning in 2003, the District accrued a liability for the value of the supplemental leave benefit. The liability for unpaid supplemental leave benefits was \$115,046 at December 31, 2003.

NOTE 10 – LONG-TERM PURCHASED POWER COMMITMENTS

Bonneville Power Administration (BPA)

Commencing October 1, 2001, the District entered into a ten-year Block and Slice Power Sales Agreement with the United States Department of Energy BPA. The Slice product provides the District 1.7641% of the actual output of the Federal Columbia River Power System and will require the District to pay that same percentage of actual costs of the system. The District's share of output is expected to be 165 average megawatts (aMW) in an average year, but may vary considerably based on water conditions within the Northwest. The Block product provides power in monthly amounts ranging between 47 megawatts (MW) and 83 MW for the first five-year term. In the second five-year term, the monthly Block entitlements increase to a range of 85 MW to 158 MW.

During the contract period, BPA will periodically examine forecast and actual loads, market prices and expenses and has authority under the existing agreement to impose three Cost Recovery Adjustment Clauses (CRACs) designed to assure that full cost recovery is maintained. The three CRACs are the (1) Load-Based (LB) CRAC which is designed to capture the costs of purchasing sufficient power to serve the loads that are placed on BPA; (2) Financial-Based (FB) CRAC which triggers if the Power Business Line's forecast accumulated net revenues fall below a preset threshold; and (3) Safety Net (SN) CRAC which triggers if BPA has missed a payment to Treasury or other creditor, or if BPA forecasts a 50% probability that it will miss such a payment during the current fiscal year.

The District has entered into two other contracts with BPA for block-type purchases at fixed rates. The first contract allows access to up to 20 MW and must be used to serve a large industrial customer of the District. The second contract is for approximately 10 aMW during the April through October time period. These agreements expire on August 31, 2006 and September 30, 2006, respectively.

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

Energy Northwest

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

Additionally, the District entered into a Nine Canyon Wind Project Power Purchase Agreement with Energy Northwest for the purchase of 3 MW (1 aMW) of the project generating capacity through July 1, 2023. The project reached commercial operation in late 2002. Associated with the Nine Canyon Wind Project, the District entered into a separate agreement to build an interconnection facility for the project. The cost of the facility was \$5.3 million. Amounts have been reimbursed to the District by Energy Northwest.

Packwood Lake Hydroelectric Project (Packwood)

The District is a 14% participant in Energy Northwest's 27 MW Packwood Project, located in the Cascade Mountains south of Mount Rainier. The Packwood Agreement with Energy Northwest obligates participants to pay annual costs and receive excess revenues. Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized, and no equity is accumulated. Accordingly, no investment for the joint venture is reflected on the District's balance sheet; however, proceeds of \$84,072 and \$63,100 were recognized in the income statement for 2003 and 2002, respectively, as the District's share of excess revenues from the Project.

In November 2002, the District began purchasing 57% of Packwood's capacity. The agreement, which expires September 30, 2004, allows the District to receive power at costs below the average BPA Block rate.

Frederickson Project

On March 26, 2001, the District entered into an agreement with Frederickson Power LP for the purchase of 50 MW of contract capacity from the 250 MW Frederickson combined-cycle natural gas fired combustion turbine project near Tacoma, Washington. Power deliveries and variable energy charges are based on a deemed heat rate of 7,100 british thermal units per kilowatt-hour (kWh). Up to 40% of the contract capacity may be displaced regardless of the dispatch decisions of other purchasers. Power costs include a capacity charge and fixed and variable operation and maintenance charges indexed to performance and escalation factors. The District receives fuel management services for the Frederickson Project from Power Resource Managers (PRM) (see Note 12).

Other Power Supply Contracts and Purchases

On April 27, 2001, the District entered into a joint scheduling agreement with Grays Harbor County PUD and Franklin County PUD. Under this agreement, the three PUDs coordinate the operation of their systems through their scheduling agent, PRM (see Note 12), to maximize the benefits of purchases, sales and scheduling of electric power and transmission. The joint scheduling agreement expires September 30, 2011.

The District is purchasing 1 aMW per month from Klickitat County PUD's Landfill Gas Project. The price of the power is fixed, subject to 3% annual escalation, during the term of the contract that expires on September 30, 2006.

From September 2001 through September 2003, the District was obligated to purchase natural gas supply and transportation related to its Finley Combustion Turbine from IGI Resources. This contract required the District to purchase 6,300 decatherms per day at an average price of \$5.50 per decatherm through October 2002, reducing to 3,000 decatherms per day at a price of \$5.35 per decatherm through September 2003. Because of an unfavorable relationship of gas price to electricity price, the majority of the gas purchased under this contract was resold at market prices. The District's obligations under this contract expired in September 2003.

On October 1, 2001, the District began purchasing 19 aMW per month from the marketing subsidiary of Idaho Power Company. The price of this power is fixed at \$28 per MWh. The agreement expired September 30, 2003.

In June 2001, the District entered into a long-term agreement with Westcoast Energy for natural gas pipeline transportation capacity to serve its share of the Frederickson Power generating facility. The transportation capacity is dedicated to provide natural gas for Frederickson operations when the Frederickson plant is economically viable and the transportation capacity is economically viable. This agreement expires October 31, 2018.

At December 31, 2003, the District had entered into various short-term physical and financial forward sales and purchase contracts committing the District through 2005. The physical forward contracts call for delivery of power at fixed prices in various block increments. The fair value of physical forward contracts totals a positive \$554,528 for electricity sales and \$30,974 for gas sales. These contracts have been designated as normal purchases and sales under SFAS No. 133 and 138. Accordingly, the fair value of these contracts has not been recorded on the balance sheet. The District has also entered into forward financial swaps through 2004. These transactions had a positive fair value of \$299,665 at December 31, 2003 and are reflected in the financial statements as a deferred regulatory credit in accordance with SFAS No. 71.

