Annual Financial Report

Public Utility District No.2

of

Pacific County,

Washington

2010/2011

PUBLIC UTILITY DISTRICT NO. 2 Of PACIFIC COUNTY, WASHINGTON

2010/2011 FINANCIAL REPORT

This report contains selected entries from the Washington State Auditor's Office Accountability Audit Report (report #1008172) and the Washington State Auditor's Office Financial Statements Audit Report for Public Utility District No. 2 of Pacific County for the Audit Period of January 1, 2011 through December 31, 2011 (report #1008173). The Auditor's reports were issued July 27, 2012.

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Public Utility District No. 2 of Pacific County

January 1, 2011 through December 31, 2011

Description of the District

Public Utility District No. 2 of Pacific County
July 27, 2012

ABOUT THE DISTRICT

Public Utility District No. 2 of Pacific County is a customer-owned utility providing electricity, water and wholesale telecommunication services. The District was formed in 1937 and began business operations in 1940 serving 4,800 customers. The District now serves over 17,000 residential, commercial, industrial and irrigation customers throughout the 937 square miles of Pacific County. The District purchases all of its power (including Green Power) from the Bonneville Power Administration.

An elected, three-member Board of Commissioners governs the District. The Board appoints a General Manager to oversee the District's daily operations as well as its approximately 57 employees. For fiscal year 2011, the District operated on an annual budget of $32 million.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Commissioners:	Diana Thompson Ron Hatfield Michael Swanson

APPOINTED OFFICIALS

General Manager	Douglas Miller
Treasurer	Jeanne Ledford
Auditor	Renae Powell
Attorney	James Finlay

DISTRICT CONTACT INFORMATION

Address:	Public Utility District No. 2 of Pacific County P.O. Box 472 Raymond, WA 98577
Phone:	(360) 942-2411
Website:	www.pacificpud.org

Federal Summary

Public Utility District No. 2 of Pacific County
January 1, 2011 through December 31, 2011

The results of our audit of Public Utility District No. 2 of Pacific County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
11.557	Broadband Technology Opportunities Program, Recovery Act

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Public Utility District No. 2 of Pacific County
January 1, 2011 through December 31, 2011

Board of Commissioners
Public Utility District No. 2 of Pacific County
Raymond, Washington

We have audited the basic financial statements of Public Utility District No. 2 of Pacific County, Washington, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated July 27, 2012.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted certain matters that we have reported to the management of the District in a separate letter dated July 27, 2012.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 27, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Public Utility District No. 2 of Pacific County
January 1, 2011 through December 31, 2011

Board of Commissioners
Public Utility District No. 2 of Pacific County
Raymond, Washington

COMPLIANCE

We have audited the compliance of Public Utility District No. 2 of Pacific County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The District's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 27, 2012

Independent Auditor's Report on Financial Statements

Public Utility District No. 2 of Pacific County
January 1, 2011 through December 31, 2011

Board of Commissioners
Public Utility District No. 2 of Pacific County
Raymond, Washington

We have audited the accompanying basic financial statements of Public Utility District No. 2 of Pacific County, Washington, as of and for the years ended December 31, 2011 and 2010, as listed on page 9. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 2 of Pacific County, as of December 31, 2011 and 2010, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 27, 2012

The following discussion and analysis of the financial results of Public Utility District No. 2 of Pacific County (District) provides an overview of the Utility's financial activities for the years ended December 31, 2011 and 2010, with additional comparative data for 2009. This discussion is designed to be used in conjunction with the financial statements and notes, which follow this section.

Overview of the Financial Statements

The District is a municipal corporation incorporated in 1940 to serve the citizens of Pacific County, Washington. A three-member board of locally elected commissioners, independent of County government, governs the District. The District manages and operates Electric and Water Departments and is a seller 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. Accrual accounting recognizes all revenues and expenses during the reporting period, regardless of when cash is received or paid. The basic financial statements include the *Balance Sheet,* the *Statement of Revenues, Expenses and Changes in Net Assets* and the *Statement of Cash Flows*.

The *Balance Sheet* presents the District's assets and liabilities with the difference between them reported as net assets. This statement provides information about the amount of investments in resources (assets) and the obligations to creditors (liabilities). The net assets increase when revenues exceed expenses. This statement provides the basis for evaluating the capital structure, and assessing liquidity and financial flexibility of the District. The *Statement of Revenue, Expenses and Changes in Net Assets* reports revenues, expenses, and the change in net assets for the years indicated. This statement measures the success of the District's operations and can be used to evaluate the level of cost recovery from charges for products and services. The *Statement of Cash Flows* provides information concerning cash receipts and disbursements resulting from operational, financing, and investing activities. This statement provides insight into the District's ability to generate cash flow and to meet obligations and is an important indicator of the District's liquidity and financial strength.

The *Notes to the Financial Statements* are presented at the end of the financial statements and provide additional information that helps the reader gain a full understanding of the information found in the financial statements.

District Highlights

Slice/Block

Starting in October of 2011, the District became a Slice/Block customer of the Bonneville Power Administration (BPA). As part of the 17-year agreement with the BPA, the District agrees to follow its load with its own purchases beyond what BPA provides. The Energy Authority (TEA), through a Resource Management Agreement (RMA) with the PUD, follows the District's real time load.

As a Slice customer, the District accepts the risks (and potential benefits) of fluctuation in the output of the federal hydroelectric system caused by variance in snow-pack, timing of runoff, environmental considerations and other conditions that affect the system.

Electric Rate Increase

Based on wholesale power rate increases by the BPA as well as upward pressure on internal operating costs, the District adjusted its' retail rates up an average of 8.5% on October 1, 2011. It had been over ten years since the District changed rates other than in response to a BPA increase.

Radar Ridge Discontinuation

During 2011, the District expensed all project development costs associated with the Radar Ridge Wind Project. It was hoped that this Project would be built and these costs would have been capitalized. Unfortunately, the cost of complying with permitting requirements rendered the Project too costly to proceed.

BTOP Grant

During 2011, the District completed the first of three phases in its' Broadband Technology Opportunity Program (BTOP) funded fiber build. Phase 1 included the installation of 29 miles of core fiber and an additional 17 miles of distribution fiber. This creates the opportunity to add over 200 new end users through retail service providers utilizing the District's fiber network.

Financial Analysis

The following discussion provides analysis of the 2011, 2010 and 2009 comparative financial information provided in the table below. Overall, the District's financial position has improved, as evidenced by the steady increase in net assets over the past three years. Net assets actually dropped in 2010 but this is due to a prior period adjustment which is discussed below.

