

Washington State Auditor's Office
Financial Statements Audit Report

**Public Utility District No. 1 of Clallam
County**

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006254

Issue Date
September 6, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 6, 2011

Board of Commissioners
Public Utility District No. 1 of Clallam County
Port Angeles, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Clallam County's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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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. 1 of Clallam County
January 1, 2010 through December 31, 2010**

Board of Commissioners
Public Utility District No. 1 of Clallam County
Port Angeles, Washington

We have audited the basic financial statements of Public Utility District No. 1 of Clallam County, Washington, as of and for the year ended December 31, 2010 and 2009, and have issued our report thereon dated August 22, 2011. The prior year comparative information has been derived from the District's 2009 basic financial statements that we issued our report thereon dated August 25, 2010.

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

August 22, 2011

Independent Auditor's Report on Financial Statements

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

Board of Commissioners
Public Utility District No. 1 of Clallam County
Port Angeles, Washington

We have audited the accompanying basic financial statements of Public Utility District No. 1 of Clallam County, Washington, as of and for the year 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. The prior year summary information has been derived from the District's 2009 financial statements and, in our report dated August 25, 2010, we expressed an unqualified opinion on the basic financial statements.

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. 1 of Clallam County, as of December 31, 2010 and 2009, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 audit.

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" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 22, 2011

Financial Section

**Public Utility District No. 1 of Clallam County
January 1, 2010 through December 31, 2010**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2010 and 2009

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2010 and 2009

Statement of Revenues, Expenses and Changes in Net Assets – 2010 and 2009

Statement of Cash Flows – 2010 and 2009

Notes to Financial Statements – 2010 and 2009

PUBLIC UTILITY DISTRICT NO. 1 OF CLALLAM COUNTY, WASHINGTON

MANAGEMENT DISCUSSION & ANALYSIS

This discussion and analysis is designed to provide an overview of the Clallam County Public Utility District's (District) financial activities for the year ended December 31, 2010, and 2009. This section is intended to be read in conjunction with the basic financial statements and accompanying notes.

Overview of the Financial Statements

Clallam County P.U.D. is a municipal corporation with financial activities in the areas of electric, water, and sewer. The operations of the District include the electric system, nine water systems, and four sewer systems. In accordance with Generally Accepted Accounting Principles the District uses full accrual basis accounting where revenues are recognized when earned and expenses when incurred. 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 is essential to a full understanding of the basic financial statements.

Financial Highlights

The District has a contract with Bonneville Power Administration (BPA), a federal power-marketing agency, to purchase power through September 30, 2011. During 2008 the District signed a new 25-year power supply contract with BPA. During 2009 BPA notified the District of upcoming rate increases. The District's power costs increased by 6.95% on October 1, 2009, and increased again by 6.95% on October 1, 2010.

The District increased water rates by 6.5% on January 1, 2009 and 2010. In December 2007 the District approved a 6.5% increase in water rates effective each January 1 of 2008, 2009 and 2010 as part of a three-year rate plan.

The District increased waste water rates by 9.1% February 1, 2009, and 10% January 1, 2010.

In December 2010, the District issued \$6,150,000 Tax Exempt Bonds and \$11,230,000 Taxable Build America Bonds. The Tax Exempt Bonds had lives up to seven years and interest rates ranging from 2.0 to 4.0%. The Taxable Bonds have a 20-year life and an interest rate of 5.25%. The Taxable Bonds are Build America Bonds (BABs) which are issued at a higher interest rate and receive a reimbursement from the Federal government for 35% of the interest of the bonds. The Tax Exempt Bonds were used to refinance the District's 2001 Bonds. The Taxable Bonds will be used to fund capital projects including distribution, substations, SCADA and facility improvements.

The District has a contract with the City of Port Angeles to purchase water to serve the needs of 1,554 District water customers out of a total of 4,340 water customers. The District owns other water sources that serve the needs of the rest of the water customers. The City increased its wholesale water rate by 8.3% during 2010.

Financial Analysis

The District's overall financial position improved during 2010. The District's net assets increased by \$3,443,000 and \$7,662,000 during 2010 and 2009, respectively. The following information provides analysis of the 2010, 2009 and 2008 condensed financial information provided in the following table.

	Condensed Balance Sheet (000's)				
	2010	2009	Change	% Change	2008
Current Assets	\$ 33,326	\$ 41,409	(8,083)	(19.5)%	\$ 35,047
Utility Plant, Net	132,596	123,662	8,934	7.2%	119,535
Other Noncurrent Assets	11,632	2,469	9,163	371.1%	5,460
Total Assets	177,554	167,540	10,014	6.0%	160,042
Current Liabilities	10,067	13,246	(3,179)	(24.0)%	11,992
Noncurrent Liabilities	30,194	20,444	9,750	47.7%	21,862
Total Liabilities	40,261	33,690	6,571	19.5%	33,854
Invested in Capital Assets	112,502	102,740	9,762	(0.4)%	97,719
Restricted for:					
Capital Projects	--	--	--	0%	3,356
Debt Service	265	1,348	(1,083)	3.0%	1,339
Unrestricted	24,526	29,762	(5,236)	(17.6)%	23,774
Total Net Assets	137,293	133,850	3,443	2.6%	126,188
Total Liabilities and Net Assets	\$177,554	\$167,540	\$10,014	6.0%	\$160,042

Condensed Statement of Revenue, Expenses and Changes in Net Assets (000's)

	2010	2009	Change	% Change	2008
Operating Revenues	\$ 49,232	\$ 52,457	\$(3,225)	(6.1)%	\$ 52,404
NonOperating Revenues	419	348	71	20.4%	1,413
Total Revenues	49,651	52,805	(3,154)	(6.0)%	53,817
Operating Expenses	46,171	45,733	438	1.0%	43,929
NonOperating Expenses	865	863	2	0.2%	1,121
Total Expenses	47,036	46,596	440	0.9%	45,050
Contributions in Aid	828	1,453	(625)	(43.0)%	2,285
Change in Net Assets	3,443	7,662	(4,219)	(55.1)%	11,052
Net Assets – beginning of year	133,850	126,188	7,662	6.1%	113,128
Prior Period Adjustment	--	--	--	0.0%	2,008
Net Assets – end of year	\$137,293	\$133,850	\$3,443	2.6%	\$126,188

Assets

Total assets increased by \$10,014,000 and \$7,498,000 in 2010 and 2009, respectively. The Total Asset increase in 2010 was due to an increase in Capital Assets of \$8,934,000 and restricted assets of \$9,060,000 from the proceeds of a bond issue. The total asset increase in 2009 was due to a \$4,127,000 increase in Capital Assets and a \$6,362,000 increase in current assets. The increase in current assets was from an increase in cash. The increases in capital projects included distribution pole replacements, underground replacements, transmission rebuilds and construction of new substations. Water Net Plant Assets increased by \$844,080 and \$26,579 in 2010 and 2009 respectively. The increase in net assets for 2010 and 2009 included upgrades to water mains, services and hydrants throughout all water systems, and the design and initial construction to replace the Bluffs Well.

Liabilities

Total liabilities increased by \$6,571,000 in 2010 due to the increase in long-term debt from a new issue. While total liabilities decreased in 2009 by \$164,000. Current liability decreased by \$3,179,000 in 2010 due to timing differences between warrants issued and redeemed. Current liabilities increased by \$1,254,000 in 2009 for similar reasons. Noncurrent liabilities increased by \$9,750,000 in 2010 due to issuance of new bonds. Electric and water debt payments were \$1,156,426 for principal and \$795,055 for interest in 2010. Payment amounts were \$1,070,994 in principal and \$839,852 in interest in 2009.

Net Assets

The District's net assets increased by \$3,443,000 in 2010 due to the District's income of \$2,615,000 and capital contributions of \$828,000. The District's net assets increased by \$7,662,000 in 2009 due to income of \$6,209,000 and capital contributions of \$1,453,000.

Operating Revenues

Operating revenues decreased by \$3,225,000 in 2010. This was a result of the termination of the Port Townsend Paper Contract in 2009. Operating revenues in 2009 were similar to 2008. The District electric customers increased by 155 in 2010 and 203 in 2009. Water customers increased by 32 in 2009 and 6 in 2010. Increases in operating revenues were partially due to increases in electric and water rates during 2010.

Operating Expenses

During 2010, operating costs increased by \$438,000. The District's purchased power costs decreased due to the termination of the PTP contract. This resulted in lower operating revenue and taxes. However, increases in operating and maintenance costs resulted in an overall increase to operating costs. Operating costs increased by \$1,804,000 in 2009.