At December 31, 2003, the District had outstanding put options and swaptions enabling the District to sell electricity at various prices. These agreements expire in the first two quarters of 2004. Due to rising prices, the market value of these options at year-end was \$75,745 lower than the original premium paid. Accordingly, the premiums paid for the options have been amortized by this amount and recognized as a deferred regulatory charge in accordance with SFAS No. 71.

At December 31, 2002, physical forward contracts totaling \$9,934,654 for forward electricity sales and \$1,216,000 for forward purchases were treated as normal purchases and sales under SFAS No. 133 and 138. Options with a decline in market value of \$237,372 were recognized as a deferred regulatory charge in accordance with SFAS No. 71.

Commodity transactions, both physical and financial, are entered into only with counterparties approved by the Risk Management Committee for creditworthiness. The District had 35 counterparties with approved credit limits for power sales and purchases as of December 31, 2003, and 33 counterparties at December 31, 2002. Credit ratings for these counterparties range from BBB- to AA+. The maximum credit exposure with any counterparty is set at \$2.25 million. Credit concentration limits based on market conditions and available qualified counterparties are established by the Risk Management Committee.

NOTE 11 – SELF-INSURANCE

Public Utility Risk Management Services Self-Insurance Fund

The District is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). RCW Chapter 48.62 authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of RCW Chapter 54.16. The liability pool was formed on December 31, 1976 when certain PUDs in the State of Washington joined together by signing an Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Twenty members have joined the pool.

Additional pools for property and health and welfare coverage were added in March 1997 and April 2000, under the same agreements and with the same membership. All members do not participate in all pools. The District does not participate in the PURMS health and welfare pool.

The liability pool has a \$1 million self-insured retention with \$2 million of reserves. In addition, the fund purchases \$60 million of excess insurance over the \$1 million. The deductible is \$250.

The majority of the property in the property pool has a \$250,000 self-insured retention. Certain classes of property, such as the District's Finley CT (retention of \$350,000), have higher retention requirements up to \$750,000. In response to the changes in retention, PURMS's members have increased the reserve from \$500,000 to \$750,000. This will be accomplished by increasing each assessment by \$50,000 until fully funded. It is expected this will take approximately two years to fully fund the revised reserve level. In addition, the fund purchases \$125 million of excess insurance over the \$250,000 retention level. The deductible varies but for most classes of property it is \$250.

The members of the pools are assessed to maintain the designated self-insured retention. Stop loss coverage is provided by Safeco Life Insurance Company and the health and welfare coverages are provided through the First Choice Health Network. Since the pools are a cooperative program, there is joint liability among the participating members.

After termination, a member is still responsible for contributions to the pools for any unresolved, unreported, and in-process claims for the period they were a signatory to the agreement.

The pools are fully funded by its current and former members. Claims are filed by members with the Administrator, Pacific Underwriters, Seattle, WA, which has been contracted to perform claims adjustment and loss prevention services.

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

Central Washington Public Utilities Unified Insurance Program Trust

The District is a member of the Central Washington Public Utilities Unified Insurance Trust (Trust). The Trust was organized October 1, 1982 pursuant to the provisions of RCW Title 54 and interlocal governmental agreements. The Trust's general objectives are to provide a central fund for the collection and disbursement of employee benefit premiums and claims involving medical, dental, life and long-term disability coverage. The Trust is administered by a Board of Trustees comprised of an appointed Trustee from each of the eight member Districts. The Trustee's are authorized to negotiate for, obtain, and maintain insurance policies. Effective August 1, 2002, the Trust established a self-insured medical plan approved by the State Risk Office. The audit report for the Trust is available from the Washington State Auditor's Office (Report No. 65856 and 65857).

Unemployment Claims

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

Short-Term Disability Insurance

The District self-insures short-term disability insurance through a 70% salary continuation program from the 41st hour of inability to work until the employee either recovers and returns to work or completes the waiting period required for long-term disability insurance eligibility, whichever is earlier. Certification of illness or injury by a licensed, competent medical authority is required.

NOTE 12 – POWER RESOURCE MANAGERS, LLP (PRM)

PRM is a partnership of Benton, Grays Harbor, and Franklin public utility districts. The partnership is authorized by the Interlocal Cooperation Act, RCW 39.34.010, and by the Uniform Partnership Act as enacted in RCW 25.04.010. The partnership was formed in June 1998 to insure continued use of the power/scheduling, dispatching, power brokerage and energy consulting expertise of PRM. Each of the utilities paid \$600,000 or a total of \$1,800,000 into an *Umbrella Account*

controlled by Grays Harbor PUD. Disbursement of \$1,621,665 or \$540,555 per utility was made to purchase the PRM assets of \$1,296,664 and provide operating funds.

Operations for the years ended December 31, 2003 and 2002 resulted in net losses of \$460,677 and \$281,931, respectively. The District recorded its proportionate share of the net losses totaling \$153,559 in 2003 and \$93,977 in 2002.

Financial statements for PRM may be obtained by writing to: Power Resource Managers, LLP, 2100 112th Avenue NE, Suite 100 Bellevue, WA 98004-2911.

NOTE 13 - PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. (NoaNet)

The District, along with 14 other Washington State public entities, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout Washington. The network began commercial operation in January 2001.

