



Annual Financial Report

Public Utility District No.2
of
Pacific County,
Washington

2009/2010



PUBLIC UTILITY DISTRICT NO. 2 OF PACIFIC COUNTY,
WASHINGTON

2009/2010 FINANCIAL REPORT

This report contains selected entries from the Washington State Auditor's Office Accountability Audit Report (report # 1005916) 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, 2010 through December 31, 2010 (report # 1005917). The Auditor's reports were issued June 27, 2011.

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January 1, 2010 through December 31, 2010

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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, 2010 through December 31, 2010**

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, 2010 and 2009, and have issued our report thereon dated June 7, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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.

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 and the Board of Commissioners. 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.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

June 7, 2011

Independent Auditor's Report on Financial Statements

Public Utility District No. 2 of Pacific County January 1, 2010 through December 31, 2010

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, 2010 and 2009, as listed on page 5. 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, 2010 and 2009, and the changes in financial position and cash flows thereof 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.

The management's discussion and analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted

principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 7, 2011

**PUBLIC UTILITY DISTRICT NO. 2 of PACIFIC COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending December 31, 2010**

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 year ended December 31, 2010. This discussion is designed to be used in conjunction with the financial statements and notes, which follow this section.

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 an Electric Department and three Water Departments.

DISTRICT HIGHLIGHTS

Electric Department

The Electric Department provides electric service to 17,069 accounts in Pacific County. Wholesale Power is supplied to the District through purchased power contracts with the Bonneville Power Administration (BPA).

Sales and Customers

2010 kilowatt-hour sales were down 5% from 2009 sales. Weather and economic conditions are the primary influences on electricity sales. Generally, extreme temperatures increase sales to residential customers, who use electricity for heating and cooling, and moderate temperatures decrease sales. 2009 sales were down 2% when compared to 2008. 2008 sales were up 4% over 2007.

Customer growth continued to follow the downward trending economy as the District saw a net increase of only 42 accounts in 2010. Customer growth slipped some in 2009 when only 71 customers were added. 94 customer accounts were added to the Districts base in 2008.

Telecommunications

During 2010, the District continued its fiber optic system build out. Major accomplishments for the year include:

- ✓ Connected all sub-stations to District's SCADA system
- ✓ Continued permitting, engineering work on BTOP funded build out
- ✓ Added 2,750' of new distribution fiber creating opportunity for over 50 new end users

During 2010, 4 new end users were added through retail service providers. 5 new end users were added in 2009 and 14 new end users were added in 2008.

Water Departments

Wilson Point Water – During 2007, the District was approached by the State of Washington Department of Health and encouraged to explore options for assuming ownership of the Wilson Point Water System. The Wilson Point System serves approximately 40 residences located north of Bay Center on Highway 101. At the time, the System was under private ownership but had been issued a red operating permit by the State Department of Health. The District is working with the current owners, customers and State officials to put together a financial and operating package that will allow the District to take over ownership and operation. Work continued on finalizing the agreement in 2008 but the agreement was not signed. An agreement was signed in 2009 with certain items to be improved before the transfer. Funding for the improvements is to be provided by a Water System Acquisition and Rehabilitation (WSARP) grant, a contribution by the current owner of system, and an assessment from the systems existing customers. This agreement included the District assuming

daily operation and maintenance duties for the system. Formal transfer of ownership took place in 2010. Improvement work began in the fall of 2010 and is expected to be complete by mid 2011.

Tokeland\Grayland

The District provides electrical service to most but not all of Pacific County. Currently, the District does not provide service to the unincorporated areas of Tokeland, North Cove and Grayland, in the Northwest corner of the County. The Grays Harbor County PUD provides electrical service to these areas. The District has planned for years to re-acquire these areas and during 2008 and 2009, continued progress was made towards this goal. During 2010, work continued on permitting and preliminary engineering for a sub-station and for connecting to the District's transmission and distribution systems.

FINANCIAL ANALYSIS

The following discussion provides analysis of the 2010, 2009 and 2008 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, 2010, 2009 and 2008

	2010	2009	2008
Assets			
Current Assets & Special Funds	\$ 18,504,361	\$ 19,113,706	\$ 19,448,579
Other Noncurrent Assets	593,632	557,681	203,964
Capital Assets	87,575,599	85,538,880	82,648,869
Accumulated Depreciation	(43,102,973)	(40,575,867)	(38,284,243)
Total Assets	\$ 63,570,619	\$ 64,634,400	\$ 64,017,169
Liabilities and Net Assets			
Current Liabilities	\$ 6,325,920	\$ 6,233,908	\$ 5,959,367
Noncurrent Liabilities	6,595,492	7,522,706	8,413,568
Total Liabilities	12,921,412	13,756,613	14,372,935
Invested in Capital Assets, Net of Debt	36,949,858	36,549,445	35,097,243
Restricted	956,869	983,525	1,018,717
Unrestricted	12,742,480	13,344,817	13,528,274
Total Net Assets	50,649,207	50,877,787	49,644,234
Total Liabilities and Net Assets	\$ 63,570,619	\$ 64,634,400	\$ 64,017,169
Operating Revenues	\$ 20,672,632	\$ 20,918,489	\$ 20,947,915
Nonoperating Revenues	778,945	1,124,360	1,866,308
Total Revenue	21,451,577	22,042,849	22,814,223
Operating Expense	20,475,520	20,133,584	20,601,473
Nonoperating Expense	775,970	735,712	689,848
Total Expense	21,251,490	20,869,296	21,291,321
Income (Loss) Before Contributions	200,087	1,173,553	1,522,902
Capital Contributions & Grant Proceeds	57,988	60,000	-
Change in Net Assets	258,075	1,233,553	1,522,902
Net Assets - beginning of year	50,877,787	49,644,234	48,121,332
Prior Period Adjustment (Note 17)	(486,655)	-	-
Net Assets - end of year	\$ 50,649,207	\$ 50,877,787	\$ 49,644,234

Results of Operations

During 2010, the District reported Income Before Contributions of a modest \$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. More information on this adjustment can be found in Note 17 to the Financials. 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.

During 2008, the Districts Net Assets increased \$1,522,902, the amount the District reported as Income Before Contributions & Transfers.

Overall the District's Revenues and Expenses continue to be relatively flat over the past three years. This trend is expected to continue in 2011, with no anticipated adverse economic or other conditions that may limit District resources.

Capital Assets

Year-end Net Assets is 80% of the Districts total asset valuation of \$63,570,619, up from 79% and 78% for 2009 and 2008, respectively.

Total Capital Assets, net of depreciation, decreased by \$490,387 in 2010. During 2009 this figure increased by \$598,387 and by \$1,422,997 in 2008.

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. The District booked no Capital Contributions in 2008.

See Note 3 for additional Capital Asset related information.

Long Term Debt

Electric Department

The District issued no new debt in 2010, 2009 or in 2008.

The District issued bonds in 2007 to refund the callable portion of the District's outstanding 1997 bonds maturing in the years 2007 through 2014.

The District issued revenue bonds in 2001 to refund the callable portion of the District's outstanding 1994 bonds maturing in the years 2005 through 2014 and to help finance a portion of the District's capital improvement program.

At the end of 2010, \$7,522,768 in revenue bonds remained outstanding; \$927,276 of this amount is 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.

At the end of 2008, \$8,828,254 in revenue bonds remained outstanding; \$829,494 of this amount was due and paid in 2009.