Condensed Comparative Financial Information
December 31, 2011, 2010 and 2009

	2011	2010	2009
Assets			
Current Assets & Special Funds	$ 12,792,948	$ 18,504,361	$ 19,113,706
Other Noncurrent Assets	94,518	593,632	557,681
Capital Assets	91,643,875	87,575,599	85,538,880
Accumulated Depreciation	(45,891,925)	(43,102,973)	(40,575,867)
Total Assets	**$ 58,639,415**	**$ 63,570,619**	**$ 64,634,400**
Liabilities and Net Assets			
Current Liabilities	$ 3,861,952	$ 4,443,094	$ 5,676,236
Noncurrent Liabilities*	3,324,009	8,190,996	8,080,377
Total Liabilities	**7,185,961**	**12,634,090**	**13,756,612**
Invested in Capital Assets, Net of Debt	44,766,395	36,949,858	36,549,445
Restricted	953,107	956,869	983,525
Unrestricted*	5,733,952	13,029,802	13,344,818
Total Net Assets	**51,453,454**	**50,936,529**	**50,877,788**
Total Liabilities and Net Assets	**$ 58,639,415**	**$ 63,570,619**	**$ 64,634,400**
Operating Revenues	$ 21,621,861	$ 20,672,632	$ 20,918,489
Nonoperating Revenues	901,338	778,945	1,124,360
Total Revenue	**22,523,199**	**21,451,577**	**22,042,849**
Operating Expense	21,950,713	20,475,520	20,133,584
Nonoperating Expense	520,393	775,970	735,712
Total Expense	**22,471,106**	**21,251,490**	**20,869,296**
Income (Loss) Before Contributions	**52,093**	**200,087**	**1,173,553**
Capital Contributions & Grant Proceeds	752,155	57,988	60,000
Change in Net Assets	**804,248**	**258,075**	**1,233,553**
Net Assets - beginning of year	**50,649,207**	**50,877,787**	**49,644,234**
Prior Period Adjustment (Note 17)	-	(486,655)	-
Net Assets - end of year	**$ 51,453,454**	**$ 50,649,207**	**$ 50,877,787**

** Certain amounts reported with the 2010 & 2009 financial statements have been reclassified to conform to the 2011 presentation. See Note 1L for more detailed information.*

Results of Operations

During 2011, the District reported *Income Before Contributions* of a modest $52,093. *Capital Contributions & Grant Proceeds*, primarily BTOP Grant reimbursement, added $752,155 to the positive change in net assets.

During 2010, the District reported *Income Before Contributions* of $200,087. Customer contributions towards the Wilson Point Water System improvement project added $57,988 for a positive *Change in Net Assets* of $258,075. This figure was offset in 2010, when the District recorded a prior period adjustment of ($486,655) relating to a change in the handling of year end revenue. After this adjustment, total Net Assets decreased by $228,580 from 2009.

In 2009, Net Assets increased $1,233,553 and the District reported *Income Before Contributions* of $1,173,553.

Overall the District's Revenues and Expenses continue to be relatively flat over the past three years. This trend is expected to continue in 2012, with no anticipated adverse economic or other conditions that may limit District resources.

Capital Assets

Year-end Net Assets is 88% of the District's total asset valuation of $58,639,415, up from 80% and 78% for 2010 and 2009, respectively.

Total Capital Assets, net of depreciation, increased by $1,279,324 in 2011. During 2010 this figure decreased by $490,387 and by $598,387 in 2009.

During 2011 the District recognized Grant Proceeds of $665,175, the majority of this being reimbursement received from a Broadband Technology Opportunities Program (BTOP) Grant. During 2010 the District booked Capital Contributions of $57,988 which recognizes the contributions by the current customers of the Wilson Point Water System towards the capital improvements to the system. In 2009 the District booked Capital Contributions of $60,000 recognizing the contribution by the current system towards the capital improvements to be done to the Water System.

See Note 4 for more detailed discussion of Capital Assets.

Long Term Debt

In May, 2011 the District refunded the outstanding portion - $5,610,000 - of its 2001 bond issue, utilizing unexpended construction funds remaining from the original issue. No new Debt was issued during 2011.

The District issued no new debt in 2010 or 2009.

At the end of 2011, $985,554 in debt remained outstanding; $265,999 of this amount is due within one year.

At the end of 2010, $7,522,768 in revenue bonds remained outstanding; $927,276 of this amount was due within one year.

At the end of 2009, $7,998,760 in revenue bonds remained outstanding; $866,542 of this amount was due and paid in 2010.

See Note 7 for additional long-term debt related information.

REQUESTS FOR INFORMATION

The basic financial statements, notes and management discussion and analysis are designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report should be directed to the District at Post Office Box 472, or 405 Duryea Street, Raymond, WA 98577.

COMPARATIVE BALANCE SHEET
December 31, 2011 & 2010

ASSETS	2011	2010
Current Assets:		
Cash and Cash Equivalents	$ 5,792,715	$ 11,907,072
Temporary Investments	509,626	500,000
Accounts Receivable (Net)	2,381,977	2,232,539
Inventory	3,794,353	3,556,816
Prepayments	367,190	303,917
Other Current Assets	(52,914)	4,016
TOTAL CURRENT ASSETS	**12,792,948**	**18,504,361**
Noncurrent Assets:		
Unamortized Debt Discount and Expense	6,655	156,092
Other Deferred Debits	87,863	437,540
TOTAL NONCURRENT ASSETS	**94,518**	**593,632**
Capital Assets:		
Plant	85,813,951	84,525,955
Construction in Progress	5,829,924	3,049,644
Less: Accumulated Depreciation	(45,891,925)	(43,102,973)
TOTAL CAPITAL ASSETS	**45,751,950**	**44,472,626**
TOTAL ASSETS	**$ 58,639,415**	**$ 63,570,619**

COMPARATIVE BALANCE SHEET
December 31, 2011 & 2010

LIABILITIES	2011	2010
Current Liabilities:		
Warrants Payable	$ 24,815	$ 53,955
Accounts Payable	2,235,522	2,431,847
Accrued Interest	4,604	58,311
Accrued Taxes	453,414	432,055
Long-Term Debt, due within one year	265,999	927,276
Other Current, Accrued and Deferred Liabilities	877,597	826,972
TOTAL CURRENT LIABILITIES	**3,861,952**	**4,730,416**
Noncurrent Liabilities:		
Customer Deposits	521,766	530,151
Accrued Other Post Employment Benefits	2,082,688	1,065,353
Long-Term Debt, due in more than one year	719,555	6,595,492
TOTAL NONCURRENT LIABILITIES	**3,324,009**	**8,190,996**
TOTAL LIABILITIES	**7,185,961**	**12,921,412**
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	44,766,395	36,949,858
Restricted	953,107	956,869
Unrestricted	5,733,952	12,742,480
Total Net Assets	**51,453,454**	**50,649,207**
TOTAL LIABILITIES AND NET ASSETS	**58,639,415**	**63,570,619**