Capital Assets and Long Term Debt Activity

Electric Net Plant Assets increased by \$8,092,575 and \$3,874,635 in 2010 and in 2009, respectively. The main capital projects included distribution pole replacements, underground replacements, transmission rebuilds, continued construction of a new substation, completion of the remodel of the Central Warehouse Facility and the purchase of property adjacent to the Carlsborg Operation Center. Water Net Plant Assets increased by \$844,080 and \$26,579 in 2010 and in 2009. The increases in 2010 and 2009 Water Net Plant Assets included upgrades to water mains, services and hydrants throughout water systems, and the design and initial construction to replace the Bluffs Well.

During 2010, the District's Electric System issued \$6,150,000 of Tax Exempt Bonds to refund its 2001 Bonds. The District also issued \$11,230,000 of Build America Bonds to fund new capital for substations, SCADA and facilities. No debt was issued in 2009. Payments made to the Electric Revenue and Refunding bond of 2001 consisted of \$386,919 in interest and \$865,000 in principal in 2010 and \$427,056 in interest and \$825,000 in principal in 2009. The District also paid \$348,195 and \$348,195 in interest in 2010 and 2009, respectively, on the Electric Revenue Bond of 2008. The electric and water systems both met the required bond covenant minimum debt service coverage ratio of 1.25 in 2010 and 2009.

In 2009, the District paid \$33,757 in interest and \$64,562 in principal to the 2003 Water Revenue Loan and \$30,843 in interest and \$181,431 in principal to the State of Washington Drinking Water Revolving Loan Fund. The District paid \$30,912 interest and \$67,408 principal to the 2003 Water revenue loan and \$181,431 principal and \$29,029 interest to the State of Washington Drinking Water State Revolving Fund Loan in 2010. The electric and water systems both met the required bond covenant minimum debt service coverage ratio of 1.25 in 2010 and 2009. The District maintained compliance with its required bond covenants. For additional information on Capital Assets and Long-Term Liabilities, refer to Notes 3 and 6, respectively.

Public Utility District No. 1 of Clallam County, Washington
Balance Sheet
December 31, 2010 and 2009

Assets	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	\$ 23,140,284	\$ 32,128,754
Accts. Receivable, Net of Provision for Uncollectible Accounts of \$71,953 and \$50,830	3,731,570	2,692,334
Accounts Receivable - Other	723,575	769,400
Materials & Supplies, at Aver. Cost	4,303,320	4,258,992
Prepayments	1,422,082	1,532,801
Accrued Interest Receivable	5,603	27,002
TOTAL CURRENT ASSETS	33,326,434	41,409,283
NONCURRENT ASSETS		
RESTRICTED ASSETS		
Bond Funds Cash & Invest.	91,078	104,860
Funds Held by Fiscal Agent	174,098	1,242,829
Debt Service Reserve Fund	1,123,000	-
Construction Fund 2010	9,060,000	-
TOTAL RESTRICTED ASSETS	10,448,176	1,347,689
UTILITY PLANT, at Cost		
Plant in Service	196,377,105	182,537,726
Construction Work in Progress	11,295,111	10,054,379
TOTAL UTILITY PLANT	207,672,216	192,592,105
Less: Accumulated Depreciation	(75,076,553)	(68,930,529)
NET UTILITY PLANT	132,595,663	123,661,576
Assessments Receivable	-	1,389
Net OPEB Asset	-	117,851
Unamortized Debt Expense	328,222	277,563
Deferred Charges	855,342	724,375
TOTAL NONCURRENT ASSETS	144,227,403	126,130,443
TOTAL ASSETS	\$ 177,553,837	\$ 167,539,726

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

Public Utility District No. 1 of Clallam County, Washington

Balance Sheet

December 31, 2010 and 2009

Liabilities and Net Assets	2010	2009
CURRENT LIABILITIES		
Accounts Payable	\$ 5,538,470	\$ 7,984,133
Customer Deposits	935,143	1,200,857
Accrued Taxes Payable	1,322,983	1,326,137
Current Portion of Capital Leases	46,841	42,587
Other Payables	1,278,136	1,185,152
Payables from Restricted Assets		
Accrued Interest Payable	218,208	393,006
Current Portion on Long-Term Debt	726,923	1,113,947
TOTAL CURRENT LIABILITIES	10,066,704	13,245,819
NONCURRENT LIABILITIES		
Revenue Bonds Payable	28,602,662	19,274,477
Unamortized Premium on Bonds	526,645	321,547
Capital Leases Payable	122,019	168,860
Customer Advances for Construction	639,012	453,265
Net OPEB Obligation	77,142	-
Miscellaneous Deferred Credits	227,148	225,495
TOTAL NONCURRENT LIABILITIES	30,194,628	20,443,644
TOTAL LIABILITIES	40,261,332	33,689,463
NET ASSETS		
Invested in Capital Assets, Net of Related Debt Restricted For	112,501,650	102,740,158
Capital Projects	-	-
Debt Service	265,176	1,347,689
Unrestricted	24,525,679	29,762,416
TOTAL NET ASSETS	137,292,505	133,850,263
TOTAL LIABILITIES & NET ASSETS	\$ 177,553,837	\$ 167,539,726

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

Public Utility District No. 1 of Clallam County, Washington
Statement of Revenues, Expenses and Changes in Net Assets
For the years ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUES	\$ 49,232,229	\$ 52,456,825
OPERATING EXPENSES		
Operations		
Purchased Power	19,779,957	21,426,494
Purchased Water	265,095	266,148
Other Expenses	13,848,925	11,747,559
Maintenance	3,560,096	3,228,835
General Taxes	2,521,221	2,904,827
Depreciation and Amortization	6,196,235	6,158,582
TOTAL OPERATING EXPENSES	46,171,529	45,732,445
NET OPERATING INCOME	3,060,700	6,724,380
NONOPERATING REVENUES AND EXPENSES		
NONOPERATING REVENUES		
Interest Income	94,841	197,068
Miscellaneous Nonoperating Income	323,723	150,906
TOTAL NONOPERATING REVENUES	418,564	347,974
NONOPERATING EXPENSES		
Interest Expense	822,107	772,375
Misc Nonoperating Expenses	42,954	90,380
TOTAL NONOPERATING EXPENSES	865,061	862,755
NET NONOPERATING INCOME	(446,497)	(514,781)
CONTRIBUTIONS IN AID OF CONSTRUCTION	828,039	1,452,583
CHANGE IN NET ASSETS	3,442,242	7,662,182
Net Assets, January 1	133,850,263	126,188,081
NET ASSETS, December 31	\$ 137,292,505	\$ 133,850,263

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

Public Utility District No. 1 of Clallam County, Washington

Statement of Cash Flows

For the years ended December 31, 2010 and 2009

	2010	2009
CASH FLOW FROM OPER. ACTIVITIES		
Cash Received from Customers and Others	\$ 47,795,701	\$ 52,809,737
Other Cash Receipts	372,216	93,080
Cash Paid to Suppliers	(29,779,686)	(27,288,275)
Cash Paid to Employees	(9,609,691)	(8,954,134)
Taxes Paid	(2,528,808)	(2,874,418)
Other Cash Payments	(325,479)	(134,822)
Net Cash Provided From Operating Activities	5,924,253	13,651,168
CASH FLOW FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(15,140,271)	(9,820,848)
Capital Contributions	1,144,348	982,389
LUD Assessment Payments	1,389	1,557
Proceeds from Revenue Bond	17,544,388	-
Principal paid on Capital Debt & Leases	(8,481,426)	(1,101,462)
Interest Paid on Capital Debt & Leases	(996,904)	(793,126)
Net Cash Used by Capital & Related Financing Activities	(5,928,476)	(10,731,490)
CASH FLOW FROM INVESTING ACTIVITIES		
Interest Income	116,240	247,795
Net Cash Provided by Investing Activities	116,240	247,795
NET INCREASE (DECREASE) IN CASH	112,017	3,167,473
Cash and cash equivalents, incl restricted cash - Beginning of the Year	33,476,443	30,308,970
Less Restricted Cash	(10,448,176)	(1,347,689)
Cash and cash equivalents - End of the Year	\$ 23,140,284	\$ 32,128,754
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	3,060,700	6,724,380
Adjustments to reconcile Operating Income To Net Cash Provided by Operating Activities		
Add:		
Depreciation & Amortization	6,196,235	6,158,582
Other Non-Operating (Receipts) Payments	280,769	60,525
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	(1,039,236)	245,015
(Increase) Decrease in Other Receivables	(84,737)	388,597
(Increase) Decrease in Materials	(44,328)	113,497
(Increase) Decrease in Prepayments	110,719	(460,944)
(Increase) Decrease in Deferred Charges	(130,967)	(412,852)
Increase (Decrease) in Accounts Payable	(2,445,664)	1,111,453
Increase (Decrease) in Customer Deposits	(265,714)	48,110
Increase (Decrease) in Accrued Taxes	(3,154)	29,700
Increase (Decrease) in Other Payables	92,984	615
Increase (Decrease) in Net OPEB Asset	194,993	31,124
Increase (Decrease) in Deferred Credits	1,653	(386,634)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,924,253	13,651,168

SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Assets acquired by capital lease	241,915
Assets acquired by donated contribution	232,713

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

PUBLIC UTILITY DISTRICT NO. 1 OF CLALLAM COUNTY, WASHINGTON

NOTES TO THE FINANCIAL STATEMENTS

2010 and 2009

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Public Utility District No. 1 of Clallam County, Washington ("District") is a municipal corporation with financial activities in the areas of electric, water, and sewer. The District was voted into existence on November 5, 1940, and became live at 11:00 am on July 15, 1944. In 1945, the District began providing water to the Gales Addition area. On November 5, 1990, the voters authorized the District to provide sewer services.