Bay Center Water Department

During 2005, the District's Bay Center Water Department applied for and received a low interest loan from the Washington State Drinking Water State Revolving Fund (DWSRF). This loan helped finance the improvements to the Bay Center Water System. The amount of the loan was \$462,091. The loan has a twenty-year term with annual payments including interest calculated at .5% on the outstanding balance.

At December 31, 2010 \$340,488 was outstanding and \$24,321 of the outstanding balance due in the next 12 months. At December 31, 2009 \$364,809 was outstanding on the DWSRF Loan with \$24,321 of the outstanding balance paid in the next 12 months. At December 31, 2008 \$389,129 was outstanding on the DWSRF Loan with \$24,321 being due and paid during the following 12 months.

Lebam Water Department

The Lebam Water System has a \$50,000 long-term loan from the Electric Department.

See Note 11 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.

Public Utility District No. 2 of Pacific County

COMPARATIVE STATEMENT OF NET ASSETS (BALANCE SHEET)
December 31, 2010 & 2009

ASSETS	2010	2009
Current Assets:		
Cash and Cash Equivalents	\$11,907,072	\$12,895,153
Temporary Investments	500,000	0
Accounts Receivable (Net)	2,232,539	2,328,715
Inventory	3,556,816	3,584,819
Prepayments	303,917	285,000
Other Current Assets	4,016	20,019
TOTAL CURRENT ASSETS	18,504,361	19,113,706
Noncurrent Assets:		
Unamortized Debt Discount and Expense	156,092	172,365
Other Deferred Debits	437,540	385,316
TOTAL NONCURRENT ASSETS	593,632	557,681
Capital Assets:		
Plant	84,525,955	81,418,367
Construction in Progress	3,049,644	4,120,513
Less: Accumulated Depreciation	-43,102,973	-40,575,866
TOTAL CAPITAL ASSETS	44,472,626	44,963,014
TOTAL ASSETS	63,570,619	64,634,400

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

Public Utility District No. 2 of Pacific County

COMPARATIVE STATEMENT OF NET ASSETS (BALANCE SHEET)
December 31, 2010 & 2009

LIABILITIES	2010	2009
Current Liabilities:		
Warrants Payable	53,955	35,613
Accounts Payable	2,431,847	2,665,643
Accrued Interest	58,311	65,174
Accrued Taxes	432,055	501,430
Customer Deposits	530,151	557,672
Long-Term Debt, due within one year	927,276	890,863
Other Current and Accrued Liabilities	1,892,325	1,517,514
TOTAL CURRENT LIABILITIES	6,325,920	6,233,908
Noncurrent Liabilities:		
Long-Term Debt, due in more than one year	6,595,492	7,522,706
TOTAL NONCURRENT LIABILITIES	6,595,492	7,522,706
TOTAL LIABILITIES	12,921,412	13,756,613
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	36,949,858	36,549,445
Restricted	956,869	983,525
Unrestricted	12,742,480	13,344,817
Total Net Assets	50,649,207	50,877,787
TOTAL NET ASSETS AND LIABILITIES	63,570,619	64,634,400

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

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (INCOME STATEMENT)

December 31, 2010 & 2009

	2010	2009
OPERATING REVENUES	\$20,672,632	\$20,918,489
OPERATING EXPENSES		
Purchased Power	9,281,906	9,003,334
Operating	5,730,190	5,793,458
Maintenance	1,372,352	1,125,412
Depreciation and Amortization	2,950,184	3,101,598
Taxes and Tax Equivalents	1,140,888	1,109,782
Total Operating Expenses	20,475,520	20,133,584
OPERATING INCOME (LOSS)	197,111	784,905
NONOPERATING REVENUES (EXPENSES)		
Interest and Dividend Income	39,859	95,058
Interest Expense	-380,901	-420,890
Telecom Revenues	201,139	197,979
Telecom Expenses	-250,224	-221,348
Misc. Service Revenue	536,756	805,443
Other Nonoperating Revenues (Expenses)	-144,844	-93,474
Gain/Loss on Asset Disposition	1,192	25,881
Total Nonoperating Revenues (Expenses)	2,976	388,648
Income Before Contributions & Transfers	200,087	1,173,553
Capital Contributions	57,988	60,000
Grant Proceeds (Note 16)	0	0
Transfers In (Out)	0	0
Extraordinary Items	0	0
Change in Net Assets	258,075	1,233,553
Net Assets Jan 1	50,877,787	49,644,234
Prior Period Adjustment	-486,655	
Net Assets Dec 31	50,649,207	50,877,787

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

COMPARATIVE STATEMENT OF CASH FLOWS

December 31, 2010 & 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 20,757,945	\$ 19,845,819
Payments for Purchased Power	(9,281,906)	(9,003,334)
Payments for Operations & Maintenance	(4,101,678)	(3,965,885)
Payments to Employees for Service	(2,945,265)	(2,715,493)
Payments for Taxes	(1,140,888)	(1,109,782)
Net Cash Provided by (Used by) Operating Activities	3,288,208	3,051,325
CASH FLOWS FROM NON-OPERATING ACTIVITIES		
Telecom Services - Net	(49,085)	(23,370)
Misc Service Revenue	536,756	805,443
Conservation Programs - Net	(144,844)	(93,474)
Gain/Loss on Asset Disposal	1,192	25,881
Net Cash Provided by Non-Operating Activities	344,019	714,480
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Principal Payments	(890,801)	(853,815)
Interest Payments	(380,901)	(420,890)
Contributions	57,988	60,000
Capital Expenditures	(2,459,796)	(3,699,986)
Loan Proceeds/PPA/	(486,655)	-
Net Cash Used In Capital and Related Financing Activities	(4,160,165)	(4,914,691)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	39,859	95,058
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(488,079)	(1,053,827)
Cash and Cash Equivalents at Beginning of Year	12,895,153	13,948,980
Cash and Cash Equivalents at End of Year	\$ 12,407,072	\$ 12,895,153

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

Public Utility District No. 2 of Pacific County

COMPARATIVE STATEMENT OF CASH FLOWS

December 31, 2010 & 2009

	2010	2009
Operating Income	\$ 197,111	\$ 784,905
Depreciation	2,950,184	3,101,598
Changes in Operating Assets & Liabilities		
Accounts Receivable	96,175	(1,469,306)
Inventories	44,005	800,642
Prepaid Items	(18,916)	(50,290)
Deferred Debits	(35,951)	(353,716)
Payables	(215,453)	(199,874)
Taxes	(69,375)	(3,139)
Other Current Liabilities	5,649	(69,402)
Deferred Credits	334,777	509,907
Total Changes	140,911	(835,178)
Total Adjustments	3,091,095	2,266,420
Net Cash Provided by Operations	\$ 3,288,206	\$ 3,051,325