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
December 31, 2011 & 2010

	2011	2010
OPERATING REVENUES	**21,621,861**	**20,672,632**
OPERATING EXPENSES		
Purchased Power	10,891,180	9,281,906
Operating	6,100,527	5,730,190
Maintenance	1,019,284	1,372,352
Depreciation and Amortization	2,812,789	2,950,184
Taxes and Tax Equivalents	1,126,933	1,140,888
Total Operating Expenses	**21,950,713**	**20,475,520**
OPERATING INCOME (LOSS)	**(328,852)**	**197,111**
NONOPERATING REVENUES (EXPENSES)		
Interest and Dividend Income	35,775	39,859
Interest Expense	(296,930)	(380,901)
Telecom Revenues	234,838	201,139
Telecom Expenses	(223,463)	(250,224)
Misc Service Revenue	575,733	536,756
Other Nonoperating Revenues (Expenses)	54,223	(144,844)
Gain/Loss on Asset Disposition	770	1,192
Total Nonoperating Revenues (Expenses)	**380,945**	**2,976**
Income Before Contributions & Transfers	52,093	200,087
Capital Contributions	86,980	57,988
Grant Proceeds (Note 9)	665,175	-
Transfers In (Out)	-	-
Extraordinary Items	-	-
Change in Net Assets	**804,248**	**258,075**
Net Assets Jan 1	**50,649,207**	**50,877,787**
Prior Period Adjustments (Note 11)	-	(486,655)
Net Assets Dec 31	**51,453,454**	**50,649,207**

COMPARATIVE STATEMENT OF CASH FLOWS
December 31, 2011 & 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 21,727,657	$ 20,757,945
Payments for Purchased Power	(10,891,180)	(9,281,906)
Payments for Operations & Maintenance	(3,415,709)	(4,101,678)
Payments to Employees for Service	(2,902,340)	(2,945,265)
Payments for Taxes	(1,126,933)	(1,140,888)
Net Cash Provided by (Used by) Operating Activities	**3,391,495**	**3,288,208**
CASH FLOWS FROM NON-OPERATING ACTIVITIES		
Telecom Services - Net	11,375	(49,085)
Misc Service Revenue	575,733	536,756
Conservation Programs - Net	54,223	(144,844)
Gain/Loss on Asset Disposal	770	1,192
Net Cash Provided by Non-Operating Activities	**642,101**	**344,019**
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Principal Payments	(6,537,214)	(890,801)
Interest Payments	(296,930)	(380,901)
Contributions	86,980	57,988
Capital Expenditures	(4,092,112)	(2,459,796)
Other Receipts (Payments)	665,175	(486,655)
Net Cash Used In Capital and Related Financing Activities	**(10,174,102)**	**(4,160,165)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	**35,775**	**39,859**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**(6,104,731)**	**(488,079)**
Cash and Cash Equivalents at Beginning of Year	12,407,072	12,895,153
Cash and Cash Equivalents at End of Year	**$ 6,302,341**	**$ 12,407,072**

COMPARATIVE STATEMENT OF CASH FLOWS
December 31, 2011 & 2010

	2011	2010
Operating Income	**$ (328,852)**	**$ 197,111**
Depreciation	2,812,789	2,950,184
Changes in Operating Assets & Liabilities		
Accounts Receivable	(149,438)	96,175
Inventories	(180,607)	44,005
Prepaid Items	(63,273)	(18,916)
Deferred Debits	499,114	(35,951)
Payables	(225,465)	(215,453)
Taxes	21,359	(69,375)
Other Current Liabilities	(83,152)	5,649
Deferred Credits	1,089,020	334,777
Total Changes	**907,559**	**140,911**
Total Adjustments	**3,720,347**	**3,091,095**
Net Cash Provided by Operations	**$ 3,391,495**	**$ 3,288,206**

PUBLIC UTILITY DISTRICT NO. 2 OF PACIFIC COUNTY
BILLING STATISTICS
MONTH END DECEMBER

	KILOWATT HOURS BILLED		REVENUE	
	2012	2011	2012	2011
RESIDENTIAL	-	21,660,406	$ -	$ 1,588,860
NUMBER OF CUSTOMERS			-	*14,978*
GREEN POWER			$ -	$ 2,179
COMMERCIAL	-	5,512,012	$ -	$ 436,060
NUMBER OF CUSTOMERS			-	*1553*
PUBLIC AUTHORITY	-	2,827,056	$ -	$ 214,388
NUMBER OF CUSTOMERS			-	*431*
INDUSTRIAL	-	1,710,000	$ -	$ 89,180
NUMBER OF CUSTOMERS			-	*2*
IRRIGATION	-	471	$ -	$ 4,000
NUMBER OF CUSTOMERS			-	*64*
PUBLIC LIGHTING	-	12,425	$ -	$ 9,143
STREET & HIGHWAY LIGHTING	-	46,898	$ -	$ 5,247
TOTAL SALES	-	31,769,268	$ -	$ 2,349,058
TOTAL NUMBER OF CUSTOMERS			*0*	*17,028*
SELF CONSUMED	-	73,931	$ -	$ -
TOTAL	-	31,843,199	$ -	$ 2,349,058

ENERGY PURCHASED
MONTH END DECEMBER

	MONTH		YEAR TO DATE	
	2012	2011	2012	2011
COST OF POWER				
BPA	$ -	$ 1,181,553	$ 5,310,670	$ 8,658,053
Non-Federal	$ -	-	$ -	$ -
TOTAL COST	$ -	$ 1,181,553	$ 5,310,670	$ 8,658,053
KWH'S PURCHASED				
BPA	-	35,548,634	181,573,745	311,815,750
Non-Federal	-	-	-	-
TOTAL PURCHASED	0	35,548,634	181,573,745	311,815,750
COST PER KWH	#DIV/0!	$ 0.0332	$ 0.0292	$ 0.0278
MAXIMUM DEMAND--kW	0	57,767		
TOTAL kWh PURCHASED	0	(35,548,634)	(181,573,745)	(311,815,750)
kWh SOLD	0	31,769,268	182,389,935	296,627,858
kWh SELF-CONSUMED	0	73,931	422,998	704,100
kWh VARIANCE: GAIN\(LOSS)	0	(3,705,435)	1,239,188	(14,483,792)
kWh Variance %	*#DIV/0!*	*-10.4%*	*0.7%*	*-4.6%*