The District is comprised of an electric system, nine (9) water systems, and four (4) sewer systems. The accompanying financial statements for 2010 and 2009 include the financial position of the Electric System, the Water Systems, and the Sewer Systems and the results of their operations. These statements include all inter-department transactions and report the obligations owing at December 31, 2010, and 2009.

The Electric System provides certain services to the Water and Sewer Systems, which are recorded as inter-department charges. The financing arrangements provide for the maintenance of specific funds and the District is required to follow accounting procedures prescribed by the State of Washington, under the authority of Chapter 43.09 RCW.

Basis of Accounting Procedures

The accounting policies of the District conform to generally accepted accounting principles as applicable to proprietary funds of governments. The District adheres to the accounting standards and pronouncements of the Governmental Accounting Standards Board (GASB) which is the accepted standard-setting body for governmental entities and has not adopted Financial Accounting Standard Board (FASB) statements issued after November 30, 1989. Accounts are maintained in accordance with the Uniform System of Accounts for Public Utilities and Licenses as published 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. Capital assets are capitalized and long-term liabilities are accounted for in the appropriate funds. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

The District considers cash equivalents as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. See Note 2 for more information on investments.

Utility Plant

For information see Note 3.

Accounts Receivable

Management reviews accounts receivable and provides for estimated uncollectible accounts. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis. Customer accounts receivable is presented in the Balance Sheet assets net of uncollectible balance.

The customers accounts receivable contain credit balances as a result of advance payments from the Average Payment Plan residential customers. The total dollar amount of the credit balances were approximately \$323,127 and \$386,086 at December 31, 2010, and 2009, respectively. All customer meters are read and billed monthly.

Inventories

Materials and supplies inventories are valued at average cost.

Compensated Absences

Employees earn personal leave in accordance with length of service. The District accrues the cost of personal leave in the year earned. Personal leave may accumulate to a maximum of 1,000 hours and is payable upon separation of service, retirement, or death. The liability for unpaid leave was \$1,048,227 and \$941,099 at December 31, 2010, and 2009, respectively.

Unamortized Debt Expense

Costs relating to the sale of bonds and bond discounts are amortized over the lives of the various bond issues by the straight-line method.

Allowance for Funds Used During Construction

An allowance for funds used during construction is capitalized as a component of cost of construction projects and is credited to interest charges. This allowance represents the cost to finance construction. The allowance totaled \$1,893 and \$63,855 for 2010 and 2009, respectively.

Revenue Recognition

Revenues are based only on monthly cyclical billings to customers. This system of billing results in earned but unbilled revenues at year-end which are not included in the financial statements. Estimated earned but unbilled revenues at December 31, 2010, 2009, and 2008 were \$2,115,219, \$2,164,092, and \$2,226,263, respectively. The net cumulative effect on revenues at December 31, 2010 and 2009 was \$48,873 and \$62,171, respectively.

Preliminary Survey Charges

Preliminary survey charges incurred for proposed projects are recorded as deferred charges pending construction of the facility. Charges relating to projects ultimately constructed are transferred to utility plant; charges relating to projects abandoned are charged to expense. The deferred charges are presented in noncurrent assets in the balance sheet.

Contribution in Aid of Construction

According to Governmental Accounting Standards Board (GASB) Statement No. 33 accounting for non-exchange transactions should be recorded as revenue. For the year ended December 31, 2010 and 2009, the District reported Contributions in Aid of Construction of \$828,039 and \$1,452,583, respectively. For 2010 contributions reported in the Electric System were \$534,050, Water Systems were \$281,998, and Sewer Systems were \$11,991. For 2009 contributions reported to the Electric System were \$978,716 Water Systems were \$231,670 and Sewer Systems were \$242,197.

Reclassifications

Certain financial statement amounts have been reclassified from the previous year with no effect on the change in net assets.

NOTE 2 - DEPOSITS AND INVESTMENTS

As required by state law, all monies of the District are invested in obligations of the U. S. Government or government agencies, deposits with Washington state banks and savings and loan institutions, the Washington State Local Government Investment Pool (LGIP), or other investments allowed by RCW 39.59. However, the District’s Investment Policy prohibits investments in banker’s acceptances and repurchase agreements.

The deposits and certificates of deposit are entirely covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The District records all investments at book value which approximates fair value. As of December 31, the District had the following investments.

<u>Investment</u>	<u>2010</u>	<u>2009</u>
Certificates of Deposit	\$4,012,520	\$13,389,098
Washington State LGIP	<u>3,035,232</u>	<u>3,026,361</u>
Total	\$7,047,752	\$16,415,459

For balance sheet purposes, the LGIP and certificates of deposit were considered a cash equivalent as are investments that are both readily convertible to known amounts of cash and so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates.

NOTE 3 - UTILITY PLANT

Utility Plant Assets are stated at cost. The provision for depreciation is determined by the straight-line method over the estimated useful life. Composite rates are used for groups of assets and, accordingly, no gain or loss is recorded on the retirement of an asset unless it represents a major retirement. The cost of maintenance and repairs is expensed as incurred; renewals, replacements and betterments are capitalized.

The District has a capitalization policy for purchases over \$1,000 with a useful life of greater than one year. Property, plant and equipment are depreciated using the straight-line method over estimated useful lives ranging from 5 to 50 years. Disposal recordings are booked to accumulated depreciation. A gain or loss is recorded for any significant disposals. There were no significant disposals in 2010 or 2009.

Utility plant activity for the year ended December 31, 2010, was as follows:

<u>Electric Plant Assets</u>	<u>2009 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2010 Balance</u>
Utility Plant-Non Depreciable				
Land & Land Rights	\$ 2,671,637	\$ 195,239	\$ --	\$ 2,866,876
Construction Work In Progress	<u>9,612,328</u>	<u>11,415,111</u>	<u>10,889,199</u>	<u>10,138,240</u>
Total Non-Depreciable	<u>\$ 12,283,965</u>	<u>\$11,610,350</u>	<u>\$10,889,199</u>	<u>\$13,005,116</u>
Utility Plant-Depreciable				
Transmission	\$ 16,467,225	\$ 117,291	\$ 19,581	\$ 16,564,935
Distribution	114,327,693	8,374,911	362,203	122,340,401
General Plant	26,485,707	4,848,810	172	31,334,345
Other	19,794	--	--	19,794
Total Depreciable	<u>\$157,300,419</u>	<u>\$13,341,012</u>	<u>\$ 381,956</u>	<u>\$170,259,475</u>
Less Accumulated Depreciation	<u>62,987,935</u>	<u>5,587,632</u>	<u>--</u>	<u>68,575,567</u>
Net Electric Plant	<u>\$106,596,449</u>	<u>\$19,363,730</u>	<u>\$11,271,155</u>	<u>\$114,689,024</u>
<u>Water Plant Assets</u>	<u>2009 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2010 Balance</u>
Utility Plant-Non Depreciable				
Land & Land Rights	\$247,965	\$ 10,000	\$ --	\$ 257,965
Construction Work in Progress	<u>439,819</u>	<u>1,189,918</u>	<u>476,998</u>	<u>1,152,739</u>
Total Non-Depreciable	<u>\$ 687,784</u>	<u>\$1,199,918</u>	<u>\$476,998</u>	<u>\$ 1,410,704</u>
Utility Plant-Depreciable				
Transmission & Distribution	\$20,796,256	\$ 682,157	\$ 34,892	\$21,443,521
General	<u>694,519</u>	<u>7,478</u>	<u>--</u>	<u>701,997</u>
Total Depreciable	<u>\$21,490,775</u>	<u>\$ 689,635</u>	<u>\$ 34,892</u>	<u>\$22,145,518</u>
Less Accumulated Depreciation	<u>5,720,918</u>	<u>822,912</u>	<u>289,329</u>	<u>6,254,501</u>
Net Water Plant	<u>\$16,457,641</u>	<u>\$1,066,641</u>	<u>\$222,561</u>	<u>\$17,301,721</u>