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

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

	KILOWATT HOURS BILLED		REVENUE	
	2010	2009	2010	2009
RESIDENTIAL <i>NUMBER OF CUSTOMERS</i>	21,095,894	19,809,727	\$ 1,438,795	\$ 1,360,146
GREEN POWER			\$ 2,352	\$ 2,523
COMMERCIAL <i>NUMBER OF CUSTOMERS</i>	5,382,861	4,912,293	\$ 399,691	\$ 368,689
PUBLIC AUTHORITY <i>NUMBER OF CUSTOMERS</i>	2,627,637	2,480,727	\$ 187,909	\$ 178,111
INDUSTRIAL <i>NUMBER OF CUSTOMERS</i>	1,600,800	1,578,000	\$ 81,727	\$ 78,965
IRRIGATION <i>NUMBER OF CUSTOMERS</i>	4,430	245	\$ 3,579	\$ 3,374
PUBLIC LIGHTING	12,046	12,357	\$ 8,370	\$ 7,255
STREET & HIGHWAY LIGHTING	46,898	47,033	\$ 4,710	\$ 4,727
TOTAL SALES <i>TOTAL NUMBER OF CUSTOMERS</i>	30,770,566	28,840,382	\$ 2,127,132	\$ 2,003,790
SELF CONSUMED	88,853	92,021	\$ -	\$ -
TOTAL	30,859,419	28,932,403	\$ 2,127,132	\$ 2,003,790

**ENERGY PURCHASED
MONTH END DECEMBER**

	MONTH		YEAR TO DATE	
	2010	2009	2010	2009
COST OF POWER				
BPA	\$ 1,156,201	\$ 1,379,561	\$ 8,137,331	\$ 7,766,572
Non-Federal	\$ -	\$ -	\$ -	\$ -
TOTAL COST	\$ 1,156,201	\$ 1,379,561	\$ 8,137,331	\$ 7,766,572
KWH'S PURCHASED				
BPA	33,664,394	38,767,542	297,251,407	312,886,483
Non-Federal	-	0	0	0
TOTAL PURCHASED	33,664,394	38,767,542	297,251,407	312,886,483
COST PER KWH	\$ 0.0343	\$ 0.0356	\$ 0.0274	\$ 0.0248
MAXIMUM DEMAND--kW	59,884	90,937		
TOTAL kWh PURCHASED	(33,664,394)	(38,767,542)	(297,251,407)	(312,886,483)
kWh SOLD	30,770,566	28,840,382	285,788,383	298,190,793
kWh SELF-CONSUMED	88,853	92,021	796,799	937,532
kWh VARIANCE: GAIN\ (LOSS)	(2,804,975)	(9,835,139)	(10,666,225)	(13,758,158)
<i>kWh Variance %</i>	-8.3%	-25.4%	-3.6%	-4.4%

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

	KILOWATT HOURS		REVENUE	
	2010	2009	2010	2009
RESIDENTIAL <i>NUMBER OF CUSTOMERS</i>	180,606,580	188,970,962	\$ 12,816,831	\$ 12,975,831
GREEN POWER	0	0	\$ 29,212	\$ 30,692
COMMERCIAL <i>NUMBER OF CUSTOMERS</i>	57,962,855	58,731,008	\$ 4,317,479	\$ 4,277,372
PUBLIC AUTHORITY <i>NUMBER OF CUSTOMERS</i>	26,715,447	27,253,043	\$ 1,925,183	\$ 1,901,998
INDUSTRIAL <i>NUMBER OF CUSTOMERS</i>	19,218,000	21,502,800	\$ 938,396	\$ 1,016,283
IRRIGATION <i>NUMBER OF CUSTOMERS</i>	575,316	782,488	\$ 70,470	\$ 79,758
PUBLIC LIGHTING	147,850	384,382	\$ 101,765	\$ 101,104
STREET & HIGHWAY LIGHTING	562,335	566,110	\$ 56,571	\$ 56,831
TOTAL SALES	285,788,383	298,190,793	\$ 20,255,908	\$ 20,439,868
<i>TOTAL NUMBER OF CUSTOMERS</i>				
SELF CONSUMED	796,799	937,532	\$ -	\$ -
TOTAL	286,585,182	299,128,325	\$ 20,255,908	\$ 20,439,868

PUBLIC UTILITY DISTRICT NO. 2 OF PACIFIC COUNTY

Notes to Financial Statements

For Fiscal Years Ended December 31, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 accounting and reporting policies of the District conform to generally accepted accounting principles for local governments.

A. Reporting Entity

Public Utility District No. 2 of Pacific County (the District) is a municipal corporation, governed by an elected three-member Board, authorized under Title 54 RCW.

B. Basis of Accounting and Presentation

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principals.

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for the Electric System and the Uniform System of Accounts prescribed by the National Association of Regulatory Utility Commissioners for the Water Systems.

The District has the option of following private-sector guidance for their business-type activities and funds to the extent that this guidance does not conflict with or contradict the guidance of the Governmental Accounting Standards Board (GASB). The District has elected not to follow private-sector guidance.

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.

Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the balance sheets. The reported fund equity (total net assets) is segregated into Invested in Capital Assets, Net of Related Debt, Restricted and Unrestricted components. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total assets. The District discloses changes in cash flows by a separate statement that presents their operating, investing, and financing activities.

Operating revenues include cash collected from customers for electrical and water service. Operating expenses include funds expended for purchased power as well as labor and materials utilized in the maintenance and operations of the District's power and water systems. Also included are depreciation and taxes associated with the operation of the electric and water systems.

Non-operating revenues and expenses include interest income and expense, gains or losses on disposition of capital assets and other non-operating revenue and expense.

The District's financial statements include the financial position and results of operations of Electric and Water utilities.

New Accounting Standards

In December 1998, the Governmental Accounting Standards Board (GASB) issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". This Standard requires proprietary enterprises to recognize capital contributions as revenues rather than as Contributions-in-aid of Construction. According to the Standard, revenues shall be classified as nonoperating and flow into Net Assets. The Standard was adopted in 2001 (see Note 3).

In June 2001, the GASB also issued Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – Omnibus", and Statement No. 38, "Certain Financial Note Disclosures". The financial statements reflect these changes.

The District implemented GASB Statement 45 during its fiscal year starting January 1, 2008 (see Note 5d).

In June 2008, GASB issued Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments". Statement No. 53 provides a comprehensive framework for the measurement, recognition and disclosure of derivative instrument transactions for the purpose of enhancing the usefulness and comparability of derivative instrument information reported by state and local governments. GASB Statement No. 53 became effective for the District beginning in fiscal year 2010; however the District did not enter into any derivative instrument transactions during 2010. The District is currently evaluating the impact of GASB Statement No. 53 on future years.

C. Assets, Liabilities and Equities

1. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments, with maturity of 90 days or less when purchased, to be cash equivalents.

It is the District's policy to invest all temporary cash surpluses. At December 31, 2010 and 2009 the Treasurer was holding \$12,407,072 and \$12,895,153 respectively in short-term residual investments of surplus cash. All cash or investment items on the balance sheet are considered as cash and cash equivalents.

The District's deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

2. Temporary Investments - See Note 2

3. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services.

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.

4. Plant Materials - Inventories

Inventories of materials consist of expendable supplies held for construction and maintenance on the District's electric distribution system and water system. Inventories are valued at average cost, which approximates the market value.

5. Restricted Assets and Liabilities

In accordance with bond resolutions, separate restricted accounts are required to be established.

These accounts (assets) contain resources for debt service, and special purpose funds. The current portion of related liabilities is shown as payables. Specific debt service reserve requirements are described in Note 11. The restricted assets are composed of the following:

	<u>2010</u>	<u>2009</u>
Bond Reserve	426,717	425,853
Customer Deposits	<u>530,151</u>	<u>557,672</u>
Total Restricted Funds	\$956,868	\$983,525

6. Capital Assets and Depreciation - See Note 3

7. Accumulated Unpaid Employee Leave Benefits

The maximum annual accumulation of Personal Leave for an employee is 504 hours (63 days) and any excess of the sixty-three days shall be forfeited. At the time of termination or retirement of a PERS 1 employee, any Personal Leave in excess of 60 days (480 hours) shall be forfeited. For PERS 2 and 3 employees, any Personal Leave in excess of 30 days (240 hours) shall be forfeited.