As a member of NoaNet, the District has guaranteed certain portions of NoaNet debt based on its proportionate share (see Note 15). The management of NoaNet anticipates meeting debt obligations through profitable operations, but it is expected that it will be necessary for NoaNet to assess members to cover deficits during the initial years of operation. The District recorded as expense member assessments of \$368,900 and \$278,586 for 2003 and 2002, respectively.

NoaNet recorded net losses of \$3,463,974 (unaudited) and \$6,548,555 for 2003 and 2002, respectively. In accordance with Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, as well as a position statement issued by the Washington State Auditor concerning the appropriate accounting treatment for NoaNet, a proportionate share of these losses has not been recorded by the District since NoaNet had a negative net equity position of \$13,649,322 as of December 31, 2003 (unaudited) and \$12,837,210 as of December 31, 2002.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, 2327 Grand Avenue, E. Wenatchee, WA 98802-8219.

NOTE 14 - TELECOMMUNICATIONS SERVICES

The District has installed and continues to build out a fiber optic backbone system in its service area for internal use by the electric system. The District has connected its fiber optic system to NoaNet’s fiber optic communications system and is making excess capacity available at wholesale rates to Internet and telecom retail service providers. These service providers are in turn offering end users access to the District’s fiber for Internet and point-to-point interconnections on a retail basis. Broadband coverage is also being extended through the development of a wireless network to deliver high-speed Internet service.

Broadband operations and capital activity for the years ended December 31, 2003 and 2002 follows:

Broadband	2003	2002
Operating Revenues	\$52,876	\$6,538
Operating Expenses	\$288,320	\$159,489
Depreciation	\$55,523	\$56,565
Capital Investment	\$1,880,399	\$1,767,978

NOTE 15 - OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Repayment Agreement Relating to NoaNet Line of Credit (See Note 13)

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 become due beginning in December 2003 through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. Each Member of NoaNet has entered into a Repayment Agreement to guarantee the debt of NoaNet. Under the Repayment Agreement, each Member acknowledges and agrees that it is a guarantor of the payment of the principal of and interest on the Bonds and is liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such principal and interest up to each Member’s percentage interest. The District’s guarantee is based on its 14.06% interest, or \$3,796,200.

In the event of a failure by any Member or Members to pay such amounts when due, NoaNet may bill from time to time as necessary, and each Member is obligated to pay 30 days after receipt of the bill, an additional amount up to a maximum of

25% of such Member's percentage interest (the "Step-Up"), up to the maximum percentage interest, in order to cover the deficiency caused by such Member's or Members' failure to pay. Any Member that pays an additional amount to cover a deficiency reserves all rights to seek reimbursement from the Member or Members that failed to pay. The District's maximum percentage interest is 17.57% or \$4,745,200.

In January 2003, NoaNet opened a \$5 million line of credit (Note) with Bank of America to fund capital expenditures. As of December 31, 2003, \$1 million was outstanding on the Note. NoaNet may assess its Members for their percentage share of principal and interest on the Note to the extent that NoaNet does not have sufficient funds to pay the Note.

Energy Northwest – Nine Canyon Wind Project

Under the Nine Canyon Wind Project Power Purchase Agreement with Energy Northwest, the District is obligated to pay its percentage share (4.72%) of the annual costs of the project in return for its percentage share of project output, whether or not the project is operating or capable of operating. Under a step-up provision, the District could be required to take up to a maximum 5.9% of capacity and associated costs in the event of default by another purchaser.

The Nine Canyon Wind Project was recognized by the State Department of Revenue (DOR) as exempt from sales and use tax under a statute pertaining to wind, landfill gas, and solar energy electric generating facilities. However, the interconnection facility constructed by the District was determined to be subject to sales tax in a determination issued by the DOR Appeals Division in November 2003. This will result in an assessment to the District of approximately \$111,000 in use tax on purchases plus interest and penalties of approximately \$16,000. Energy Northwest has agreed to reimburse the District for this assessment. Energy Northwest is preparing an appeal of this decision to Thurston County Superior Court.

Conservation and Renewable Energy Systems (CARES)

The District is a member of CARES, a joint operating agency of the State of Washington. CARES was formed to develop, finance and acquire conservation, renewable and high efficiency resources for the benefit of its members.

The District entered into a loan program through CARES and the Wisconsin Energy Conservation Corporation (WECC) in 1997 to offer weatherization loans to customers for terms of three, five, seven and ten years. WECC sold the loans to Fannie Mae, and the program ended in 1999. The District is responsible for any loan defaults. At December 31, 2003, there were 52 active loans with an outstanding balance of \$196,000. All loans were current.

NOTE 16 - SUBSEQUENT EVENT

On March 26, 2004, the District established a one-year \$10 million revolving line of credit, the Electric System Revenue Note, 2004, with Bank of America. The line of credit was established in support of District financial policies that require additional liquidity be maintained above minimum cash and investment reserve levels for the purpose of meeting unforeseen short-term cash needs. Specifically, the line of credit can be used in support of general District operations or for irrevocable letters of credit as may be required to satisfy collateral posting requirements under contracts and agreements within the ordinary course of business. Draws on the Note will bear interest based on a pricing grid and formula using the bank's prime rate or the LIBOR rate. This Note is a special obligation of the District payable solely out of a special fund and has a lien on revenues junior to the payment of operating expenses of the electric system and outstanding electric system bonds. The District does not anticipate any draws on the line of credit for the foreseeable future.