Sewer Plant Assets

Utility Plant-Non Depreciable				
Construction Work in Progress	\$ 2,232	\$17,019	\$15,119	\$ 4,132
Land & Land Rights	<u>31,105</u>	<u>--</u>	<u>--</u>	<u>31,105</u>
Total Non-Depreciable	<u>\$ 33,337</u>	<u>\$17,019</u>	<u>\$15,119</u>	<u>\$ 35,237</u>
Utility Plant-Depreciable				
General	<u>\$795,825</u>	<u>\$20,341</u>	<u>\$ --</u>	<u>\$816,166</u>
Less Accumulated Depreciation	<u>221,676</u>	<u>24,809</u>	<u>--</u>	<u>246,485</u>
Net Sewer Plant	<u>\$607,486</u>	<u>\$12,551</u>	<u>\$15,119</u>	<u>\$604,918</u>

Combined Plant Assets

Utility Plant-Non Depreciable				
Land & Land Rights	\$ 2,950,707	\$ 205,239	\$ --	\$ 3,155,946
Construction Work In Progress	<u>10,054,379</u>	<u>12,622,048</u>	<u>11,381,316</u>	<u>11,295,111</u>
Total Non-Depreciable	<u>\$ 13,005,086</u>	<u>\$12,827,287</u>	<u>\$11,381,316</u>	<u>\$14,451,057</u>
Utility Plant-Depreciable				
Transmission	16,467,225	\$ 117,291	\$ 19,581	16,564,935
Distribution	135,123,949	9,057,068	397,095	143,783,922
General Plant	27,976,051	4,876,629	172	32,852,508
Other	<u>19,794</u>	<u>--</u>	<u>--</u>	<u>19,794</u>
Total Depreciable	<u>\$179,587,019</u>	<u>14,050,988</u>	<u>\$ 416,848</u>	<u>\$193,221,159</u>
Less Accumulated Depreciation	<u>68,930,529</u>	<u>6,435,353</u>	<u>289,329</u>	<u>75,076,553</u>
Net Combined Plant	<u>\$123,661,576</u>	<u>\$20,442,922</u>	<u>\$11,508,835</u>	<u>\$132,595,663</u>

Utility plant activity for the year ended December 31, 2009, was as follows:

<u>Electric Plant Assets</u>	<u>2008 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2009 Balance</u>
Utility Plant-Non Depreciable				
Land & Land Rights	\$ 2,671,382	\$ 255	\$ --	\$ 2,671,637
Construction Work In Progress	<u>7,224,489</u>	<u>8,328,014</u>	<u>5,940,175</u>	<u>9,612,328</u>
Total Non-Depreciable	<u>\$ 9,895,871</u>	<u>\$ 8,328,269</u>	<u>\$5,940,175</u>	<u>\$12,283,965</u>
Utility Plant-Depreciable				
Transmission	\$ 15,780,234	\$ 707,690	\$ 20,699	\$ 16,467,225
Distribution	110,208,777	4,409,106	290,190	114,327,693
General Plant	24,434,597	2,249,952	198,842	26,485,707
Other	<u>19,794</u>	<u>--</u>	<u>--</u>	<u>19,794</u>
Total Depreciable	<u>\$150,443,402</u>	<u>\$ 7,366,748</u>	<u>\$ 509,731</u>	<u>\$157,300,419</u>
Less Accumulated Depreciation	<u>57,617,459</u>	<u>5,370,476</u>	<u>--</u>	<u>62,987,935</u>
Net Electric Plant	<u>\$102,721,814</u>	<u>\$10,324,541</u>	<u>\$6,449,906</u>	<u>\$106,596,449</u>

Water Plant Assets

Utility Plant-Non Depreciable				
Land & Land Rights	\$ 247,964	\$ --	\$ --	\$ 247,965
Construction Work in Progress	<u>460,516</u>	<u>547,793</u>	<u>568,490</u>	<u>439,819</u>
Total Non-Depreciable	<u>\$ 708,481</u>	<u>\$547,793</u>	<u>\$568,490</u>	<u>\$ 687,784</u>
Utility Plant-Depreciable				
Transmission & Distribution	\$20,281,315	\$553,432	\$ 38,491	\$20,796,256
General	<u>640,891</u>	<u>53,628</u>	<u>--</u>	<u>694,519</u>
Total Depreciable	<u>\$20,922,206</u>	<u>\$607,060</u>	<u>\$ 38,491</u>	<u>\$21,490,775</u>
Less Accumulated Depreciation	<u>5,199,625</u>	<u>599,005</u>	<u>77,712</u>	<u>5,720,918</u>
Net Water Plant	<u>\$16,431,062</u>	<u>\$555,848</u>	<u>\$529,269</u>	<u>\$16,457,641</u>

Sewer Plant Assets

Utility Plant-Non Depreciable				
Land & Land Rights	\$ 31,105	\$ --	\$ --	\$ 31,105
Construction Work in Progress	<u>1,518</u>	<u>2,582</u>	<u>1,868</u>	<u>2,232</u>
Total Non-Depreciable	<u>\$ 32,623</u>	<u>\$ 2,582</u>	<u>\$1,868</u>	<u>\$ 33,337</u>
Utility Plant-Depreciable				
General	<u>\$553,634</u>	<u>\$242,191</u>	<u>\$ --</u>	<u>\$795,825</u>
Less Accumulated Depreciation	<u>204,502</u>	<u>17,174</u>	<u>--</u>	<u>221,676</u>
Net Sewer Plant	<u>\$381,755</u>	<u>\$227,599</u>	<u>\$1,868</u>	<u>\$607,486</u>

Combined Plant Assets

	<u>2008 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2009 Balance</u>
Utility Plant-Non Depreciable				
Land & Land Rights	\$ 2,950,452	\$ 255	\$ --	\$ 2,950,707
Construction Work In Progress	<u>7,686,523</u>	<u>8,878,389</u>	<u>6,510,533</u>	<u>10,054,379</u>
Total Non-Depreciable	<u>\$10,636,975</u>	<u>\$8,878,644</u>	<u>\$6,510,533</u>	<u>\$13,005,086</u>
Utility Plant-Depreciable				
Organization	\$ 14,502	\$ --	\$ --	\$ 14,502
Generators	5,292	--	--	5,292
Transmission	15,780,234	707,690	20,699	16,467,225
Distribution	130,490,092	4,962,538	328,681	135,123,949
General Plant	<u>25,629,122</u>	<u>2,545,771</u>	<u>198,842</u>	<u>27,976,051</u>
Total Depreciable	<u>\$171,919,242</u>	<u>\$8,215,999</u>	<u>\$ 548,222</u>	<u>\$179,587,019</u>
Less Accumulated Depreciation	<u>63,021,586</u>	<u>5,986,655</u>	<u>77,712</u>	<u>68,930,529</u>
Net Combined Plant	<u>\$119,534,631</u>	<u>\$11,107,988</u>	<u>\$6,981,043</u>	<u>\$123,661,576</u>

NOTE 4 – CONSTRUCTION IN PROGRESS

The District had active construction projects as of December 31, 2010 and 2009. The projects include new substations and upgrading existing facilities. At year-end the District’s construction in progress is as follows:

<u>Description</u>	<u>Expended 12/31/10</u>	<u>Expended 12/31/09</u>
Johnson Creek Substation	\$2,399,122	\$2,272,443
Silverado Substation	2,314,117	136,099
Replace Reservoir at Gales Addition	252,105	112,898
Blyn Substation SCADA Phase 2	158,555	--
Sunland Substation SCADA Upgrade	231,445	--
Prairie Substation SCADA Upgrade	427,881	--
Johnson Creek Substation SCADA	150,352	--
Transmission/Distribution rebuild Johnson Creek to Louella Rd	817,775	--
Digital Imagery Storage & Storage System Integration	254,925	--
Replace Mains at 4 Seasons Ranch	273,353	--
Replace Bluffs Well-Design & Construction	434,890	--
Central Warehouse Facility remodel	--	2,144,078
Mobile Substation	--	1,691,564
Convert OH to UG Township Line Rd	--	469,665
Replace OH Feed to UG at Dungeness Meadows	--	170,827
Replace 12/16/20 MVA Transformer @ Prairie Sub	--	158,380
Various Electric Capital Work Order	3,384,068	2,569,272
Various Water Capital Work Orders	192,391	326,921
Various Sewer Capital Work Orders	4,132	2,232
Total Construction Work in Progress Balance	<u>\$11,295,111</u>	<u>\$10,054,379</u>

NOTE 5 – LEASE COMMITMENTS

Operating Leases

The District is committed under various leases for rent. These leases are considered operating leases for accounting purposes. Lease expenses for the years ended December 31, 2010, and December 31, 2009, amounted to \$38,379 and \$35,574, respectively. Future minimum rental commitments for leases are as follows:

Fiscal Year Ending December 31:

2011	\$36,629
2012	\$16,130

Capital Leases

The District has entered into lease agreements for financing the acquisition of office equipment. These lease agreements qualify as capital leases for accounting purposes and are recorded as assets and as long-term liabilities at the present value of the future minimum lease payments as of the date of their inception. The District records lease payments as reductions of the long-term liability and as interest expense over the life of the lease. The future minimum lease payments under these lease agreements are as follows:

Fiscal Year Ending December 31:

2011	\$ 61,068
2012	61,068
2013	61,068
2014	<u>14,209</u>
Total minimum lease payments	\$197,413
Less amount representing interest	<u>\$ 28,553</u>
Present Value of Future Minimum Lease Payments	<u>\$168,860</u>

Depreciation policy for capitalized assets is described in (Capital Assets Note No. 3).