Effective July 1, 1994 the District converted the vacation and sick time benefits into a Personal Leave program. At this time, any hours remaining in an employee's sick leave accrual were moved into a supplemental leave bank (SLB).

Prior to 2006, hours in the SLB were only available to employees on short-term disability (STD) leave. While on STD, an employee receives 70% of his or her regular wage. An employee with SLB hours is allowed to utilize the hours to make up the difference between the 70% pay they received while on STD and 100% of their regular earnings. Prior to 2006, this was the only way an employee could use SLB hours.

During 2006 the District adopted a Health Reimbursement Account - Voluntary Employee Benefit Association (HRA-VEBA) plan. Among other things, the plan allows an annual 'cash out' of 16 hours from the employee's SLB.

Since the adoption of the VEBA plan created an additional way for the employee to access his or her SLB hours it was decided that the remaining SLB hours should be costed and reported as a liability.

The District records the Personal Leave and SLB liabilities as earned, not as taken. At year-end, the total benefit liability was \$539,654 in 2010 and \$499,474 for 2009 respectively.

HRA VEBA

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 2010, employee contributions totaled \$124,143 and the District contributed an additional \$78,010 on behalf of its employees. In 2009, employee contributions were \$107,934 and the District contributed \$22,874.

8. Long-Term Debt - See Note 11

9. Deferred Debits.

Deferred Debits totaled \$593,632 at December 31, 2010. Of that amount \$156,092 represents un-amortized bond discount and issue costs. The balance of \$437,540 represents work-in-progress, accounts receivables and clearing account charges to be allocated to the appropriate expense accounts. Deferred Debits totaled \$557,681 at December 31, 2009.

Deferred Credits

At December 31, 2010, deferred credits totaled \$287,322. Deferred Credits totaled \$287,322 at December 31, 2009.

NOTE 2 – DEPOSITS and INVESTMENTS

Deposits: The District’s deposits and certificates of deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) 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, savings and loan institutions, the Washington State Treasurer’s Investment Pool, or other investments allowed by Chapter 39.59 RCW. All investments are stated at market value. Management intends to hold the time deposits until maturity; therefore, temporary declines in market value are not reflected in financial statements. These investments are not categorized because they are not evidenced by securities requiring categorization.

The District Treasurer follows the Investment Policy as adopted per Resolution 1230. It is the policy of the District to deposit and invest all funds received in a manner, which will provide maximum security with the highest investment return while meeting the cash flow requirements of the District. The District’s Investment Policy conforms to all state and local statutes governing the investment of public funds. At this time, the District does not have a policy on custodial credit risk for deposits.

Deposits and Investments as of 12/31/2010	Carrying Amount	Market Value
Cash & Equivalents – Not in State Treasurer’s Investment Pool	\$1,039,273	\$1,039,273
Cash & Equivalents - In State Treasurer’s Investment Pool	\$10,867,799	\$10,867,799
Time Deposits – at Raymond Federal Savings and Loan	\$250,000	\$250,000
Time Deposits – At The Bank of the Pacific	\$250,000	\$250,000
Total	\$12,407,072	\$12,407,072

Deposits and Investments as of 12/31/2009	Carrying Amount	Market Value
Cash & Equivalents – Not in State Treasurer’s Investment Pool	\$1,060,113	\$1,060,113
Cash & Equivalents - In State Treasurer’s Investment Pool	\$11,835,040	\$11,835,040
Time Deposits	0	0
Total	\$12,895,153	\$12,895,153

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

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.

The 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.

It is the District's policy that new customers contribute to the cost of providing service to new construction. Consistent with GASB 33, (see note 1(B)) beginning in 2006, the District began reporting these contributions as Misc. Service Revenue found under Non-Operating Revenue on the Statement of Revenues, Expenses and Changes in Net Assets. The District records depreciation on assets acquired by contribution.

In 2010, the District received \$536,756 in Misc. Service Revenue. \$805,443 was received in 2009. Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives ranging from 5 to 50 years.

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

Electric and Water plant activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility Plant not being depreciated:				
Land	\$1,022,063	-	-	1,022,063
Construction in Progress	5,498,503	(1,377,989)	-	4,120,513
Total	6,520,566	(1,377,989)	-	5,142,576
Utility Plant being depreciated:				
Transmission Plant	3,723,947	580,752	(3,185)	4,301,515
Distribution Plant	55,783,967	3,103,876	(397,489)	58,490,354
General Plant	14,637,695	891,451	(414,018)	15,115,127
Total	74,145,609	4,576,079	(814,692)	77,906,996
Add: Water Systems	1,982,694	516,158	(9,545)	2,489,308
Less: Accum. Deprec.	(38,284,243)	(2,291,623)	-	(40,575,866)
Total Net Utility Plant	\$44,364,626	1,422,625	(824,237)	44,963,014

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenditures to date on projects totaling \$3,049,644 at December 31, 2010. Some of these projects were started prior to the beginning of 2010 and are still in progress. At December 31, 2009, total construction in progress was \$4,120,513. The following list shows major capital projects active as of December 31, 2010:

2010 Construction in Progress

Work Order	Description	Expended
20020036	Tokeland Transformer	\$ 386,355
20049957	PUD Fiber Optic	\$ 216,712
20059953	Long Beach COLO	\$ 247,356
20072050	Replace Dbl CKT Poles – South Bend	\$ 124,111
20082051	Rebuild G Street – Surfside	\$ 138,172
20082057	RBLD Nemah RD West : Plow UG	\$ 217,890
20092060	Willows Road	\$ 192,248
20092807	Radar Ridge – ENW Reimb.	\$ 421,193
20102066	Rebuild SR 103 at Cranberry Rd	\$ 120,183
Sub Total		\$2,064,220
	Various Projects Under \$100,000	\$ 985,424
	Work In Progress Total	\$3,049,644

As of December 31, 2010, the District anticipates no need for additional financing to complete its existing capital projects. See subsequent events for additional information.

NOTE 5 - PENSION PLANS

All of the District's full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS). This is a statewide local government retirement system administered by the Department of Retirement Systems, under a cost-sharing multiple-employer public employee retirement plan. The Department of Retirement Systems annually issues a financial report containing historical trend information. This report may be obtained from:

Department of Retirement Systems,
Administrative Services Division,
P.O. Box 48380
Olympia, WA. 98504-8380.

B. Description of Plan

The state legislature established PERS in 1947 under Chapter 41.40 RCW. PERS is a cost-sharing multiple-employer system. Membership in the system includes: elected officials; state employees; employees of Supreme, Appeals, and Superior courts (other than judges); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; non-certified employees of school districts; and employees of local government. Approximately 47 percent of PERS members are state employees. PERS contains three plans. Participants who joined the system before September 30, 1977, are Plan I members. Those joining thereafter are enrolled in Plan II. A new plan started in 2003 with employees having the option to transfer from Plan II to Plan III. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in Plans I and II are vested after completion of 5 years of eligible service. PERS III members are vested after completing ten service credit years or after completing five service credit years including 12 service credit months after reaching age 44.