S t a t i s t i c a l S e c t i o n

Statistical Section



Statistical tables differ from the financial statements because they usually cover more than one fiscal year and may present non-accounting data. These tables reflect economic and social trends of the Benton County Public Utility District and its service territory. They are intended to provide information that is helpful to readers in assessing the utility's financial condition. The information presented in the Statistical Section is unaudited.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

For the years ended December 31

	2003	2002	2001	2000
OPERATING REVENUES				
Sales of Electric Energy - Retail (1)	\$99,074,832	\$92,900,867	\$69,513,163	\$72,254,487
Energy Sales for Resale	33,065,979	13,629,442	11,455,832	10,027,175
Transmission of Power for Others	268,955	419,896	1,001,978	807,972
Broadband Revenue	52,876	6,538	-	-
Other Revenue	1,196,174	1,223,392	1,031,762	854,573
<i>Total Operating Revenues</i>	<u>133,658,816</u>	<u>108,180,135</u>	<u>83,002,735</u>	<u>83,944,207</u>
OPERATING EXPENSES				
Purchased Power	85,034,770	65,573,174	43,291,151	40,973,729
Purchased Transmission & Ancillary Services	9,319,269	9,746,736	8,378,725	6,381,077
Generation	2,678,635	8,436,576	2,034,379	-
Transmission Operations & Maintenance	216,643	174,812	95,395	52,242
Distribution Operations & Maintenance	5,991,928	5,063,932	5,567,616	5,091,473
Broadband Expense	288,320	159,489	47,757	-
Customer Accounting, Collection and Information	2,855,307	2,882,675	3,223,258	2,075,003
Public Purpose	395,107	386,939	274,128	651,401
Administrative & General	4,502,408	4,756,135	5,444,556	4,330,378
Taxes	10,315,133	9,415,620	7,386,595	7,203,783
Depreciation & Amortization	8,800,473	7,038,619	5,714,137	5,331,998
<i>Total Operating Expenses</i>	<u>130,397,993</u>	<u>113,634,707</u>	<u>81,457,697</u>	<u>72,091,084</u>
OPERATING INCOME (LOSS)	3,260,823	(5,454,572)	1,545,038	11,853,123
NONOPERATING REVENUES & EXPENSES				
Interest & Miscellaneous Non-Operating Income	248,093	551,108	1,051,003	1,227,833
Interest Expense	(3,887,870)	(3,111,569)	(2,315,586)	(2,383,234)
Debt Discount & Expense Amortization	(245,253)	(135,733)	(35,962)	(66,177)
Gain (Loss) in Joint Venture	(444,361)	(368,388)	57,189	-
<i>Total Nonoperating Revenues & Expenses</i>	<u>(4,329,391)</u>	<u>(3,064,582)</u>	<u>(1,243,355)</u>	<u>(1,221,578)</u>
INCOME (LOSS) BEFORE				
CONTRIBUTIONS AND EXTRAORDINARY ITEM	(1,068,568)	(8,519,154)	301,683	10,631,545
CAPITAL CONTRIBUTIONS (2)	2,930,868	6,951,770	1,325,750	1,122,378
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	1,862,300	(1,567,384)	1,627,433	11,753,923
EXTRAORDINARY ITEM		-	-	418,840
CHANGE IN NET ASSETS	\$1,862,300	(\$1,567,384)	\$1,627,433	\$12,172,763

(1) Governmental Accounting Standards Board Statement No. 34 was implemented effective 2002 reclassifying bad debt expense as a direct deduction of Retail Sales. All prior years have been restated for comparative purposes.

(2) Governmental Accounting Standards Board Statement No. 33 was implemented effective 2001 reclassifying contributions in aid of construction as revenue. Calendar year 2000 was restated for comparative purposes.

	1999	1998	1997	1996	1995	1994
	\$67,931,121	\$66,044,368	\$64,668,757	\$67,457,899	\$60,587,314	\$60,280,350
	225,602	207,860	444,916	209,490	-	-
	606,318	339,124	-	-	-	-
	-	-	-	-	-	-
	840,824	810,856	874,727	655,009	625,988	642,326
	69,603,865	67,402,208	65,988,400	68,322,398	61,213,302	60,922,676
	34,656,326	34,097,982	37,455,647	46,379,588	39,738,314	38,993,814
	5,799,104	4,855,605	-	-	-	-
	-	-	-	-	-	-
	8,385	17,515	48,458	22,166	19,190	17,400
	4,561,544	5,154,186	3,999,576	3,773,139	3,425,040	3,316,643
	-	-	-	-	-	-
	1,776,080	1,651,445	1,199,089	1,192,230	1,050,767	1,019,176
	671,399	143,984	45,180	144,248	214,369	254,195
	4,393,632	4,198,933	4,562,630	4,040,090	3,852,708	3,340,562
	7,513,308	7,223,701	7,276,514	7,339,501	6,800,249	6,717,051
	5,050,523	4,665,747	4,156,364	3,858,263	3,547,385	3,355,267
	64,430,301	62,009,098	58,743,458	66,749,225	58,648,022	57,014,108
	5,173,564	5,393,110	7,244,942	1,573,173	2,565,280	3,908,568
	842,071	1,416,336	1,642,981	1,709,649	1,232,352	992,935
	(2,564,897)	(2,730,145)	(2,519,540)	(2,411,276)	(2,682,031)	(2,746,260)
	(66,177)	(102,858)	(48,268)	(59,691)	(118,765)	(125,772)
	-	-	-	-	-	-
	(1,789,003)	(1,416,667)	(924,827)	(761,318)	(1,568,444)	(1,879,097)
	3,384,561	3,976,443	6,320,115	811,855	996,836	2,029,471
	-	-	-	-	-	-
	3,384,561	3,976,443	6,320,115	811,855	996,836	2,029,471
	-	-	-	-	-	-
	\$3,384,561	\$3,976,443	\$6,320,115	\$811,855	\$996,836	\$2,029,471