NOTE 6 - LONG-TERM DEBT

The following changes occurred in the District are long-term debt:

	Beginning Balance <u>1/1/10</u>	<u>New Issues</u>	Principal Payments/ Refundings	Ending Balance <u>12/31/10</u>	<u>Due Within One Year</u>
<u>Electric System</u>					
2001 Electric Revenue and Refunding Bonds					
4.5% - 5.5% due 2003-2017	\$ 8,190,000	\$ --	\$8,190,000	\$ --	\$ --
2008 Electric Revenue Bonds					
3.9% - 5.0% due 2018-2028	8,570,000	--	--	8,570,000	--
2010 Electric Revenue Bonds					
5.25% due 2011-2030	--	11,230,000	--	11,230,000	475,000
2010 Electric Refunding Bonds					
2.0%-4.0% due 2012-2017	--	6,150,000	--	6,150,000	--
<u>Water System</u>					
2003 Water Revenue Bond					
4.36% due 2018	725,521	--	67,408	658,113	70,492
2005 Drinking Water Loan					
1% due 2025	<u>2,902,903</u>	<u>--</u>	<u>181,431</u>	<u>2,721,472</u>	<u>181,431</u>
Total	<u>\$20,388,424</u>	<u>\$17,380,000</u>	<u>\$8,438,839</u>	<u>\$29,329,585</u>	<u>\$726,923</u>

	Beginning Balance <u>1/1/09</u>	<u>New Issues</u>	Principal Payments/ <u>Refundings</u>	Ending Balance <u>12/31/09</u>	<u>Due Within One Year</u>
<u>Electric System</u>					
2001 Electric Revenue and Refunding Bonds 4.5% - 5.5% due 2003-2017	\$ 9,015,000	--	\$ 825,000	\$ 8,190,000	\$ 865,000
2008 Electric Revenue Bonds 3.9% - 5.0% due 2018-2028	8,570,000	--	--	8,570,000	--
<u>Water System</u>					
2003 Water Revenue Bond 4.36% due 2018	790,083	--	64,562	725,521	67,408
2005 Drinking Water Loan 1% due 2025	<u>3,084,335</u>	--	<u>181,432</u>	<u>2,902,903</u>	<u>181,431</u>
Total	<u>\$21,459,418</u>	--	<u>\$1,070,994</u>	<u>\$20,388,424</u>	<u>\$1,113,839</u>

The annual requirement to amortize all debts outstanding as of December 31, 2010, including interest, are as follows:

<u>Years Ending December 31</u>	<u>Electric System</u>		<u>Water System</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2011	\$ 475,000	\$ 947,805	\$ 251,923	\$ 59,727	\$ 1,734,455
2012	1,370,000	1,078,770	254,901	54,918	2,758,589
2013	1,405,000	1,037,452	258,145	49,859	2,750,456
2014	1,445,000	990,120	261,532	44,657	2,741,309
2015	1,490,000	936,276	265,069	39,306	2,730,651
2016-2020	6,660,000	4,044,681	1,180,858	117,124	12,002,663
2021-2025	6,855,000	2,267,750	907,157	50,508	10,080,415
2026-2029	5,495,000	620,936	-	-	6,115,936
2030 and beyond	<u>755,000</u>	<u>19,819</u>	<u>-</u>	<u>-</u>	<u>774,819</u>
TOTALS	<u>\$25,950,000</u>	<u>\$11,943,609</u>	<u>\$3,379,585</u>	<u>\$416,099</u>	<u>\$41,689,293</u>

The District has \$1,388,176 in restricted assets held in reserve for payment of the District's long-term obligations as required by the Bond Resolution. One requirement of the Bond Resolution is for the District to maintain a minimum of 1.25 ratio of operating revenues to debt service. As of year-end, the District was in compliance with all requirements of the bond covenants.

Electric Debt

On December 17, 2010, the District issued \$6,150,000 of Electric Refunding bonds with interest rates ranging from 2% to 4% and maturing over the next six years. These bonds were used to refund the outstanding 2001 bonds. Also on December 17, 2010, the District issued \$11,230,000 of Electric Taxable Build America Bonds with an interest rate of 5.25% maturing over the next 20 years. This money was borrowed to finance capital additions.

Debt Service on the refunded bonds is met by cash and investments held by the refunding trustee. As of December 31, 2010, the balance held by the trustee was expected to fully fund debt service.

At December 31, 2010, there were \$1,123,000 in restricted assets related to the debt of the District. This represents the reserve fund required by the bond resolutions.

On April 24, 2008, the District issued \$8,570,000 of Electric System Revenues Bonds with interest rates ranging from 3.9% to 5% over 20 years. The money was borrowed to fund capital expenditures. In lieu of maintaining a Bond Reserve Fund, the District purchased a Surety Bond Insurance Policy through Assured Guaranty. The Surety Policy guarantees the scheduled payment of principal and interest on the bonds

Water Debt

The District issued \$1,079,000 in Water System Revenue and Refunding Bonds dated October 6, 2003, with an interest rate of 4.36% over 15 years. The money was borrowed to refund \$195,239 borrowed from a line of credit with Bank of America and to refund the outstanding \$440,000 principal amount of the Water Revenue and Refunding Bonds, 1993.

In addition, the proceeds of the Water System Revenue and Refunding Bond, 2003, reimbursed the Water Operating Fund for previously constructed capital projects and provided funds for future capital improvement of the Water System.

The District entered into a loan agreement in 2003 for a State of Washington Drinking Water State Revolving Fund Loan in the amount of \$1,825,290 at 1.5% interest. This agreement was renegotiated in 2005 in the amount of \$3,535,000 at 1% interest. The term of the loan would not exceed 20 years with the final payment due on October 1, 2025. The District closed out the loan in 2007 and only borrowed \$3,394,930 of the available \$3,535,000. The money was borrowed to replace an existing Water Treatment Plant.

NOTE 7 - PENSION PLANS

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of 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 participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the 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 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.

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	\$ 74,857
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Non-vested	53,896
Total	\$262,166

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 percent for state agencies and local government unit employees, and at 7.5 percent 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 percent; 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, 2009, are as follows:

Members Not Participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	5.31%	5.31%	5.31%**
Employee	6.00%	3.90%	***

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** Plan 3 defined benefit portion only.

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	\$31,076	\$410,449	\$80,335
2009	\$43,967	\$480,567	\$86,470

The District maintains a 457 deferred compensation plan for its employees. Contributions to the plan are fully funded by District employees.

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

Eligibility

PUD 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 members who die are not eligible for medical benefits.

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):

<u>Coverage</u>	<u>2010 Monthly Medical & Dental Coverage Rate</u>	<u>2009 Monthly Medical & Dental Coverage Rate</u>
Retiree < 65 Only	\$ 542.72	\$ 542.72
Retiree & Spouse <65	1,098.74	1,098.74
Medicare Eligible Individual	424.45	424.45

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The PUD'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 of the PUD's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the PUD's net OPEB.