Plan I members are eligible for retirement after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The annual pension is two percent of the final

average salary per year of service, capped at 60 percent. If qualified, after reaching age 66 a cost-of-living allowance is granted, capped at 3 percent annually.

Plan II and III members may retire at the age of 65 with 5 years of service, or at 55 with 20 years of service, with an allowance of 2 percent per year of service of the final average salary. Plan II and III retirements prior to 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually.

The District's covered payroll for the fiscal year ended December 31, 2010 was \$3,761,334. The District's total payroll for all employees was \$3,875,564. For fiscal year ended December 31, 2009, the District's covered payroll was \$3,794,016. The District's total payroll for all employees was \$3,934,205.

Each biennium the legislature establishes Plan I employer contribution rates and Plan II and III employer and employee contribution rates. Employee contribution rates for Plan I are established by legislative statute and do not vary from year to year. Employer rates for Plan I are not necessarily adequate to fully fund the system. The employer and employee contribution rates for Plan II are developed by the Office of the State Actuary to fully fund the system. All employers are required to contribute at the level established by the legislature. The methods used to determine the contribution requirements were established under state statute.

C. Contributions Required and Made

The District's contribution rates expressed as a percentage of covered payroll as of December 31, 2010 were:

	<u>PERS PLAN I</u>		<u>PERS PLAN II/III</u>	
	<u>Required</u>	<u>Actual</u>	<u>Required</u>	<u>Actual</u>
Employer 1/1/10–12/31/10	5.31%	5.31%	5.31%	5.31%
Employee 1/1/10–12/31/10	6.0%	6.0%	3.90%	3.90%

The District's contribution rates expressed as a percentage of covered payroll as of December 31, 2009 were:

	<u>PERS PLAN I</u>		<u>PERS PLAN II/III</u>	
	<u>Required</u>	<u>Actual</u>	<u>Required</u>	<u>Actual</u>
Employer 1/1/09–6/30/09	8.31%	8.31%	8.31%/8.31%	8.31%/8.31%
Employer 7/1/09–8/31/09	5.29%	5.29%	5.29%/5.29%	5.29%/5.29%
Employer 9/1/09–12/31/09	5.30%	5.30%	5.30%/5.30%	5.30%/5.30%
Employee 1/1/09–6/30/09	6.00%	6.00%	5.45%/Variable	5.45%/Variable
Employee 7/1/09–8/31/09	6.00%	6.00%	3.89%/Variable	3.89%/Variable
Employee 9/1/09–12/31/09	6.00%	6.00%	3.90%/Variable	3.90%/Variable

The actual contributions for the year ending December 31, 2010 were:

	PERS PLAN I	PERS PLAN II	PERS PLAN III
	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
EMPLOYER	\$ 0	\$184,501	\$ 15,226
EMPLOYEE	<u>\$ 0</u>	<u>\$135,510</u>	<u>\$ 17,588</u>
TOTAL	<u>\$ 0</u>	<u>\$320,011</u>	<u>\$ 32,814</u>

The actual contributions for the year ending December 31, 2009 were:

	PERS PLAN I	PERS PLAN II	PERS PLAN III
	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
EMPLOYER	\$ 1,973	\$234,381	\$ 19,853
EMPLOYEE	<u>\$ 1,425</u>	<u>\$161,295</u>	<u>\$ 18,049</u>
TOTAL	<u>\$ 3,398</u>	<u>\$395,676</u>	<u>\$ 37,902</u>

D. Post-retirement Benefits Other Than Pension Benefit

In addition to the pension benefits described above, the District provides post-retirement health care benefits, in accordance with Board resolutions and Labor contracts to 33 former employees who are retired under the PERS system.

The District contributes a certain percent of the health insurance premium. The percent is based on the Labor contract in effect at the time of retirement. Currently the percent of premium contribution varies from 80% to 100%. The District recognizes the expense when the health insurance premiums are paid.

The District was required to implement GASB Statement 45 for its fiscal year starting January 1, 2008. Statement 45 was issued to provide additional financial reporting regarding the costs and financial obligations that governments incur when they provide post-employment benefits other than pensions (OPEB) as part of the compensation for services rendered by their employees. See Note 16 for additional OPEB information.

NOTE 6 - DEFERRED COMPENSATION PLAN

As of April 1, 2008 and in accordance with Resolution 1266, 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.

Resolution 1266 suspended future employee contributions to The American Funds Group and the Equitable Life Assurance Group and called for the discontinuation of these plans once all retirees, currently participating in these plans, receive their full benefit currently held by these plans.

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.

NOTE 7 - INSURANCE

PURMS

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, 18 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 2010, the District recognized \$42,065 and \$105,509 respectively, in property and liability insurance expense. During 2009, the District recognized \$67,985 and \$101,101 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 dependants 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 2010 and 2009 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 2010 and 2009, respectively, was \$1,133,929 and \$1,158,200.

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, 2012.

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; the last claim was initiated in 1999.

NOTE 8 - PURCHASED POWER

BPA

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 expires on September 30, 2011. Under this contract, the District agrees to purchase electrical power from BPA at rates established in the contract.

Total purchase power cost for the years ending December 31, 2010 and 2009 was \$8,137,331 and \$7,766,572, respectively. Power transmission cost for the years ending December 31, 2010 and 2009 was \$1,144,575 and \$1,236,762, respectively.

At its August 19, 2008 meeting the District's Board of Commissioners authorized, by motion, the General Manager to sign and submit a non-binding Good Faith Estimate Letter to the Bonneville Power Administration letting them know that the District is interested in pursuing the Slice/Block Option as its' product for the upcoming twenty-year power sales contract.

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.

RADAR RIDGE

During 2008, the District agreed to partner with Energy Northwest in its proposed development of the Radar Ridge Wind Project, located in Pacific County. At its September 2, 2008 meeting the District's Board of Commissioners authorized, by motion, the General Manager to sign a Construction, Operation, and Maintenance 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, by motion, the General Manager to enter into a Reaffirmation of Interest letter with Energy Northwest at 21 percent of the output capacity of the proposed wind project.

During 2009, the District's Board of Commissioners approved motions authorizing the General Manager to enter into a Development Agreement with Energy Northwest and to sign an application on the District's behalf applying for Clean Renewable Energy Bonds (CREBS) to help fund the project.

During 2010, the District's Board of Commissioners took the following action:

March 16, 2010 – Motion to authorize the District to move forward with the project by pursuing an Incidental Take Permit through an Environmental Impact Statement including the installation of a Merlin Radar Unit to shut down the project when birds are present.

June 1, 2010 - Motion authorizing the General Manager to enter into Development Agreement Amendment No 1 at a total cost of \$256,000 with \$45,000 being the District's share.

August 17, 2010 – Motion to continue participation in the project through Oct 2010 with the District's share at \$62,000.

Sept 21, 2010 – Motion authorizing the District to move forward as a participant in the project and fund its share of permitting costs up to \$95,000.

MICRO-HYDRO AGREEMENT

The District entered into a micro-hydro agreement with Martin Wirkkala on December 6, 1983. Under the terms of this agreement, the Customer shall generate power first for his own consumption and the District will purchase the net excess, if any, at the close of the Customer's regular billing period based on rates established in the agreement. This agreement was renegotiated with Martin Wirkkala's heirs, Alan and Brenda See. The Contract was finalized in April 1996. The Agreement has no established expiration date and operates under the terms described above. The Public Utility Regulatory Policies Act of 1978, commonly called PURPA, requires the District to address certain conditions regarding small production facilities. Section 210 requires that the District's avoided cost be used to determine the purchase price of energy and capacity.