PUBLIC UTILITY DISTRICT NO.2 OF PACIFIC COUNTY
BILLING STATISTICS
YEAR-TO-DATE DECEMBER

	KILOWATT HOURS		REVENUE	
	2012	**2011**	**2012**	**2011**
RESIDENTIAL	118,174,283	188,509,880	$ 8,930,268	$ 13,507,713
NUMBER OF CUSTOMERS				
GREEN POWER	0	0	$ 16,189	$ 27,017
COMMERCIAL	33,353,591	58,309,648	$ 2,725,423	$ 4,406,145
NUMBER OF CUSTOMERS				
PUBLIC AUTHORITY	16,502,272	27,158,835	$ 1,287,204	$ 1,993,100
NUMBER OF CUSTOMERS				
INDUSTRIAL	13,292,400	21,283,200	$ 666,877	$ 1,017,302
NUMBER OF CUSTOMERS				
IRRIGATION	653,413	655,908	$ 60,900	$ 75,201
NUMBER OF CUSTOMERS				
PUBLIC LIGHTING	85,993	147,622	$ 57,300	$ 103,628
STREET & HIGHWAY LIGHTING	327,983	562,765	$ 36,711	$ 58,053
TOTAL SALES	182,389,935	296,627,858	$ 13,780,872	$ 21,188,161
TOTAL NUMBER OF CUSTOMERS				
SELF CONSUMED	422,998	704,100	$ -	$ -
TOTAL	182,812,933	297,331,958	$ 13,780,872	$ 21,188,161

PUBLIC UTILITY DISTRICT NO. 2 OF PACIFIC COUNTY
Notes to Financial Statements
For Fiscal Years Ended December 31, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Public Utility District No. 2 of Pacific County (the District) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principals. 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. Reporting Entity

Public Utility District No. 2 of Pacific County was incorporated on March 1, 1940, and operates under the laws of the State of Washington applicable to a public utility district. The District is organized as a municipal corporation, authorized under Title 54 RCW and is governed by an elected three-member Board. The District provides retail electricity to the majority of Pacific County and provides water to three areas of the County and is authorized under State law to provide wholesale telecommunication service.

B. Basis of Accounting

The accounting and reporting policies of the District are regulated by the Washington State Auditor's Office under chapter 43.09 RCW 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 non-operating revenues and expenses. Operating income includes gains and losses, if any, from disposal of utility plant assets.

C. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments, with maturity of three months or less when purchased, to be cash equivalents.

D. Utility Plant and Depreciation

See Note 4 – Capital Assets

E. Restricted Funds

In accordance with bond resolutions, related agreements and laws, separate restricted funds have been established. The assets held in these funds are restricted for specific uses including debt service and special purpose funds.

The restricted assets are composed of the following:

	2011	2010
Bond Reserve	431,341	426,717
Customer Deposits	521,766	530,151
Total	**$953,107**	**$ 956,868**

F. Receivables and Allowance for Doubtful Accounts
Management periodically assesses the collectability of accounts receivable. This assessment provides the basis for the allowance for doubtful accounts and the related bad debt expense.

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

H. Investments
See Note 2 – Deposits and Investments

I. Compensated Absences
The District provides its employees with a single Personal Leave (PL) plan, in lieu of separate programs for vacation and illness benefits. Employees accrue PL based upon their length of service.

Employees with sick leave balances remaining under the terms of the former plan were able to transfer the balance into a Supplemental Leave Bank (SLB). No additional hours may be posted to the SLB, though an employee on Short Term Disability may utilize SLB hours to make up the difference between the 70% pay they received while on STD and 100% of their regular earnings. Employees with SLB remaining receive an annual transfer of up to16 hours (converted to cash) to their respective HRA-VEBA accounts in accordance with the terms and conditions of the HRA-VEBA Plan and the Collective Bargaining Agreement (CBA).

Personal Leave is payable in full upon resignation or death, subject to certain provisions in the CBA. Supplemental Leave is forfeited upon resignation or paid at 50% at the time of death of an active employee. At retirement, the District will deposit any remaining PL hours (converted to cash) to the retirees HRA-VEBA account, any remaining SLB is forfeited.

PL is charged as a component of payroll overhead as time is incurred by an employee. A corresponding liability is recognized until such time an employee uses or sells PL to the District in accordance with the terms of the plan.

J. Unamortized Debt Expenses
Amounts stemming from original issue and reacquired bonds, including premiums, discounts and expenses, are amortized over the life of the issue whether defeased or held to term. Resulting differences are amortized using the straight-line basis.

K. Purchase Commitments
See Note 15 – Power Supply; for contracts with the Bonneville Power Administration and others for future power supply.

L. Reclassification
Certain amounts reported with the 2010 financial statements have been reclassified to conform to the 2011 presentation. The following table shows the changes.

Category	As Reported	As Corrected	Change
Current Liabilities	$6,325,920	$4,730,416	($1,595,504)
Noncurrent Liabilities	$6,595,492	$8,190,996	$1,595,504

$1,065,353 of the 2010 balance reported in *Current Liabilities* was the District's *Accrued Other Post-Employment Benefits*; an additional $530,151 was *Customer Deposits*. These were incorrectly classified as current liabilities and were restated as *Noncurrent Liabilities* in 2011.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits
The District's deposits and certificates of deposits are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Deposit accounts are reconciled to the District's accounting records at year end, and the book balance of these accounts does not materially differ from the bank balance.

Investments
As required by state law, all investments of the District's funds are obligations of the U.S. Government or government agencies, deposits with Washington state banks and savings and loan institutions, the Washington State Treasurer's Investment Pool, or other investments allowed by Chapter 39.59 RCW.

Deposits and Investments as of 12/31/2011	Carrying Amount	Market Value
State Treasurer's Local Government Investment Pool (LGIP)	$4,366,977	$4,366,977
Certificates of Deposit	$509,626	$509,626
Total	**$4,876,603**	**$4,876,603**

Deposits and Investments as of 12/31/2010	Carrying Amount	Market Value
State Treasurer's Local Government Investment Pool (LGIP)	$10,867,799	$10,867,799
Certificates of Deposit	500,000	500,000
Total	**$11,367,799**	**$11,367,799**

For balance sheet purposes, the LGIP is considered a cash equivalent.