COMPARATIVE SCHEDULE OF OPERATING REVENUES (in thousands)

For the years ended December 31

	2003	2002	2001	2000
SALES OF ELECTRIC ENERGY				
Residential	\$46,335	\$41,277	\$32,177	\$30,749
General Service				
Small	7,175	6,382	4,865	4,606
Medium ⁽¹⁾	9,748	8,909	6,968	6,414
Large	12,120	10,670	8,457	8,444
Large Industrial	2,291	3,044	1,772	7,382
Irrigation				
Small	840	805	671	660
Large	15,535	14,256	11,180	10,734
Street Lighting	441	398	378	367
Security Lighting	223	193	201	203
Unmetered Accounts	130	109	24	54
Sales for Resale	33,066	13,629	11,646	10,027
Total Electric Sales	127,904	99,671	78,339	79,638
OTHER REVENUE				
Transmission of Power for Others	269	420	1,002	808
Unbilled Revenue	438	3,562	-	-
Bad Debt Expense	(699)	(737)	(478)	(317)
City Occupation Taxes	4,497	4,034	3,094	2,960
Broadband Revenue	53	7	-	-
Products and Services	89	93	116	117
Rent of Electric Property	303	284	278	150
Miscellaneous Electric Revenue	804	846	653	588
Total Other Revenue	5,754	8,509	4,664	4,306
TOTAL OPERATING REVENUES	\$133,659	\$108,180	\$83,003	\$83,944

(1) The Medium General Service Class was added as a new class in 1996.

	1999	1998	1997	1996	1995	1994
	\$28,862	\$28,842	\$29,243	\$31,483	\$29,333	\$29,135
	4,399	4,416	4,490	9,430	10,800	10,351
	6,086	5,977	6,118	1,628	-	-
	8,133	7,777	6,960	6,997	6,692	6,686
	5,728	6,064	6,019	5,919	2,605	2,432
	692	671	649	721	676	754
	10,908	9,158	8,114	8,062	7,290	7,756
	355	374	366	362	359	344
	202	196	194	206	208	208
	51	47	-	-	-	-
	226	208	445	210	-	-
	65,640	63,729	62,598	65,015	57,964	57,665
	606	339	-	-	-	-
	-	-	-	-	-	-
	(282)	(250)	(251)	(264)	(138)	(110)
	2,799	2,773	2,766	2,916	2,762	2,726
	-	-	-	-	-	-
	110	62	-	-	-	-
	142	136	128	178	128	123
	588	613	747	477	498	519
	3,964	3,673	3,390	3,307	3,250	3,258
	\$69,604	\$67,402	\$65,988	\$68,322	\$61,213	\$60,923

DEBT SERVICE COVERAGE

For the years ended December 31

	2003	2002	2001	2000
DEBT SERVICE CALCULATION				
Change in Net Assets ⁽²⁾	\$1,862,300	(\$1,567,384)	\$1,627,432	\$12,172,763
Depreciation & Amortization	8,800,473	7,038,619	5,714,137	5,331,998
Interest Expense	3,887,870	3,111,569	2,315,586	2,383,234
Debt Discount & Expense Amortization	245,253	135,733	35,962	66,177
Extraordinary Item	-	-	-	418,840
Rate Stabilization	-	-	-	(536,406)
REVENUE AVAILABLE FOR DEBT SERVICE	\$14,795,896	\$8,718,537	\$9,693,117	\$19,836,606
DEBT SERVICE ⁽³⁾	\$3,324,395	\$3,396,911	\$5,739,255	\$5,740,030
DEBT SERVICE COVERAGE RATIO	4.45	2.57	1.69	3.46

(1) In 1996, a portion of the debt service on the 1988 Bonds was paid from the proceeds of the 1996 Bonds.

(2) GASB Statement No. 33 was implemented in 2001 reclassifying capital contributions as revenue.

(3) 2003 debt service is reduced by capitalized interest.

1999	1998	1997	1996 ⁽¹⁾	1995	1994
\$3,384,561	\$3,976,443	\$6,320,115	\$811,855	\$996,836	\$2,029,471
5,050,523	4,665,747	4,156,364	3,858,263	3,547,385	3,355,267
2,564,897	2,730,145	2,519,540	2,411,276	2,682,031	2,746,260
66,177	102,858	48,268	59,691	118,765	125,772
-	-	-	-	-	-
-	-	-	-	-	-
\$11,066,158	\$11,475,193	\$13,044,287	\$7,141,085	\$7,345,017	\$8,256,770
\$5,744,870	\$5,572,200	\$4,778,511	\$3,508,000	\$4,246,072	\$4,251,260
1.93	2.06	2.73	2.04	1.73	1.94

SELECTED CUSTOMER AND SALES STATISTICS

For the years ended December 31

	2003	2002 ⁽²⁾	2001	2000
Average Number of Customers				
Residential	35,576	34,872	34,854	34,678
General Service	4,761	4,649	4,567	4,484
Industrial	3	3	3	3
Irrigation	739	739	733	727
Miscellaneous	1,797	1,681	1,664	1,647
<i>Total</i>	42,876	41,944	41,821	41,539

Retail Electric Sales in MWh

Residential	604,618	622,196	617,763	636,952
General Service	509,057	496,949	500,356	530,430
Industrial	58,054	80,551	70,897	220,913
Irrigation	401,868	382,551	375,682	385,753
Miscellaneous	7,154	5,432	5,284	5,208
<i>Total</i>	1,580,751	1,587,678	1,569,982	1,779,257

Average Annual kWh per Customer

Residential	16,995	17,842	17,724	18,368
General Service	106,922	106,894	109,571	118,294
Industrial	19,351,268	26,850,190	23,632,237	73,637,600
Irrigation	543,800	517,660	512,528	530,610
Miscellaneous	3,981	3,231	3,176	3,162
<i>Average - All Classes</i>	36,868	37,852	37,541	42,833

Average Revenue per kWh (in cents) ⁽¹⁾

Residential	7.664	6.634	5.209	4.827
General Service	5.705	5.224	4.055	3.670
Industrial	3.947	3.779	2.500	3.342
Irrigation	4.075	3.937	3.155	2.954
Miscellaneous	11.010	12.875	11.391	11.960
<i>Average - All Classes</i>	6.000	5.419	4.248	3.912

(1) Includes total revenue (per kWh charge and monthly charges) less occupation taxes.