NET METERING/ SSB 5101

At its March 3, 2009 meeting the District's Board passed Resolution 1280 adopting a customer/generator program for renewable energy development. The Board had previously adopted Resolution numbers 1279, 1241 and 1178 establishing rules and standards for determining the terms and conditions governing the interconnection of customer owned electric generating systems.

Substitute Senate bill (SSB) 5101, relating to providing incentives to support renewable energy, was passed during the 2005 session of the Washington State Legislature. SSB 5101 created a tax incentive to support certain renewable energy sources within the State effective July 1, 2005. Eligible program participants are able to apply to their respective electric utilities for credit for the generation of electricity by a qualified renewable energy system, owned by the individual and located on their own property. The District decided to participate in this program starting in July 2009.

At the end of 2010, the District had agreements with 4 individuals, 2 commercial, and 1 municipal entity eligible for reimbursement under SSB 5101.

NOTE 9 – LEASE COMMITMENTS

The District is committed under operating leases for office equipment. Lease expense for the years ending December 31, 2010 and 2009 amounted to \$20,887 and \$28,871 respectively. For these leases, the minimum annual lease commitments for 2010 and 2009 equal \$20,887 and \$28,519. The District had no capital leases during 2010.

NOTE 10 – SHORT TERM DEBT

During 2010, the District did not engage in any short-term debt activity.

NOTE 11 - LONG TERM DEBT

Debt Summary - 2010

<u>Outstanding</u>	<u>Portion</u>	Total	Current	Long Term
		<u>Portion</u>		
Bonds Payable		\$7,132,280	\$902,955	\$6,229,325
DWSRF Loan		340,488	24,321	316,167
Lebam Water Loan		50,000	0	50,000
Total		\$7,522,768	\$927,276	\$6,595,492

Debt Summary - 2009

<u>Outstanding</u>	<u>Portion</u>	Total	Current	Long Term
		<u>Portion</u>		
Bonds Payable		\$7,998,760	\$866,542	\$7,132,218
DWSRF Loan		64,809	24,321	340,488
Lebam Water Loan		50,000	0	50,000
Total		\$8,413,569	\$890,863	\$7,522,706

In May 2001, the District issued Electric Revenue and Refunding Bonds, Series 2001, in the principal amount of \$10,000,000. Interest on the 2001 Bonds is payable on May 1 and November 1, commencing on November 1, 2001 until maturity or prior redemption, at the respective rates as set forth on the Official Statements, ranging from 4.25 to 5.00 percent.

Principal on the 2001 Bonds is payable commencing May 1, 2004 through May 1, 2021. The 2001 Bonds maturing in the years 2004 through 2011, inclusive, are not subject to redemption prior to their stated dates of maturity. The District has reserved the right to redeem and call the 2001 Bonds maturing on or after May 1, 2002, in whole or in part at any time, at the price of par plus accrued interest, if any, to the date of redemption. The 2001 Bonds were issued to refund the callable portion of the District's outstanding 1994 Bonds maturing in the years 2005 through 2014 and to pay for a portion of the District's capital improvement program.

In March 2007, the District by Resolution 1257 issued Electric Revenue and Refunding Bonds, Series 2007, in the principal amount of \$1,576,212. Interest on the 2007 Bonds is payable on May 1 and November 1, commencing on May 1, 2008 until maturity or prior redemption, at the rate of 3.95 percent as set forth on the Official Statements. Principal on the 2007 Bonds is payable commencing May 1, 2008 through May 1, 2014.

The 2007 Bonds maturing in the years 2008 through 2014, inclusive, are not subject to redemption prior to their stated dates of maturity. The District has not reserved the right to redeem the 2007 Bonds prior to maturity.

The 2007 Bonds were issued to refund a share of the callable portion of the District's outstanding 1997 Bonds maturing in the years 2007 through 2014. In addition, the District expended existing funds in the amount of \$493,714 to refund the balance of the 1997 Bonds not covered by the 2007 Bond issue. The sources of existing funds were the District's Bond Reserve Fund and General Fund.

See subsequent events for additional information.

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. (See note 16).

Drinking Water State Revolving Fund (DWSRF) Loan

In October 2004, the District received approval for a Drinking Water State Revolving Fund (DWSRF) Loan administered by the Washington State Public Works Board. The loan was to provide funds to assist with improvements to the Bay Center Water System. Originally, the amount of the loan was not to exceed \$375,296, which includes a 1% loan fee of \$3,716. In 2005, the DWSRF Loan contract was amended to increase the loan amount to \$462,091.

The interest rate is .5% on the outstanding principal balance. The District began drawing funds and received the entire proceeds of the loan during 2006. The first loan payment totaling 24,382.53 was made on October 1, 2006. Subsequent payments are due on October 1 of each year during the 20-year term of the loan with final payment due October 1, 2024.

The following table summarizes the District's general obligation long-term debt transactions for the fiscal year ended December 31, 2010.

Issue	Beginning Balance 01/01/10	Additions	Reductions	Ending Balance 12/31/10	Principal Due Within One Year	Due Beyond One Year
2007 Electric Refunding Bonds, interest at 3.95%, maturing in 2018	\$1,068,760	-	(\$221,480)	\$847,280	\$227,955	\$619,325
2001 Electric Revenue & Refunding Bonds, interest rates ranging 4.25%-5.0%, maturing in 2021	6,930,000	-	(645,000)	6,285,000	675,000	5,610,000
DWSRF Loan – Bay Center Water	364,808	-	(24,320)	340,488	24,321	316,167
Totals	\$8,363,568	-	(\$890,800)	\$7,472,768	\$927,276	\$6,545,492

The following table summarizes the District's general obligation long-term debt transactions for the fiscal year ended December 31, 2009.

Issue	Beginning Balance 01/01/09	Additions	Reductions	Ending Balance 12/31/09	Principal Due Within One Year	Due Beyond One Year
2007 Electric Refunding Bonds, interest at 3.95%, maturing in 2018	\$1,283,254	-	(\$214,494)	\$1,068,760	\$221,542	\$847,218
2001 Electric Revenue & Refunding Bonds, interest rates ranging 4.25%-5.0%, maturing in 2021	7,545,000	-	(615,000)	6,930,000	645,000	6,285,000
DWSRF Loan – Bay Center Water	389,129	-	(24,321)	364,808	24,321	340,487
Totals	\$9,217,383	-	(\$853,815)	\$8,363,568	\$890,863	\$7,472,705

DEBT SERVICE REQUIREMENTS

The following table shows the debt service on the outstanding 2007 and 2001 Bonds and the DWSRF Loan. The District has no other outstanding bonds or loans. 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.