NOTE 3 - DERIVATIVE INSTRUMENTS

The District has adopted GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Subject to certain exceptions, GASB Statement No. 53 requires that every derivative instrument be recorded on the Balance Sheet as an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred. The District uses FASB pronouncements on Accounting for the Effects of Certain Types of Regulation to defer unrecognized gains or losses for derivatives that are not deemed to be effective.

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

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

Changes in Fair Value			Fair Value at December 31, 2011			
Classification		Amount	Classification		Amount	Notional
Deferred Credit	$	(27,660)	Deferred Asset	$	27,660	4,800 MWh
Deferred Charge	$	44,436	Deferred Liability	$	(44,436)	5,760 MWh

NOTE 4 - CAPITAL ASSETS

Major expenditures (exceeding $1,500) for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost or estimated historical cost, where historical cost is not known. Preliminary costs incurred for proposed projects are deferred until construction of the project is completed. Costs relating to projects ultimately constructed are transferred to the utility's plant assets. Charges that relate to abandoned projects are expensed.

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

	Beginning Balance	Increase	Decrease	Ending Balance
Utility Plant not being depreciated:				
Land	1,022,063	-	-	1,022,063
Construction in Progress	3,049,644	2,780,280	-	5,829,924
Total	**4,071,707**	**-**	**-**	**6,851,987**
Utility Plant being depreciated:				
Transmission Plant	4,758,254	-	-	4,758,254
Distribution Plant	60,300,401	1,449,639	(295,737)	61,454,303
General Plant	15,955,930	138,462	(5,652)	16,088,740
Total	**81,014,584**	**-**	**-**	**82,301,296**
Add: Water Systems	2,489,308	1,283	-	2,490,591
Less: Accum. Deprec.	(43,102,973)	-	-	(45,891,925)
Total Net Utility Plant	**44,472,626**	**-**	**-**	**45,751,950**

Electric and Water plant activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility Plant not being depreciated:				
Land	$1,022,063	-	-	1,022,063
Construction in Progress	4,120,513	-	(1,070,869)	3,049,644
Total	**5,142,576**		**(1,070,869)**	**4,071,707**
Utility Plant being depreciated:				
Transmission Plant	4,301,515	460,004	(3,265)	4,758,254
Distribution Plant	58,490,354	2,123,725	(313,678)	60,300,401
General Plant	15,115,127	1,121,125	(280,322)	15,955,930
Total	**77,906,996**	**3,704,854**	**(597,266)**	**81,014,584**
Add: Water Systems	2,489,308	-	-	2,489,308
Less: Accum. Deprec.	(40,575,866)	(2,527,107)	-	(43,102,973)
Total Net Utility Plant	**$44,963,014**	**1,177,747**	**(1,668,135)**	**44,472,626**

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

Buildings & Improvements	25-40 years
Electric Plant – Transmission	17-30 years
Electric Plant – Distribution	17-33 years
Transportation Equipment	7-10 years
General Plant & Equipment	5-20 years
Water Plant	5-40 years
Telecommunications	7-20 years

The estimated original cost of operating property retired or otherwise disposed of and the cost of removal, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts; accumulated depreciation is charged with accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income. There were no sales of significant units or systems in 2011.

NOTE 5 –LEASES
The District is committed under operating leases for office equipment. Lease expense for the years ending December 31, 2011 and 2010 amounted to $13,489 and $20,887 respectively. For these leases, the minimum annual lease commitments for 2011 and 2010 equal $13,489 and $20,887. The District had no capital leases during 2011.

NOTE 6 - LONG-TERM DEBT
During the year ended December 31, 2011, the following changes occurred in long-term debt:

Issue	Original Issue Amount	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2007 Electric Refunding Bonds, interest at 3.95%, maturing in 2018	$1,576,150	$847,280	-	($227,893)	$619,387	241,678
2001 Electric Revenue & Refunding Bonds, interest rates ranging 4.25%-5.0%, maturing in 2021	10,000,000	6,285,000	-	(6,285,000)	0	0
DWSRF Loan – Bay Center Water	462,091	340,488	-	(24,321)	316,167	24,321
Totals	**$12,038,241**	**$7,472,768**	**-**	**($6,537,214)**	**$935,554**	**$265,999**

During the year ended December 31, 2010, the following changes occurred in long-term debt:

Issue	Original Issue Amount	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2007 Electric Refunding Bonds, interest at 3.95%, maturing in 2018	$1,576,150	$1,068,760	-	($221,480)	$847,280	$227,955
2001 Electric Revenue & Refunding Bonds, interest rates ranging 4.25%-5.0%, maturing in 2021	10,000,000	6,930,000	-	(645,000)	6,285,000	675,000
DWSRF Loan – Bay Center Water	462,091	364,808	-	(24,320)	340,488	24,321
Totals	**$12,038,241**	**$8,363,568**	**-**	**($890,800)**	**$7,472,768**	**$927,276**

The following table shows the debt service payments due on the outstanding 2007 Bonds and the DWSRF Loan. The District has no other outstanding bonds or loans.

Year	Principal	Interest	Total
2012	$ 265,999	$ 23,686	$ 289,685
2013	$ 274,283	$ 13,909	$ 288,192
2014	$ 152,065	$ 3,798	$ 155,863
2015	$ 24,321	$ 1,216	$ 25,537
2016	$ 24,321	$ 1,094	$ 25,415
2017-2021	$ 121,603	$ 3,648	$ 125,251
2022-2026	$ 72,962	$ 730	$ 73,692
Total	$ 935,554	$ 48,081	$ 983,633

In accordance with Bond Resolutions and the Official Bond Statements, separate restricted fund accounts are required to be established. The assets held in these fund accounts are restricted for specific uses, including debt service and other specific uses.

Loan to Lebam Water System

During 2004, the Electric Department issued a $50,000 Long Term loan to the Lebam Water System to help cover startup costs associated with the new system. Lebam Water pays monthly interest to the Electric Department.

NOTE 7 - PENSION PLAN

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

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

Plan Description

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

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

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2% of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60% of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased 3% annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2% of the AFC for each year of service reduced by 2% for each year that the member's age is less than 55. The total benefit is limited to 60% of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount (based on the consumer Price Index), capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2% of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3% for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3% annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions. Effective July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100% to 200% of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in *Operation Enduring Freedom or Persian Gulf, Operation Iraqi Freedom*.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1% of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)
Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3% for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

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

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2% of the AFC per year of service. For Plan 3, the monthly benefit amount is 1% of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3% annually.