(2) Changed methodology for customer counts in 2002 due to new Customer Information System. 2001 customer counts for General Service, Irrigation, and Miscellaneous classes represent an average of counts for 2000 and 2002.

1999	1998	1997	1996	1995	1994
33,625	33,162	32,724	32,179	31,346	30,250
4,369	4,272	4,249	4,091	3,855	3,553
3	3	2	2	1	1
723	724	731	671	749	773
1,596	1,557	1,452	1,439	1,405	1,382
40,316	39,718	39,158	38,382	37,356	35,959
594,533	597,305	607,517	634,070	581,794	579,766
502,753	491,150	469,779	469,770	436,074	427,933
219,640	232,546	203,218	207,464	87,168	81,062
400,394	336,626	309,732	298,696	263,245	292,835
5,085	4,913	4,231	3,800	3,876	3,703
1,722,405	1,662,540	1,594,477	1,613,799	1,372,157	1,385,299
17,681	18,012	18,565	19,705	18,560	19,166
115,073	114,970	110,562	114,830	113,119	120,443
73,213,460	77,515,367	101,609,000	103,732,000	87,168,000	81,062,000
553,795	464,954	423,710	445,150	351,461	378,829
3,186	3,155	2,914	2,641	2,759	2,679
42,723	41,859	40,719	42,046	36,732	38,524
4.855	4.829	4.814	4.965	5.042	5.025
3.703	3.699	3.740	3.843	4.011	3.981
2.608	2.608	2.962	2.853	2.989	3.000
2.897	2.920	2.829	2.940	3.026	2.906
11.950	12.555	13.228	14.936	14.624	14.888
3.798	3.821	3.898	4.016	4.224	4.163

SELECTED FINANCIAL DATA & STATISTICS

For the years ended December 31

	2003	2002	2001	2000
Operating Revenues	\$133,658,816	\$108,180,135	\$83,002,735	\$83,944,207
Operating Expense	\$130,397,993	\$113,634,707	\$81,457,697	\$72,091,084
Operating Expenses / Revenues	97.6%	105.0%	98.1%	85.9%
Additions to Electric Plant ⁽¹⁾	\$10,023,480	\$17,607,642	\$27,548,676	\$10,040,300
Net Utility Plant	\$123,699,242	\$121,809,610	\$111,672,899	\$89,980,118
Outstanding Debt ⁽²⁾	\$80,114,884	\$80,021,871	\$66,626,137	\$39,110,839
Net Assets	\$74,704,700	\$72,842,400	\$74,409,784	\$72,782,351
Retail Electric Sales in MWh	1,580,751	1,587,678	1,569,982	1,779,257
Sales for Resale Electric Sales in MWh	819,567	615,694	200,639	50,426
Total Payroll Expense	\$9,321,808	\$9,112,720	\$8,759,127	\$8,179,105
Capitalized Payroll	\$2,017,656	\$1,486,016	\$1,530,209	\$1,273,076
Average Number of Employees	159	161	157	154

(1) The Nine Canyon □

(2) In November 2002, the District issued \$17.3 million in Electric Revenue Bonds, Series 2002. The proceeds provided funding for capital improvements to the electric system, capitalized interest, and payment of issuance costs.

KEY FINANCIAL RATIOS

For the years ended December 31

	2003	2002	2001	2000
Net Income / Net Assets	2.5%	-2.2%	2.2%	16.7%
Net Income / Plant Investment	1.0%	-0.8%	0.9%	8.2%
Current Ratio ⁽¹⁾	2.78 : 1	1.65 : 1	2.6 : 1	2.46 : 1

(1) The Rate Stabilization account and Contingency & Replacement account were reclassified as current assets in 2001.

1999	1998	1997	1996	1995	1994
\$69,603,865	\$67,402,208	\$65,988,400	\$68,322,398	\$61,213,302	\$60,922,676
\$64,430,301	\$62,009,098	\$58,743,458	\$66,749,225	\$58,648,022	\$57,014,108
92.6%	92.0%	89.0%	97.7%	95.8%	93.6%
\$9,881,730	\$10,798,495	\$15,019,391	\$3,853,302	\$9,110,931	\$6,469,863
\$84,920,685	\$80,258,631	\$74,264,032	\$63,399,951	\$60,458,379	\$55,070,656
\$42,434,168	\$45,582,496	\$48,118,996	\$45,313,961	\$45,686,410	\$37,640,000
\$60,609,588	\$54,689,302	\$49,909,434	\$42,703,442	\$41,349,505	\$38,320,989
1,722,405	1,662,540	1,594,477	1,613,799	1,372,157	1,385,299
33,171	15,364	28,356	12,210	-	-
\$7,665,655	\$7,235,118	\$6,664,123	\$6,624,662	\$6,192,294	\$5,798,603
\$1,162,695	\$1,002,952	\$923,957	\$861,809	\$978,436	\$852,818
151	144	138	134	134	133