Determination of Annual Required Contribution	<u>2010</u>	<u>2009</u>
Normal Cost at year end	\$ 104,387	\$ 104,387
Amortization of UAAL	<u>85,341</u>	<u>85,341</u>
Annual Required Contribution (ARC)	189,728	189,728
Determination of Net OPEB Obligation		
Annual Required Contribution	189,728	189,728
Interest on prior year Net OPEB Obligation	(5,892)	(7,449)
Adjustment to ARC	<u>(4,206)</u>	<u>(5,317)</u>
Annual OPEB Cost	179,629	176,962
Contribution made	<u>(15,363)</u>	<u>(145,838)</u>
Increase in Net OPEB Obligation	194,992	31,124
Net OPEB Obligation – beginning of year	(117,851)	(148,975)
Net OPEB Obligation – end of year	\$ 77,142	\$(117,851)

The PUD's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2009 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2010	\$179,629	0%	\$77,142

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 \$2.0 million, and the actuarial value of assets was \$0, resulting in a UAAL of \$2.0 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 9 - SELF INSURANCE

The District is a member of the Public Utility Risk Management Services (PURMS) Self-Insurance fund. PURMS is a public entity risk pool organized December 30, 1976, pursuant to the provisions of the Revised Code of Washington, Chapter 54.16.200, and interlocal government agreements. The program's general objectives are to formulate, develop, and administer, on behalf of the member public utilities, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

PURMS consists of 19 members. The risks shared by the members are defined in the Self Insurance Agreement. PURMS consists of three pools for liability, property and health and welfare coverage. The pools operate independently of one another and all members do not participate in all pools. The District does participate in all three pools.

The pools are governed by a Board of Directors comprised of one designated representative from each participating member. The administrator and elected Administrative Committee conduct the business of the pools.

The pools are fully funded by its current and former members. Members that withdraw from the fund are still responsible for their share of the assessments for occurrences while they were members. Likewise terminated members continue to receive coverage for the time they were members.

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.

Liability Risk Pool

The liability risk pool has a \$1 million liability coverage limit per occurrence. In addition, the fund maintains \$35 million of excess general liability insurance and \$10 million of professional liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$25 million is also maintained over the first layer of \$35 million. The fund maintains \$35 million in directors and officers liability coverage with a retention of \$500,000. The deductible is \$250.

Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop to \$500,000 less than the designated level. The Board approved increasing the liability pool

reserve balance from \$2 million to \$3 million effective January 1, 2009. This increase is being funded over three years by two additional assessments per year in the years of 2009 through 2011.

Property Risk Pool

The majority of the property in the property pool has a self-insured retention of \$250,000 per property loss. Certain classes of property have higher retention requirements up to \$750,000. In addition, the fund purchases \$150 million of excess insurance over the \$250,000 (or higher) retention level. The deductible varies but for most classes of property it is \$250.

The designated property pool reserve balance is \$750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below \$500,000.

Health & Welfare Risk Pool

The District participates in the PURMS Health and Welfare Risk Pool. PURMS provides health and welfare insurance coverage for the Employees of each of its Members participating in the Health & Welfare Risk Pool (“H&W Pool”) in accordance with the terms of the Health & Welfare Coverage of the SIA (“H&W Coverage”) and the terms of each Member’s respective Coverage Booklet provided to its Employees.

The H&W Pool’s operations are financed by assessments of its participants. Each month, each Participants of the H&W Pool is assessed for: (a) the cost the H&W Pool incurred during the preceding month for the H&W Claims for such Member’s Employees (“H&W Claims Costs”); and (b) for such Member’s share of Shared H&W Costs. “Shared H&W Costs” consist of administrative expenses incurred by the H&W Pool, premiums for Stop-Loss Insurance, PPO Charges and Shared H&W Claims.

The exposure of each Participant is limited by two different pairs of stop-loss points. For 2010, the Individual Stop Loss Point was \$200,000 per Employee and the Aggregate Stop Loss Point was \$12,032,316 for the combined Claims Costs of the Employees of all Participants of the H&W Pool.

Unemployment

The District is self insured for unemployment insurance and reimburses the State of Washington for any claims paid. There were \$4,852 and \$26,449 in unemployment claims paid in 2010 and 2009, respectively.

NOTE 10 - CONSERVATION PROGRAMS

The Conservation and Renewables Discount (C&RD) is a credit that was available to Bonneville Power Administration’s (BPA) regional wholesale power customers that take action to further conservation and renewable resource development. The C&RD credit is a \$0.005 per kWh discount to the BPA Firm Power rate and amounted to \$307,140 annually for the 2007 through 2009 rate period and the Rate Credit is reduced slightly to \$284,700 annually for the 2010 through 2011 rate period.

A credit is earned from the installation of conservation measures or by making other qualifying expenditures for renewable energy, qualified research projects, or through donations to qualifying organizations. At the end of the rate period, customers pay BPA for any CRC not accounted for. As of September 31, 2009, the District had accounted for all the CRCs for the rate period that ended September 30, 2009. As of December 31, 2010, the District had accounted for \$341,700 of the rate credit for the two-year rate period ending September 30, 2011. The District expects to use the remainder before the end of the rate period.

During 2009 the District signed an Energy Conservation Agreement (ECA) with BPA. This agreement provides the District with an additional source of funding from BPA for conservation. As of December 31, 2010 and 2009 the District had recorded reimbursements from BPA of \$1,388,704 and \$516,485 under the ECA.

NOTE 11 - PURCHASED POWER AND WATER CONTRACTS

Bonneville Power Administration (Bonneville)

The District obtains power from the Bonneville Power Administration under a long-term power purchase agreement. The District's Bonneville power is supplied under a 10-year agreement for the Full Service Product, which extends from October 1, 2001 through September 30, 2011. The Full Service product provides all firm power necessary to meet a customer's actual loads in excess of the customer's small non-dispatchable generating resources. This service includes Heavy Load Hour (HLH) energy, Light Load Hour (LLH) energy, demand (peaking and capacity), and any shaping necessary to cover load variations in Total Retail Load due to temperature changes and load loss/growth except when due to voluntary retail access.

In October 2009, the District signed a Flexible PF Rate Option to add the Stepped Payment Option for Contract Years 2010 and 2011. Under the Stepped Payment Option, BPA charges the District the monthly energy rates for Contracted Power in place of the energy rates set forth in the applicable BPA wholesale Power rate Schedules. Under the Stepped Payment Option, the District is charged rates over the two-year period that are slightly lower the first year and higher the second year; however, the Net Present Value of the stepped rates is expected to be the same as the flat rate. The District elected this option to help keep its retail rates unchanged due to economic conditions.

The District's current power sales contract with BPA expires Sept. 30, 2011. After thorough review the District elected to sign a Long Term Load Following contract with BPA. This contract will work in tandem with a new Tiered Rate Methodology BPA has proposed for the Priority Firm Power (PF) rate. The new power sales contract will cover fiscal years 2012-2028. The new Load Following product is similar to the current Subscription contracts where BPA is responsible for serving the customer's entire load, minus what is served by the customer's own resources. The biggest change the new contracts will bring is each customer will have a contract-defined right to purchase an amount of power at "Tier 1" rates, which represents the cost of BPA's existing system. That amount of power is called the High Water Mark, or HWM. Utilities will still have the right to have BPA meet their net requirement load (the utility's load minus its own resources), but BPA will meet net requirement load above the HWM at "Tier 2" rates. In October 2009, the District notified BPA of their election to have all the District's Above-RHWM Load for FY's 2012-2014 served with power purchased from BPA at the Tier 2 Short Term Rate. The District intends to serve post 2011

High Water Mark (HWM) load for FY 2012, 2013 and 2014 with a combination of their share and acquired shares of Packwood Hydro and BPA Tier 2 power purchases. The District also notified BPA of their desire to purchase Resource Support Services (RSS) for the FY 2012-2014 period. Tier 2 rates will be set to cover the full cost of the additional power BPA buys to meet those additional loads.

Bonneville is required by federal law to recover all of its costs through the rates it charges its customers. Bonneville makes various filings with FERC to confirm that rates are sufficient to cover costs. Under Bonneville's adopted power and transmission rate provisions, its rates are subject to revision in order to enable Bonneville to recover its actual costs of service. The rate provisions for the Full Service Product include a cost recovery adjustment clause (CRAC) and a dividend distribution clause (DDC).

Either may be triggered if certain thresholds are met. The CRAC, including a special fish related adjustment and emergency fish related surcharge, allows Bonneville to raise rates to collect sufficient funds to pay costs. The DDC results in dollars being returned to customers, in the form of future power rate decreases, if excess dollars are collected.

Pursuant to the Full Service product rate provisions, the District is subject to additional charges or credits from Bonneville if Bonneville's actual costs deviate from budgeted amounts. Bonneville Power Administration's wholesale power rates for the FY 2007-2009 rate period were established during the Wholesale Power WP-07 Rate Case through a formal process described in Section 7(i) of the Northwest Power Act. The current rate case concluded when the Administrator signed the Final Record of Decision on July 17, 2006. The complete rate case record was then sent to the Federal Energy Regulatory Commission (FERC) for their review. FERC granted interim approval to the 2007 Wholesale Power Rates Schedules and General Rate Schedule Provisions (GRSPs) on September 21, 2006. The District also entered into a contract with Bonneville for network transmission service effective May 31, 1997, which provides adequate transmission capacity to meet the District's annual system peak load. The transmission contract extends through September 30, 2031.