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

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.
Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

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

Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
Total	**262,285**

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 6% for state agencies and local government unit employees, and at 7.5 % for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5% to 15%; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

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

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

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

Public Employees' Retirement System (PERS) Plans 1, 2, and 3
Both District and the employees made the required contributions. The District's required contributions for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2011	$0	$228,467	$20,282
2010	$0	$184,501	$15,226

The District's payroll subject to PERS plans for the years ended December 31, 2011 and 2010 was $3,975,825 and $3,761,334 respectively. The District's total payroll for all employees for the same periods was $4,114,795 and $3,875,564 respectively.

<u>HRA VEBA</u>
In 2006, the Commissioners approved Resolution No. 1248 authorizing participation in a Health Reimbursement Arrangement / Voluntary Employees' Beneficiary Association Plan., as allowed under IRS Code section 501(C)(9).

Under the plan, the District will participate in the Voluntary Employees' Beneficiary Association (VEBA) for Public Service Employees in the Northwest trust, commonly referred to as the HRA VEBA Plan that was established on October 21, 1992 for public sector employees with updated IRS letter of determination March 14, 2000. Contributions are made for the benefit of District employees under three different VEBA groups - for "A" Group or "B" Group IBEW Local Union No. 77 employees, and for non-union employees.

The plan covers all District employees. All employees within their respective VEBA group contribute an amount as described in the plan's documentation. Contributions may be adjusted from time-to-time by a majority vote of the specific VEBA group.

For 2011, employee contributions totaled $136,071 and the District contributed an additional $49,224 on behalf of its employees. In 2010, employee contributions were $124,143 and the District contributed $78,010.

<u>Deferred Compensation Plans</u>
By resolution, the District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. These plans are with The Hartford Financial Services Group, Inc., and with the Washington State Department of Retirement

Systems (DRS) Deferred Compensation Program. The plans, available to all active employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The IRC of 1986, as amended, required the District to establish a trust exempt from tax under IRC Section 457 (g) and 501 (a). A trust was established with each of the plan administrators and the plan is operated for the exclusive benefit of the participants and their beneficiaries. The assets in the plans are not subject to any claims of the District's general creditors. The District has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

Participation in the Districts deferred compensation plans is voluntary on the part of the employee. Contributions to these plans are 100% employee funded.

NOTE 8 - TELECOMMUNICATION 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 Department. In July of 2003, the District connected its fiber optic system to the Northwest Open Access Network's (NoaNet's) fiber optic communications system and began making excess capacity available at wholesale rates to retail service providers. These retail providers are in turn offering end users access to the District's fiber for Internet and point-to-point interconnections on a retail basis.

Wholesale Telecommunications operations and capital activity for the years ended December 31, 2011 and 2010 follows:

Telecommunication Services	2011	2010
Operating Revenues:		
Wholesale Fiber Services to ISP	$194,043	172,344
Installation Charges	$2,475	$6,075
Other	$38,320	$22,720
Total Revenues	$234,838	$201,139
Operating Expenses		
Administration and General	$49,269	$101,004
Repairs and Maintenance	$85,387	$42,006
Network Coordinated Services	$42,000	$45,500
Tower Lease	$11,700	$10,800
Interconnection Access	$6,643	$5,172
NOANET Repayments	$26,100	$44,263
Other	$2,364	$1,479
Total Operating Expenses	$223,463	$250,224
Plant in Service	$4,816,427	$4,787,395
Construction Work in Progress	$1,754,852	$732,240

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

The management of NoaNet anticipates meeting debt obligations through profitable operations; however, there is no assurance NoaNet's plan will be achieved. During the start-up phase, NoaNet assessed its members to cover operating deficits.

As a member of NoaNet, the District has guaranteed certain portions of NoaNet debt based on its proportionate share and 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 principal 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. NoaNet may assess its Members for their percentage share of principal and interest on the debt to the extent that NoaNet does not have sufficient funds to pay the debt.

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

Broadband Technology Opportunities Program Grant
At its March 10th, 2010 meeting, the NoaNet Board of Directors adopted a resolution accepting an American Recovery and Reinvestment Act - Broadband Technology Opportunities Program (BTOP) grant from the National Telecommunications and Information Administration. The total amount of the grant is $84,347,997. The District is one of seven sub-recipients and will receive $4,149,031 for two fiber build projects to underserved areas of Pacific County. At its March 16th, 2010 meeting the District's Board of Commissioners, by motion, accepted the conditions and regulations of the award as stated in the grant. As a condition of the grant, the District will provide $2,627,194 in cash and in-kind contributions towards the two fiber builds, the cash portion being an amount that our Utility will budget for over the ensuing three years, the term of construction per the requirements of the grant. During 2011, the District received $609,874 in BTOP grant reimbursement.

NOTE 9 - DEFERRED DEBITS (CREDITS)
Deferred charges and deferred credits as of December 31, 2011 and 2010 were as follows:

Deferred Charges	2011	2010
Clearing Accounts	$346	$2,240
Deferred Regulatory Charges	72,096	0
Deferred Project Costs	0	421,193
Unbilled Damage Repairs	15,421	14,107
Total Deferred Charges	**$87,863**	**$437,540**

Deferred Credits	2011	2010
Derivative Liability	$72,096	$0
Accrued Employee Leave	518,447	539,507
Misc. Customer Refunds	(268)	143
Total Deferred Charges	**$590,275**	**$539,650**

NOTE 10 - PRIOR PERIOD ADJUSTMENTS
In December of 2010, the District entered a prior period adjustment to retained earnings in the amount of $486,655. This entry was related to a change in accounting procedure for year-end revenue. In 2001, after the District switched from bi-monthly to monthly billing, it was decided that an entry should be made to capture revenue from energy sold in one year but not recognized until the following year. This required a reversing entry and a new entry to book this revenue in each ensuing year since 2001. One problem this created was it caused the general ledger to be out of balance when compared to the underlying customer accounts database. To correct this situation, the District decided to discontinue this entry and reversed the 2009 entry to retained earnings. The District considered the previous annual entries to be immaterial.

NOTE 11 - CONTINGENT LIABILITIES AND LITIGATIONS
Pole Attachment Lawsuit
On December 28, 2007, the District filed a lawsuit in Pacific County Superior Court against three telecom companies that maintain their facilities as attachments on District owned poles. The suit alleges breach of contract, unjust enrichment and trespass and seeks a declaratory judgment and injunctive relief. The lawsuit stems from the telecom company’s refusal to enter into an agreement governing their attachment to District owned poles as well as their refusal to pay the District’s approved fees for attachment to its poles. The outcome of this lawsuit is not expected to have a material impact on the District’s financial position. A trial was held on this matter during October 2010. See subsequent events for additional information

On March 15, 2011 the Court ruled in favor of the District, awarding over $600,000 in damages. The Districts counsel is currently dealing with the defendants attempted appeal.