1999	1998	1997	1996	1995	1994
5.6%	7.3%	12.7%	1.9%	2.4%	5.3%
2.4%	3.1%	5.3%	0.8%	1.0%	2.2%
1.33 : 1	1.62 : 1	1.93 : 1	1.76 : 1	1.72 : 1	1.99 : 1

COMPARATIVE TAX COSTS

For the years ended December 31

	CURRENT RATE	2003	2002	2001	2000
State Public Utility Tax ⁽¹⁾	3.873%	\$3,775,750	\$3,507,058	\$2,832,541	\$2,756,186
State Privilege Tax ⁽²⁾	2.14%	2,017,533	1,856,236	1,410,964	1,482,964
City Utility Tax					
Kennewick	8.50%	3,828,383	3,457,751	2,647,693	2,474,527
Prosser	6.00%	411,145	369,835	314,521	301,245
Benton City	6.00%	98,047	88,351	67,197	62,412
Richland	8.50%	128,708	112,015	82,732	72,334
West Richland	5.00%	-	-	-	12,236
Payroll Taxes	Various	847,253	803,015	771,318	683,526
Leasehold Excise Tax	12.84%	17,358	16,689	15,275	9,636
Miscellaneous State Taxes ⁽³⁾	Various	55,567	103,198	30,947	18,935
Total Taxes ⁽⁴⁾		\$11,179,744	\$10,314,148	\$8,173,188	\$7,874,001
Taxes as a Percent of Operating Revenue ⁽⁵⁾		8.4%	9.5%	9.8%	9.4%

(1) The District was able to apply a Low-Income Home Energy Assistance Program credit of \$107,281 to its Public Utility Tax expense of \$3,883,031 in 2003. The Public Utility Tax is assessed.

(2) Washington State Privilege Tax is in lieu of property tax and is assessed on gross Retail Sales, less uncollectible accounts and amounts paid in City Occupation Taxes. The tax proceeds are distributed as follows:
58.4% - Benton County.
37.6% - Public Schools
4.0% - State General Fund

(3) In addition to other miscellaneous taxes, the District incurred \$77,259 and \$15,836 of State Business and Occupation Tax in 2002 and 2003 respectively, as a result of the Nine Canyon Wind Farm Generating Facility Substation.

(4) In addition to the taxes identified, the District pays sales and use tax on all eligible purchases as a consumer of goods and services in the normal course of business.

(5) Operating Revenue includes Energy Sales for Resale which is not subject to taxation. The District's Energy Sales for Resale were \$33,065,979 in 2003, or 25% of total operating revenue. This was substantially higher than previous years.

1999	1998	1997	1996	1995	1994
\$2,754,156	\$2,580,802	\$2,729,904	\$2,599,880	\$2,365,541	\$2,335,238
1,395,028	1,345,684	1,340,179	1,376,095	1,237,842	1,232,148
2,357,095	2,342,710	2,326,109	2,477,029	2,336,394	2,308,370
288,158	282,720	266,776	281,932	282,183	278,473
61,988	61,048	64,341	68,412	65,934	65,030
64,837	58,040	58,692	58,656	58,074	55,870
14,121	13,137	11,794	14,368	12,290	13,281
633,027	615,054	561,466	533,317	520,444	496,058
7,070	4,679	4,727	5,264	5,247	4,557
40,537	14,660	10,085	6,944	6,355	10,292
\$7,616,017	\$7,318,535	\$7,374,073	\$7,421,897	\$6,890,304	\$6,799,317
10.9%	10.9%	11.2%	10.9%	11.3%	11.2%

FRINGE BENEFITS & PAYROLL TAXES

For the years ended December 31

	% of 2003 Payroll		% of 2002 Payroll		% of 2001 Payroll		% of 2000 Payroll	
Social Security	\$708,723	7.4%	\$694,481	7.5%	\$648,097	7.5%	\$606,979	7.4%
Industrial Insurance	116,150	1.2%	92,564	1.0%	95,191	1.1%	71,149	0.9%
Unemployment Compensation ⁽¹⁾	22,380	0.2%	15,970	0.2%	28,030	0.3%	5,398	0.1%
Medical & Dental Insurance ⁽²⁾	1,414,627	14.8%	1,390,080	14.9%	1,200,854	13.8%	983,464	12.1%
State Retirement ⁽³⁾	220,217	2.3%	196,896	2.1%	353,971	4.1%	464,619	5.7%
Deferred Compensation	413,214	4.3%	407,538	4.4%	275,811	3.2%	203,207	2.5%
Personal Leave, Holidays & Short Term Disability ⁽⁴⁾	1,442,764	15.1%	1,373,964	14.8%	1,335,648	15.4%	1,254,611	15.4%
Life & Disability Insurance	47,850	0.5%	39,727	0.4%	37,830	0.4%	34,703	0.4%
TOTAL	\$4,385,925	45.9%	\$4,211,220	45.2%	\$3,975,433	45.8%	\$3,624,129	44.4%
Total Payroll Paid	\$9,547,917		\$9,309,794		\$8,673,595		\$8,161,130	
Average Number of Employees	159		161		157		154	
Benefits/Taxes per Employee	\$27,584		\$26,157		\$25,321		\$23,533	
Payroll per Employee	\$60,050		\$57,825		\$55,246		\$52,994	

(1) The District has elected to reimburse the State for actual unemployment claims as opposed to paying a payroll related tax. In 2003, the District had more claims than in 2002.