The Bonneville Power Administration responded to three 2007 Ninth Circuit court rulings regarding the 2000 Residential Exchange Program Settlement Agreements and their treatment in the 2002 wholesale power rates. BPA's decision was to return past overcharges to the region's consumer-owned utilities and re-establish Residential Exchange Program benefits to most of the region's investor-owned utilities. For the repayment period 2002-2006, the District received power bill credits of \$1,109,652 in 2010 and \$2,023,965 in 2009.

Water

The District is a party to a "Wholesale Water Contract" with the City of Port Angeles through August 16, 2036. The rates are tied to the City's Residential Rate Structure. Gales Addition Reservoir is 89% of the cost per 100 cubic feet under the City's residential rate and the Baker Street

Intertie is 85% of the cost per 100 cubic feet under the City's residential rate. Water rates from January 2009 to December 2010 are as follows:

Gales Addition Reservoir (High Zone)

Jan 2009 – Dec 2009 billing cycle	\$1.71/100 cubic feet/month
Jan 2010 – Dec 2010 billing cycle	\$1.8512/100 cubic feet/month
Jan 2011 – Dec 2011 billing cycle	\$1.8512/100 cubic feet/month

Baker Street Intertie (Low Zone)

Jan 2009 – Dec 2009 billing cycle	\$1.63/100 cubic feet/month
Jan 2010 – Dec 2010 billing cycle	\$1.768/100 cubic feet/month
Jan 2011 – Dec 2011 billing cycle	\$1.768/100 cubic feet/month

The District's purchased water expense under this contract for 2010 and 2009 was \$265,095 and \$266,148, respectively.

NOTE 12 - ASSOCIATION WITH ENERGY NORTHWEST

Energy Northwest (formerly Washington Public Power Supply System [WPPSS]) is a Washington municipal corporation which has acted as a joint operating agency for various power supply initiatives in the Northwest. The District was a member until August 1984 when it withdrew as a member. The District rejoined Energy Northwest and became a member in May 2008.

The District has remained contractually interested in the following projects:

Energy Northwest Nuclear Projects Nos. 1, 2, and 3

The District has entered into "net billing agreements" with Energy Northwest and BPA. Under terms of these agreements, the District has purchased a maximum of 1.157%, 1.769%, and 1.001% of the capability of Energy Northwest's Nuclear Projects Nos. 1 and 2 and Energy Northwest's 70% ownership share of its Nuclear Project No. 3, respectively, and has sold this capability to BPA. BPA is unconditionally obligated to pay the District and the District is unconditionally obligated to pay Energy Northwest, the pro rata share of the total annual costs of each project, including the debt service on revenue bonds issued to finance the project whether the projects are completed, operable or operating and notwithstanding the suspension, reduction, or curtailment of the projects' output. The District's respective shares may be increased by not more than 25% upon default of other public agency participants.

Packwood Lake Hydroelectric Project

The Packwood Lake Hydroelectric Project is an Energy Northwest hydroelectric generating project in western Washington with a nameplate rating of 27.5 MW. In 1961 the District executed a contract with Energy Northwest which expires upon payment or the making of provision for payment of Energy Northwest's revenue bonds issued in conjunction with the Packwood Project (scheduled for final payment on March 1, 2012) or when Energy Northwest discontinues operation of the Packwood Project, or, upon the election of the

District, 24 months prior to any scheduled termination date. Under the terms of this contract, the District, as a member-purchaser is obligated to purchase 7% of the capability of the Packwood Project, and is unconditionally obligated to pay 7% of the annual costs of the Project including outstanding bond debt. In 2009 Energy Northwest's General fund Performance Fee Account loaned the project \$1 million. The funds were used to help pay off \$1.24 million bond debt, \$809,000 line of credit and \$350,000 from Energy Northwest's inter service fund.

Beginning October 1, 2008, Snohomish PUD purchased the output of the project. For the firm energy, Snohomish PUD currently pays Energy Northwest Bonneville's monthly Priority Firm rate minus \$2 per mWh. The Purchasers pay Energy Northwest the Dow Jones Mid-Columbia Daily Index price, minus \$1.50 per mWh, for any nonfirm energy. Revenues from power sales are credited to each of the member-purchasers in proportion to their ownership shares. If the amount so credited is less than the member-purchasers' share of the annual costs, they must pay the balance due. If the amount credited exceeds the annual costs, the excess will be paid to the member-purchasers. Snohomish PUD exercised their option for renewal that will expire September 30, 2011.

The District notified BPA of its intention to use its seven percent (7%) share of Packwood generation to serve the District's own load. On March 1, 2010, the District signed a Memorandum of Understanding to purchase the output of Ferry, Kittitas, Skamania and Wahkiakum PUDs' 3.25% shares of Packwood Lake Hydro Project. Starting October 1, 2011, the District will add Packwood as a Specified Resource to its Dedicated Resource Amounts.

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

The District, along with 13 other Washington State Public Utility Districts and Energy Northwest, is a member of Northwest Open Access Network, Inc. (DBA NoaNet), a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over Public Benefit Fibers leased from BPA, throughout 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.

In July 2001, NoaNet issued \$27 million in Telecommunications Network Revenue bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations, and maintenance. The Bonds become due beginning in December 2003 through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. Each member of NoaNet has entered into a Repayment Agreement to guarantee the debt of NoaNet. The District's guarantee is limited to its 7.23% interest or \$1,935,900. A 25% step-up provision in the agreement allows for a maximum exposure of \$2,419,900. The District's recorded as expense member assessments of \$41,105 in 2010 and \$112,626 in 2009.

NoaNet recorded a change in net assets (excluding member assessments) of \$4,993,629 for 2010 and \$652,331 for 2009. In accordance with Accounting Principles Board Opinion No. 18 *The Equity Method of Accounting for Investments in Common Stock*, as well as a position statement issued by the Washington State Auditor concerning the appropriate accounting treatment for NoaNet, a proportionate share of these losses has not been recorded by the

District since NoaNet had a negative net assets position of \$1,310,839 and \$7,225,888 as of December 31, 2010 and 2009, respectively.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, 21507 42nd Avenue, SeaTac, WA 98198.

NOTE 14 – TELECOMMUNICATION SERVICES

The District has installed a fiber optic system in its service area for use by the electric utility. The District has connected its fiber optic system with NoaNet's fiber optic communications network and intends to make excess capacity available to retail service providers. In 2003 the District implemented a pilot project to test service provider and customer interest in utilizing excess capacity in the District's telecommunications network. A fiber distribution network was constructed connecting approximately 400 District electric customers to the network via direct fiber or wireless connections. As of December 31, 2010 and 2009 broadband excess capacity revenues were \$447,916 and 446,247, respectively. Operations and maintenance expenses were \$296,645 and \$385,703, respectively in 2010 and 2009. The District has a total capital investment of \$4,442,554 as of December 31, 2010, including \$345,268 invested during 2010.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

As of December 31, 2010 and 2009, Noanet had three outstanding notes payable with a commercial lender totaling \$2,358,945 and \$4,187,221, respectively. The District approved repayment agreements for each note, where Noanet may assess its members for their percentage share of the principal and interest to the extent Noanet does not have sufficient funds to pay.