FUTURE DEBT SERVICE REQUIREMENTS			
Year	Principal	Interest	Total
2011	\$ 927,276	\$ 329,877	\$ 1,257,153
2012	\$ 970,999	\$ 287,636	\$ 1,258,635
2013	\$ 1,024,283	\$ 242,751	\$ 1,267,034
2014	\$ 932,005	\$ 195,208	\$ 1,127,213
2015	\$ 434,320	\$ 163,011	\$ 597,331
2016-2020	\$ 2,526,603	\$ 468,496	\$ 2,995,099
2021-2025	\$ 657,282	\$ 15,567	\$ 672,849
Total	\$ 7,472,768	\$ 1,702,546	\$ 9,175,314

Arbitrage Rebate

The Tax Reform Act of 1986 requires the District to rebate excess earnings, or arbitrage, on the investment of bond and revenue anticipation note proceeds, in excess of their yield, to the Internal Revenue Service (IRS). Ninety percent of the rebate is due and payable five years from the date the bonds were issued and at five-year intervals thereafter. The remaining ten percent is payable sixty days after the notes are retired. Because positive arbitrage can be offset against negative arbitrage, the rebatable amount fluctuates each year and may or may not result in a liability at the payment intervals. The District has maintained a negative position for arbitrage. Consequently no liability for arbitrage rebate has been established.

Bond Reserve Fund Adjustment

The 1994 Bonds were paid off as of May 1, 2004. After consultation with bond counsel the District moved the \$262,090 reserve set aside for the 1994 Bonds to the Revenue Fund. At the same time the District requested a review of reserve funding required for the 1997 Bonds. It was determined that the District was over funded in the 1997 Bond Reserve. Accordingly, the District reduced the amount of the 1997 Bond Reserve Fund by \$287,798 to correct the over funding. These funds were also transferred to the Revenue Fund.

NOTE 12 – 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. 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, 2010 and 2009 follows:

Telecommunication Services	2010	2009
Operating Revenues:		
Wholesale Fiber Services to ISP	\$172,344	\$171,671
Installation Charges	\$6,075	\$3,588
Other	\$22,720	\$22,720
Total Revenues	\$201,139	\$197,979
Operating Expenses		
Administration and General	\$101,004	\$131,762
Repairs and Maintenance	\$42,006	\$4,510
Network Coordinated Services	\$45,500	
Tower Lease	\$10,800	\$10,800
Interconnection Access	\$5,172	\$4,980
NOANET Repayments	\$44,263	\$67,701
Other	\$1,479	\$1,595
Total Operating Expenses	\$250,224	\$221,348
Plant in Service	\$4,787,395	\$4,398,806
Construction Work in Progress	\$732,240	\$729,309

Broadband Technologies 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 Technologies Opportunities Program 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 next three years, the term of construction per the requirements of the grant.

NOTE 13-BPA CONSERVATION PROGRAMS

The Bonneville Power Administration (BPA) provides funding through its Power Sales Agreement for various energy efficiency activities to utilities in its service territory through its Conservation Rate Credit (CRC) Initiative. During 2006, the District adopted both the CRC and Conservation Acquisition Agreement (CAA) programs, replacing the Conservation and Renewable Discount (C&RD) program that had been discontinued by the BPA. During 2009, the District adopted the Energy Conservation Agreement (ECA) offered by BPA to replace the CAA program.

The District adopts these programs to fulfill its obligations under the BPA Power Sales Agreements to implement conservation measures. The District continues to offer incentives for energy efficiency improvements by commercial, industrial and residential customers. The incentives are funded through the PUD's electrical revenues and through funding provided by the above mentioned BPA programs.

NOTE 14- INTERLOCAL COOPERATION AGREEMENT

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

In July 2001, NoaNet issued \$27 million in Telecommunications Network Revenue Bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations and maintenance. The Bonds become due beginning in December 2003 through December 2016 with interest payable 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. The District's guarantee is limited to its 4.31% interest. In addition, in January 2003 NoaNet opened a \$5 million line of credit with Bank of America to fund capital expenditures. In June 2006, NoaNet opened a second \$5 million line of credit to fund additional capital renewals and replacements.

In August 2008 NoaNet opened a \$1.5 million line of credit to fund improvements to and expansion of NoaNet facilities as authorized by resolution of the NoaNet Board.

In April 2009 NoaNet opened a fifth line of credit in the amount of \$1.5 million to fund improvements to and expansion of NoaNet facilities as authorized by resolution of the NoaNet Board. In October 2009 the District's Board, by motion, approved extending the District payments on the third repayment agreement for an additional year.

Additional Information may be obtained direct from NoaNet:

Corporate Office
5802 Overlook Ave NE
Tacoma, WA
98422

NOTE 15- WATER SYSTEMS

In May of 2006, the Board of Commissioners adopted Resolution No. 1243, revising the policy and adopting rates, charges and fees for water service for both the Bay Center and Lebam Water Departments.

Bay Center Water System

A Water System Plan adopted by the District in 2002 identified certain deficiencies of the Bay Center Water System and recommended improvements with an estimated cost of \$1,142,080. The District, as sub-recipient with Pacific County, was awarded a Community Development Block Grant (CDBG) in the amount of \$750,000 to fund a portion of the total estimated cost.

Additionally, the District applied for and received a Drinking Water State Revolving Fund (DWSRF) Loan to provide funds to assist with improvements to the water distribution system for the Bay Center Water System. The loan is necessary to cover costs not provided for by the Block Grant mentioned above. The amount of the loan is not to exceed \$375,296, which includes a 1% loan fee of \$3,716. The interest rate is .5% on the outstanding principal balance. The first loan payment was due October 1, 2005 with subsequent payments due on October 1 of each year during the 20-year term of the loan with final payment due October 1, 2024.

During 2005 the majority of the work funded by the above mentioned Grant and Loan was accomplished. Additionally, the DWSRF Loan contract was amended to increase the loan amount to \$462,091.

During 2006, the District completed work on the upgrade of the Bay Center Water System. The upgrade includes a new well, upgrades to the existing well house and replacement of roughly 3,400 feet of distribution piping. In addition, water meters were installed on all accounts.

Lebam Water System

In November 2003 Pacific County transferred ownership of the new Lebam Water System to the District. The transfer agreement calls for the District to own and operate the water system for at least 10 years. Based on information provided by Pacific County, \$677,498 in assets was added to the Lebam Water System work in progress account. An additional \$44,832 in facility upgrades was placed in service.

On January 20, 2004, the Board of Commissioners approved resolution number 1217 authorizing a transfer of \$50,000 from the Electrical Department to the Lebam Water System in the form of a loan to be paid back within twenty years, with interest to be accrued at a rate equivalent to the Local Government Investment Pool as of January 1 and July 1 of each year.

During July of 2004 Pacific County, on the District's behalf, applied for and received a \$25,000 Community Development Block Grant (CDBG) imminent threat grant to assist the District in responding to and resolving an emergency situation with the Water System.

In October 2004, Pacific County, on the District's behalf, applied for a \$300,000 CDBG Community Investment Fund grant to design and construct improvements to the Lebam Water System. In August 2005, \$144,100 of the \$300,000 requested was awarded. Work started during the summer of 2006.

During 2006, the District began work on adding a 3rd well to the Lebam Water System. The existing wells have proved unreliable during the dry summer months and the 3rd well is expected to provide the reliability. Work completed includes acquisition of a well site, a road was built into the well site and the well has been drilled, with satisfactory results.

During 2007 the 3rd well house, including controls was completed and the new well was tied into the existing distribution system.

Wilson Point Water System

During 2007, the State Department of Health and the owners of the Wilson Point Water System contacted the District regarding the possible acquisition of the system by the District. The Wilson Point System serves approximately 40 homes and was facing significant water quality and compliance issues. The District entered into negotiations with the current system owners with a proposal to acquire the water system, perform the necessary repairs and upgrades and provide ongoing operating and maintenance support.