(2) In August 2001, the District's monthly cost for health insurance increased by \$154 per employee. The District's monthly cost for health and dental insurance remained relatively unchanged in 2002 and 2003.

(3) As a result of a decrease in 2000. The percentage the District remained relatively unchanged in 2003.

(4) In addition to normal Personal Leave usage, the District paid \$262,662 in Personal Leave cash-outs in 2003.

% of 1999 Payroll		% of 1998 Payroll		% of 1997 Payroll		% of 1996 Payroll		% of 1995 Payroll		% of 1994 Payroll	
\$560,986	7.4%	\$531,436	7.4%	\$492,970	7.4%	\$476,553	7.3%	\$454,395	7.3%	\$430,991	7.4%
68,632	0.9%	71,888	1.0%	61,898	0.9%	41,539	0.6%	54,320	0.9%	55,752	1.0%
3,410	0.1%	11,730	0.2%	6,298	0.1%	15,526	0.2%	11,285	0.2%	9,315	0.2%
863,878	11.3%	829,820	11.6%	818,935	12.3%	734,511	11.2%	609,893	9.9%	585,188	10.1%
537,554	7.0%	565,717	7.9%	635,375	9.6%	508,689	7.7%	493,922	8.0%	439,975	7.6%
0		0		0		0		0		0	
1,241,968	16.3%	1,070,398	14.9%	1,043,090	15.7%	1,143,607	17.4%	1,029,061	16.6%	868,427	15.0%
18,225	0.2%	25,846	0.4%	24,442	0.4%	24,654	0.4%	22,839	0.4%	20,726	0.4%
\$3,294,653	43.2%	\$3,106,835	43.4%	\$3,083,008	46.4%	\$2,945,079	44.8%	\$2,675,715	43.3%	\$2,410,374	41.6%
\$7,633,272		\$7,162,929		\$6,650,112		\$6,570,990		\$6,185,801		\$5,789,853	
151		144		138		134		134		133	
\$21,819		\$21,575		\$22,341		\$21,978		\$19,968		\$18,123	
\$50,551		\$49,743		\$48,189		\$49,037		\$46,163		\$43,533	

ANALYSIS OF UNCOLLECTIBLE ACCOUNTS

For the years ended December 31

	2003	2002	2001	2000
Accounts Written Off ⁽¹⁾	\$552,764	\$145,668	\$298,993	\$346,962
Payments on Accounts Written Off	43,753	52,606	58,041	63,018
<i>Net Write Offs</i>	\$509,011	\$93,062	\$240,952	\$283,944
Total Operating Revenue	\$133,658,816	\$108,180,135	\$83,002,735	\$83,944,207
Write Offs as a Percent of Operating Revenue	0.38%	0.09%	0.29%	0.34%
Bad Debt Expense	\$698,985	\$736,819	\$478,089	\$316,559
Bad Debt Expense as a Percent of Operating Revenue	0.52%	0.68%	0.58%	0.38%

(1) The District amended its procedure in 2002 to not write off an account and transfer the balance to a collection agency until a minimum of 10 months of inactivity has occurred.

1999	1998	1997	1996	1995	1994
\$331,901	\$277,864	\$305,549	\$291,957	\$167,388	\$153,029
77,000	75,431	61,604	39,619	46,924	65,438
\$254,901	\$202,433	\$243,945	\$252,338	\$120,464	\$87,591
\$69,603,865	\$67,402,208	\$65,988,400	\$68,322,398	\$61,213,302	\$60,922,676
0.37%	0.30%	0.37%	0.37%	0.20%	0.14%
\$282,437	\$250,168	\$250,514	\$263,795	\$138,245	\$110,200
0.41%	0.37%	0.38%	0.39%	0.23%	0.18%

DEMOGRAPHIC STATISTICS

For the years ended December 31

	2003	2002	2001	2000
Population ⁽¹⁾				
Benton County	151,600	147,600	144,800	142,475
City of Kennewick	57,900	56,280	55,780	54,693
Prosser	4,940	4,905	4,865	4,838
Benton City	2,790	2,725	2,720	2,624
Per Capita Income - Benton County ⁽²⁾	N/A	N/A	\$27,454	\$25,624
Unemployment Rate - Benton County ⁽³⁾	7.2%	6.2%	6.6%	6.5%
CDDs ⁽⁴⁾	1,331	1,131	1,092	903
HDDs ⁽⁴⁾	4,742	4,954	4,966	5,399
Residential Rate at December 31 (cent/kWh)	7.27	6.12	6.12	4.40
Annual Precipitation (inches) ⁽⁴⁾	8.14	5.41	6.66	8.08

(1) Source: Washington State Office of Financial Management

(2) Source: U.S. Bureau of Economic Analysis

(3) Source: Labor Market and Economic Analysis, Washington Employment Security Department

(4) Source: Hanford Meteorological Station

1999	1998	1997	1996	1995	1994
138,900	137,500	134,100	131,000	131,000	127,500
50,950	50,390	49,090	48,010	48,130	46,960
4,901	4,854	4,848	4,835	4,790	4,630
2,208	2,171	2,142	2,110	2,110	2,090
\$24,225	\$23,766	\$22,920	\$22,481	\$22,356	\$22,660
5.6%	6.6%	6.6%	8.5%	7.5%	5.2%
932	1,377	1,034	1,052	1,016	1,329
4,731	4,508	4,718	5,427	4,673	4,423
4.40	4.40	4.40	4.40	4.65	4.65
3.75	6.45	6.39	12.19	12.31	6.12



B e n t o n P U D



2721 West 10th Avenue, Kennewick, Washington 99336
509-582-2175 . fax 509-586-1710 . www.bentonpud.org