Retiree Claim
On February 7, 2011, the District was named the defendant in a claim filed in Pacific County Superior Court. The plaintiffs in the claim are seeking damages from the District for alleged breach or anticipatory breach of express or implied agreements made for the benefit of the employee and the employee's spouse. The outcome of this claim is not expected to have a material impact on the District's financial position.

NOTE 12 – RISK MANAGEMENT
PURMS Risk Pools
The District is a member of the Public Utility Risk Management Services Joint Self-Insurance Fund (PURMS), pursuant to the provisions of RCW 54.16.200, and inter-local governmental agreements. Currently there are 18 members of the Liability Pool, 17 members of the Property Pool and 12 members of the Health & Welfare Pool. The general objective of each Pool is to formulate, develop, and administer, on behalf of the members, a program of insurance to achieve lower costs for insured coverage, and to develop a comprehensive loss control program. Admission of a new member requires a supermajority vote of the current members (85%) of PURMS, or of a particular risk pool.

Members may withdraw from these Pools on December 31st of any year by giving 90 days prior notice. Upon termination, a member is responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period which they were a signatory to the Pool agreement.

The business and affairs of the Pools are managed and governed by a Board of Directors. Each entity that is a member of a Risk Pool is entitled and required to appoint one designated director to the Board. The Pools are governed by rules established by the State of Washington Division of Risk Management, authorized under RCW 48.62, and are audited for compliance by the Division of Risk Management.

Liability & Property Pools
These Pools are fully funded by current and former members. Members file claims with the administrator, Pacific Underwriters in Seattle, Washington, which has been engaged to provide claims adjustment and loss prevention services.

The Liability Pool self-insures on a $1,000,000 Self Insured Retention (SIR) with a $250 deductible to the members. Coverage is on an occurrence basis. In addition, the Pool purchases excess liability coverage of $35,000,000, which also covers public official errors and omissions as well as employment practices claims.

PURMS maintains a self-insurance property pool with a $250,000 SIR, and a Pool excess limit of $125,000,000. The District and other members of the Pool have also purchased an additional property and vehicle policy, with coverage to $25,000,000.

During 2011, the District recognized $49,004 and $106,265 respectively, in property and liability insurance expense. During 2010, the District recognized $42,065 and $105,509 respectively, in property and liability insurance expense.

Health & Welfare Pool

The District is a member of the PURMS Health & Welfare Risk Pool (H&W Pool) which provides health and welfare insurance for District employees and dependents in accordance with the terms of the self-insurance agreement (SIA) and the terms of each member's respective coverage booklet, provided to employees.

The H&W Pool was established as one of PURMS risk pools effective March 31, 2000. The H&W Pool maintains reserves approximately equal to the sum of three times the amount of each member's historical average monthly H&W claims measured over the previous three years. The H&W Pool's ongoing operations are financed through monthly assessments of its participating members. Under such assessments, each month, each member of the H&W Pool pays the Pool the cost the Pool incurred during the preceding month for H&W claims for member employee coverage as well as the member's share, determined under the H&W Pool general assessment formula, of shared H&W costs.

Shared H&W costs include administrative expenses incurred by the pool, premiums for stop-loss insurance, PPO charges and shared H&W claims. H&W claims become a "shared" expense when and to the extent the cost of the claim exceeds the stop-loss point applicable to a particular member's employee or when the cost of the claim makes the total amount a particular member has paid towards the claims of its employees exceed the stop-loss point applicable to that member.

All stop-loss points are determined for each member and its' employees pursuant to the H&W Pool general assessment formula. During 2011 and 2010 PURMS maintained stop-loss insurance with a commercial carrier in the aggregate amount of $180,000 per insured.

Total health and welfare insurance expense recognized during 2011 and 2010, respectively, was $1,118,398 and $1,133,929.

Based on its collective bargaining agreement (CBA) with IBEW Local No. 77, the District's contribution towards employees H&W coverage is set at 95% while the employees, through payroll deduction, contribute 5%. This District/Employee split will be subject to change with the expiration of the current CBA on March 31, 2015.

State and Independent Audits of Pools

Each of PURMS Risk Pools is audited annually by the State Auditor's Office. In addition, as required by state regulations, PURMS provides quarterly financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools and bi-annually, the State Risk Manager performs its own audit of PURMS Risk Pools. Finally, on an annual basis, PURMS engages the services of the accounting firm of Moss Adams to perform a claims audit for each of the Risk Pools.

District Official Bond / Employee Practices

The District also maintains with a commercial carrier, additional coverage in the amount of $250,000 per loss. The policy indemnifies any District official, required by law to give bonds for the faithful performance of their service, against loss through the failure of any employees under the official's supervision to faithfully perform his or her duties as prescribed by law, when such failure results in loss of money or property. The policy also covers employment practices claims.

Unemployment Insurance

The District is self-insured for unemployment compensation, in that it reimburses the state for actual claims made. Unemployment claims are infrequent; during 2011, the District recognized $11,305 and $0 in 2010, in unemployment compensation expense.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

In accordance with collective bargaining agreements, the District provides employer paid post-retirement medical, vision, prescription and dental benefits for qualified retired employees and their eligible dependents. For employees retiring before September 1, 2009 the District contributes the percentage of the annual cost that was paid at the time of their retirement, this percentage ranges from 80% to 100%. For employees retiring after September 1, 2009, the District pays the same percentage of annual cost that it contributes for active employees, currently 95%.

Funding Policy

The District funds its post-retirement health care benefits when the actual health care costs are incurred for retirees and their eligible dependents. The District is currently evaluating the option of pre-funding all or a portion of the actuarial calculated ARC, but no decision has been made.

Annual OPEB Cost

The District's annual OPEB cost is calculated based upon the annual required contribution (ARC) of the employer. The ARC is an amount actuarially determined based on the entry age normal method, determined in accordance with the guidance of GASB Statement No. 45. The ARC represents level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. The District implemented GASB 45 prospectively in 2008. The District's annual required OPEB cost (expense) for 2011 was $1,464,372.

The following table shows the components for the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB.