The District's acquisition of the system is dependent on completion of a funding package that, if successful, will include financial assistance from the State of Washington, contributions from the system's current owners and funding from existing customers of the system.

During 2008, the District continued to provide operational and maintenance support for the Wilson Point system, on a time and materials basis, for the current owners. Work continued on the funding package as well as the system transfer agreement but the agreement was not signed until 2009.

In anticipation of obtaining the System, and as part of the funding package, the District applied for and received a \$106,000 Water System Acquisition and Rehabilitation Program (WSARP) grant. The grant funds will be used to help fund improvements to the system as identified in an engineering study of the system completed by a contractor hired by the District.

The System Transfer Agreement was finalized by the principals of the Wilson Point Water System and was signed on 3/15/2009. The agreement calls for the assets of the system to be transferred to the District on May 1, 2009, contingent upon certain land easements being in place and completion of land surveys for real property that will be transferred to the District.

During 2010, the District awarded a bid in the amount of \$158,482 to perform upgrades to the Wilson Point System including adding service meters, a hydrant and isolation valves; performing structural improvements to the well and pump houses and the addition of a emergency backup power system. This work was performed by the contractor in late 2010 and early 2011.

NOTE 16 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

Plan Description

Eligibility

Members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plan 2 of the PERS.

- Age 65 with 5 years of service
- Age 55 with 20 years of service

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement.

Survivors of retired members who pass away are not eligible for District provided medical benefits if the member retired prior to September 1, 2009. The survivor may remain on the District’s plan only by paying 100% of the monthly cost as determined annually by PURMS. In accordance with the collective bargaining agreement ratified April 1, 2009, survivors of members who retire after September 1, 2009 may remain on the District’s plan by paying the same monthly cost that the active employees are paying.

Medical and Dental Benefits

Upon Retirement, members are permitted to receive medical benefits. Retirees pay the following for Medical and Dental coverage (no aging factors were applied to contributions):

Coverage	2010 Monthly Medical & Dental Coverage Rate (effective April 1, 2010)
Members retiring after Sept. 1, 2009	\$55.49
Members retiring before Sept. 1, 2009	Dependant on CBA at Retirement

A summary of medical, drug, and dental benefits:

Medical Benefits:

	PPO (In Network)	PPO (Out of Network)
Annual Deductible	None	None
Lifetime Maximum	\$1,000,000	\$1,000,000
Annual Out of Pocket Max	\$750	\$750
Coinsurance	100%	90-100%

	PPO (In Network)	PPO (Out of Network)
Hospital Copay	\$100 per day (Maximum \$300)	\$100 per day (Maximum \$300)
ER Copay	\$50	\$50
Office Copay	\$20	\$40

Drug Benefits:

	Copays
All generic drugs, insulin and diabetic supplies	\$10
Name -brand	\$20
Generic and name-brand drugs Mail-order – up to 90-day supply	\$30

Dental Benefits:

	PPO (In Network)	PPO (Out of Network)
Orthodontia Lifetime Max	\$1,500	\$1,500
Coinsurance:		
Preventative	100%	100%
Basic	80%	80%
Major	60%	60%
Orthodontia	70%	70%

Funding Policy

The funding policy is based upon the pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB statement 45. The ARC represents a 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 as of January 1, 2008. 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, 2008	December 31, 2009	December 31, 2010
Normal Cost at year end	\$334,294	\$334,294	\$334,294
Amortization of UAAL	\$440,255	\$440,255	\$440,255
Annual Required Contribution (ARC)	\$774,549	\$774,549	\$774,549
Determination of Net OPEB Obligation			
Annual Required Contribution	\$774,549	\$774,549	\$774,549
Interest on prior year Net OPEB Obligation	-	\$17,191	\$34,877
Adjustment to ARC	-	(\$12,665)	(\$26,550)
Annual OPEB Cost	\$774,549	\$779,075	\$782,876
Contributions made	\$430,739	\$425,347	\$415,061
Increase in Net OPEB Obligation	\$343,810	\$353,728	\$367,815
Net OPEB Obligation – beginning of year	-	\$343,810	\$697,538
Net OPEB Obligation – end of year	\$343,810	\$697,538	\$1,065,353

The District's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2008 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	\$774,549	55.61%	\$343,810
12/31/2009	\$779,075	54.60%	\$697,538
12/31/2010	\$782,876	53.02%	\$1,065,353

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was \$11.7 million, and the actuarial value of assets was \$0, resulting in a UAAL of \$11.7 million.

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

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, 2008 actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions used included a 5.00% 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, 2008 was 30 years.

NOTE 17- OTHER

Winter Storm Events

During late 2008 and early 2009, the District experience two severe weather events. The first involving record snow fall and an ice storm occurred between December 12 and January 5. The second involved a heavy rain storm and resulting flooding that took place between January 6 and 16. Both events resulted in Presidential Disaster Declarations and the District worked with personnel from both State and Federal Emergency Management agencies to obtain emergency financial assistance for these events. These events were both closed out in 2009.

In mid-November 2009, a rare west wind storm event hit Pacific County with winds in excess of 85mph reported coming out of the west-northwest, an unusual direction. Along with the wind, heavy rains drenched the area creating prime conditions for downed power lines due to fallen trees. As a result, this storm created wide spread outages, primarily in the southern part of the county. Ultimately, the District expended in excess of \$250,000 repairing facilities. This was not a declared FEMA event.

During the period of time between December 8th and 18th, 2010, a series of winter storms including snow, high winds and heavy rains caused flooding, landslides and power outages. In January 2011 the governor declared an emergency which may bring in federal relief funds however as of this writing the District has not received word from the State as to whether or not this will be a FEMA event.

BPA Residential Exchange Rebate

Based on a Ninth Circuit Court of Appeals ruling on BPA's treatment of public customer rates concerning the Residential Exchange Program, the BPA started a rate making process in January of 2008 to determine the rebate amount owed to public utilities, including the District. At its November 4, 2008 meeting the District's Board of Commissioners authorized, by motion, the General Manager to follow the directions of the Board concerning the results of the WP-07 Supplemental Rate Case for our Utility. This included a one-time customer refund totaling nearly \$1.4 million that was paid by Year End 2008, to each customer having paid for electricity in 2007 based on their percentage of the 2007 total.

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

Car – Pole Lawsuit

On October 3, 2008, the District was named as a co-defendant in a lawsuit filed in Grays Harbor Superior Court. The plaintiff in the lawsuit is seeking damages from the District for injuries suffered in a car accident. In March 2010 a mediation hearing was held on this matter. The parties were able to reach a settlement. The settlement did not have a material impact on the District's financial position.

Prior Period Adjustment

In December of 2010, the District entered a prior period adjustment to retained earnings in the amount of \$486,655. This entry was due to a change in accounting procedure for yearend 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 requires 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.

SUBSEQUENT EVENTS

Pole Attachment Lawsuit

On March 15, 2011 the Court ruled in favor of the District, awarding over \$600,000 in damages. Whether the decision will be appealed is not known at this time.

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.

2001 Bond Redemption

On April 7, 2011, the District filed a Notice of Redemption with the Bank of New York-Mellon. The redemption totals \$5,610,000, which represents the 2001 bonds outstanding as of May 9, 2011. The District anticipates issuing new bonds in 2011 and is currently evaluating its capital needs to determine the amount of the new issue.