Determination of Annual Required Contribution	**December 31, 2010**	**December 31, 2011**
Normal Cost at year end	$334,294	$706,484
Amortization of UAAL	$440,255	$754,732
Annual Required Contribution (ARC)	$774,549	$1,461,216
Determination of Net OPEB Obligation		
Annual Required Contribution	$774,549	$1,461,216
Interest on prior year Net OPEB Obligation	$34,877	$42,614
Adjustment to ARC	($26,550)	($39,458)
Annual OPEB Cost	$782,876	$1,464,372
Contributions made	$415,061	$447,037
Increase in Net OPEB Obligation	$367,815	$1,017,335
Net OPEB Obligation – beginning of year	$697,538	$1,065,353
Net OPEB Obligation – end of year	$1,065,353	$2,082,688

Funded Status and Funding Progress

In 2011, the payment of employee health care benefits for retirees and qualified dependents totaled $447,037. The current year funding resulted in an accrued OPEB Liability of $2,082,688.

The District's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation follows:

Fiscal Year Ended	**Annual OPEB Cost**	**Percentage of OPEB Cost Contributed**	**Net OPEB Obligation**
12/31/2010	$782,876	53.02%	$1,065,353
12/31/2011	$1,464,372	30.53%	$2,082,688

The Schedule of Funding Progress for the unfunded actuarial accrued liability (UAAL) is as follows:

	Dec 31, 2010	Dec 31, 2011
Actuarial Value of Assets	$0	$0
Actuarial Accrued Liability	11,747,549	19,594,003
UAAL	11,747,549	19,594,003
Funded Ratio	0%	0%
Covered Payroll	$3,761,334	$3,975,825

Actuarial Methods and Assumptions

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

In the January 1, 2011 actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions used included a 4.00% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits. The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2011 was 30 years.

NOTE 14 – POWER SUPPLY

BPA Power Contract

The District is a preference customer of the U.S. Department of Energy, Bonneville Power Administration (BPA) that supplies the primary source of the District's power under a contract, which expired on September 30, 2011.

At its November 18, 2008 meeting the District’s Board of Commissioners passed Resolution No. 1274, authorizing the execution of a Slice/Block Power Sales Agreement with the Bonneville Power Administration commencing on October 1, 2011 and expiring on September 30, 2028.

These agreements incorporate provisions of the Pacific Northwest Electric Power Planning and Conservation Act of 1980 (Public Law 96-501) and the Bonneville Project Act of 1937 such as preference and priority in the distribution and marketing of BPA’s federal power to publicly owned preference customers, such as the District. The contract provides federal power in amounts based on the District’s annual Net Requirements in the form of two products: Block and Slice.

The Block product provides power in pre-agreed upon monthly amounts, ranging from 8,898 MWh to 16,526 MWh. The rate for Block power is the lowest applicable Priority Firm rate made available to BPA’s preference customers.

The Slice product, on the other hand, provides the District with access to a more variable product: 0.28252% of the Federal System Output (the District's Slice), which is based on the output of the federal system each hour. The output consists of federal hydroelectric projects and some non-federal projects, including thermal projects such as Nuclear Project No. 2 (Columbia Generating Station).

The 2011 applicable base-rate for Slice purchases is $1,952,169 per month for each percent of Slice, with the adjusted base rate subject to an annual true up by BPA based upon updated actual costs allocated to the Slice System. Technical Operating Procedures have been established to provide Slice purchasers with the ability to calculate, schedule, and account for their share of Slice Output on an hourly basis. This product does not include transmission services. Moreover, by its nature, there is a greater degree of potential for exposure – and benefit – depending upon snow-pack amount and timing of runoff and other conditions that affect water, and therefore hydroelectric system output.

BPA reserves the right to implement a Load Based Cost Recovery Adjustment Charge (LBCRAC). The current LBCRAC is 0%.

BPA Transmission Services

The District traditionally purchased bundled electric power and transmission services from BPA under the District's power purchase contract. However, in response to changes in Federal Energy Regulatory Commission regulations in the late 1990s, BPA unbundled their electric power and transmission services, and required that transmission services be purchased separately.

As a result of BPA unbundling its Power Services from Transmission Services, the District entered into a Service Agreement for Network Integration Transmission Service with BPA on June 8, 2001. This agreement is set to expire on October 1, 2031. The agreement specifies that the transmission is used to serve the District's Net Requirements Load.
As a result of execution of the new Slice/Block Power Sales agreement, the District also executed a Point to Point Transmission (PTP) Service agreement with BPA on September 8, 2011. The PTP agreement allows the District to move power and gives greater flexibility in transporting electricity.

The Energy Authority

The Energy Authority (TEA) provides professional power supply management services including wholesale market purchases and sales of electricity on behalf of the District. TEA also provides power scheduling services to the District.

Power Market Risk Management Policies and Procedures

In early 2010 the District commenced with a comprehensive assessment of its risk profile, and the development of policies and procedures for risk management and trading operations. The results of this effort, completed in September 2011, are detailed guidelines for considering and/or engaging in any power trading agreements. The District's Risk Management Committee, with oversight and review by the Board of Commissioners, actively manages financial risk. The District will periodically update the risk management policy to incorporate improved procedures and practices

Radar Ridge

During 2008, the District agreed to partner with Energy Northwest in its proposed development of the Radar Ridge Wind Project (Project), located in Pacific County.

At its September 2, 2008 meeting the District's Board of Commissioners authorized the General Manager to sign an agreement with Energy Northwest for the design, construction, operation and maintenance of distribution facilities between the wind towers, a substation and transmission structures to connect to the BPA's Naselle Substation.

At its October 21, 2008 meeting the District's Board of Commissioners authorized the General Manager to enter into a Reaffirmation of Interest Agreement with Energy Northwest at 21 percent of the output capacity of the proposed Project.

Permitting and design work occurred during 2009 and 2010 with most of the permitting work aimed at alleviating environmental concerns with the project. During 2011, when it became clear that permits would not be issued, the Project was abandoned and costs to date were expensed.

Total power cost for the years ending December 31, 2011 and 2010 was $9,747,407 and $8,137,331, respectively. Power transmission cost for the years ending December 31, 2011 and 2010 was $1,143,773 and $1,144,575, respectively.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2011

1	2	3	4	5			6
Federal Agency Name / Pass-Through Agency Name	**Federal Program Name**	**CFDA Number**	**Other I.D. Number**	**Expenditures**			**Foot-note Ref.**
				Pass-Through Awards	**Direct Awards**	**Total**	
U.S. Department of Commerce - NoaNet	Recovery Act – Broadband Technology Opportunities Program	11.557	Award Number: NT10BIX5570047	$609,874		$609,874	2, 3
	Total Federal Awards Expended			**$609,874**		**$609,874**	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the District's financial statements. The District uses the accrual basis of accounting, where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate funds.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the District's local portion, are more than shown.

NOTE 3 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

Expenditures for this program were funded by ARRA.