NOTE 16 – SEGMENT INFORMATION

Public Utility District No. 1 of Clallam County, Washington

Balance Sheet

December 31, 2010

Assets	Electric System	Water System	Sewer System	2010
CURRENT ASSETS				
Cash and cash equivalents	\$ 19,767,816	\$ 3,257,700	\$ 114,768	\$ 23,140,284
Accts. Receivable, Net of Provision for Uncollectible Accounts of \$71,953 and \$50,830	3,525,696	199,623	6,251	3,731,570
Accounts Receivable - Other	723,575	-	-	723,575
Materials & Supplies, at Aver. Cost	3,998,645	304,675	-	4,303,320
Prepayments	1,330,679	91,403	-	1,422,082
Accrued Interest Receivable	5,603	-	-	5,603
TOTAL CURRENT ASSETS	29,352,014	3,853,401	121,019	33,326,434
NONCURRENT ASSETS				
RESTRICTED ASSETS				
Bond Funds Cash & Invest.	-	91,078	-	91,078
Funds Held by Fiscal Agent	174,098	-	-	174,098
Debt Service Reserve Fund	1,123,000	-	-	1,123,000
Construction Fund 2010	9,060,000	-	-	9,060,000
TOTAL RESTRICTED ASSETS	10,357,098	91,078	-	10,448,176
UTILITY PLANT, at Cost				
Plant in Service	173,126,351	22,403,483	847,271	196,377,105
Construction Work in Progress	10,138,240	1,152,739	4,132	11,295,111
TOTAL UTILITY PLANT	183,264,591	23,556,222	851,403	207,672,216
Less: Accumulated Depreciation	(68,575,567)	(6,254,501)	(246,485)	(75,076,553)
NET UTILITY PLANT	114,689,024	17,301,721	604,918	132,595,663
Assessments Receivable	-	-	-	-
Net OPEB Asset	-	-	-	-
Unamortized Debt Expense	300,777	27,445	-	328,222
Deferred Charges	339,368	30,158	485,816	855,342
TOTAL NONCURRENT ASSETS	125,686,267	17,450,402	1,090,734	144,227,403
TOTAL ASSETS	\$ 155,038,281	\$ 21,303,803	\$ 1,211,753	\$177,553,837
Liabilities and Net Assets				
CURRENT LIABILITIES				
Accounts Payable	\$ 5,329,287	\$ 208,193	\$ 990	\$ 5,538,470
Customer Deposits	935,143	-	-	935,143
Accrued Taxes Payable	1,308,801	14,182	-	1,322,983
Current Portion of Capital Leases	46,841	-	-	46,841
Other Payables	1,168,181	109,478	477	1,278,136
Payables from Restricted Assets				
Accrued Interest Payable	204,271	13,937	-	218,208
Current Portion on Long-Term Debt	475,000	251,923	-	726,923
TOTAL CURRENT LIABILITIES	9,467,524	597,713	1,467	10,066,704
NONCURRENT LIABILITIES				
Revenue Bonds Payable	25,475,000	3,127,662	-	28,602,662
Unamortized Premium on Bonds	526,645	-	-	526,645
Capital Leases Payable	122,019	-	-	122,019
Customer Advances for Construction	635,129	3,883	-	639,012
Net OPEB Obligation	70,199	6,943	-	77,142
Miscellaneous Deferred Credits	226,690	-	458	227,148
TOTAL NONCURRENT LIABILITIES	27,055,682	3,138,488	458	30,194,628
TOTAL LIABILITIES	36,523,206	3,736,201	1,925	40,261,332
NET ASSETS				
Invested in Capital Assets, Net of Related Debt Restricted For	98,226,519	13,670,213	604,918	102,318,650
Capital Projects	-	-	-	9,060,000
Debt Service	174,098	91,078	-	1,388,176
Unrestricted	20,114,458	3,806,311	604,910	24,525,679
TOTAL NET ASSETS	118,515,075	17,567,602	1,209,828	137,292,505
TOTAL LIABILITIES & NET ASSETS	\$ 155,038,281	\$ 21,303,803	\$ 1,211,753	\$177,553,837

Public Utility District No. 1 of Clallam County, Washington

Statement of Revenue, Expenses, and Changes in Net Assets

For the year ended December 31, 2010

	Electric System	Water System	Sewer System	2010
OPERATING REVENUES	\$ 46,502,215	\$ 2,690,387	\$ 39,627	\$ 49,232,229
OPERATING EXPENSES				
Operations				
Purchased Power	19,779,957	-	-	19,779,957
Purchased Water	-	265,095	-	265,095
Other Expenses	12,583,207	1,245,940	19,778	13,848,925
Maintenance	3,370,359	189,452	285	3,560,096
General Taxes	2,381,228	139,993	-	2,521,221
Depreciation and Amortization	5,597,733	573,693	24,809	6,196,235
TOTAL OPERATING EXPENSES	43,712,484	2,414,173	44,872	46,171,529
NET OPERATING INCOME	2,789,731	276,214	(5,245)	3,060,700
NONOPERATING REVENUES AND EXPENSES				
NONOPERATING REVENUES				
Interest Income	82,488	11,986	367	94,841
Miscellaneous Nonoperating Income	47,230	-	276,493	323,723
TOTAL NONOPERATING REVENUES	129,718	11,986	276,860	418,564
NONOPERATING EXPENSES				
Interest Expense	762,936	58,701	470	822,107
Misc Nonoperating Expenses	42,954	-	-	42,954
TOTAL NONOPERATING EXPENSES	805,890	58,701	470	865,061
NET NONOPERATING INCOME	(676,172)	(46,715)	276,390	(446,497)
CONTRIB. IN AID OF CONSTR.	534,050	281,998	11,991	828,039
CHANGE IN NET ASSETS	2,647,609	511,497	283,136	3,442,242
Net Assets, January 1	115,867,466	17,056,105	926,692	133,850,263
NET ASSETS, December 31	\$ 118,515,075	\$ 17,567,602	\$ 1,209,828	\$137,292,505

Public Utility District No. 1 of Clallam County, Washington

Statement of Cash Flows

For the year ended December 31, 2010

	Electric System	Water System	Sewer System	2010 Total
CASH FLOW FROM OPER. ACTIVITIES				
Cash Received from Customers and Others	\$ 45,079,826	\$ 2,681,623	\$ 34,252	\$ 47,795,701
Other Cash Receipts	93,546	2,177	276,493	372,216
Cash Paid to Suppliers	(29,063,372)	(691,191)	(25,123)	(29,779,686)
Cash Paid to Employees	(8,733,934)	(866,473)	(9,284)	(9,609,691)
Taxes Paid	(2,393,369)	(135,439)	-	(2,528,808)
Other Cash Payments	(42,954)	-	(282,525)	(325,479)
Net Cash Provided From Operating Activities	4,939,743	990,697	(6,187)	5,924,253
CASH FLOW FROM CAPITAL & RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(13,702,180)	(1,415,850)	(22,241)	(15,140,271)
Capital Contributions	882,129	250,768	11,451	1,144,348
LUD Assessment Payments	-	1,389	-	1,389
Proceeds from Revenue Bond	17,544,388	-	-	17,544,388
Principal paid on Capital Debt & Leases	(8,232,587)	(248,839)	-	(8,481,426)
Interest Paid on Capital Debt & Leases	(936,493)	(59,941)	(470)	(996,904)
Net Cash Used by Capital & Related Financing Activities	(4,444,743)	(1,472,473)	(11,260)	(5,928,476)
CASH FLOW FROM INVESTING ACTIVITIES				
Interest Income	101,567	14,306	367	116,240
Net Cash Provided by Investing Activities	101,567	14,306	367	116,240
NET INCREASE (DECREASE) IN CASH	596,567	(467,470)	(17,080)	112,017
Cash and cash equivalents, incl restricted cash-Beginning of the year	29,528,347	3,816,248	131,848	33,476,443
Less Restricted Cash	(10,357,098)	(91,078)	-	(10,448,176)
Cash and cash equivalents - End of the Year	\$ 19,767,816	\$ 3,257,700	\$ 114,768	\$ 23,140,284
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	2,789,731	276,214	(5,245)	3,060,700
Adjustments to reconcile Operating Income To Net Cash Provided by Operating Activities				
Add:				
Depreciation & Amortization	5,597,733	573,693	24,809	6,196,235
Other Non-Operating (Receipts) Payments	4,276	-	276,493	280,769
Changes in Assets and Liabilities				
(Increase) Decrease in Accounts Receivable	(1,028,618)	(6,587)	(4,031)	(1,039,236)
(Increase) Decrease in Other Receivables	(84,737)	-	-	(84,737)
(Increase) Decrease in Materials	(22,669)	(21,659)	-	(44,328)
(Increase) Decrease in Prepayments	117,063	(6,344)	-	110,719
(Increase) Decrease in Deferred Charges	(46,682)	198,240	(282,525)	(130,967)
(Increase) Decrease in Other Assets	-	-	-	-
Increase (Decrease) in Accounts Payable	(2,399,281)	(31,577)	(14,806)	(2,445,664)
Increase (Decrease) in Customer Deposits	(264,599)	-	(1,115)	(265,714)
Increase (Decrease) in Accrued Taxes	(7,708)	4,554	-	(3,154)
Increase (Decrease) in Other Payables	105,909	(13,387)	462	92,984
Increase (Decrease) in Restricted Assets	-	-	-	-
Increase (Decrease) in Net OPEB Asset	177,443	17,550	-	194,993
Increase (Decrease) in Deferred Credits	1,882	-	(229)	1,653
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,939,743	990,697	(6,187)	5,924,253

Public Utility District No. 1 of Clallam County, Washington

**Balance Sheet
December 31, 2009**

Assets	Electric System	Water System	Sewer System	2009
CURRENT ASSETS				
Cash and cash equivalents	\$ 28,285,518	\$ 3,711,388	\$ 131,848	\$ 32,128,754
Accts. Receivable, Net of Provision for Uncollectible Accounts of \$71,953 and \$50,830	2,497,078	193,036	2,220	2,692,334
Accounts Receivable - Other	769,400			769,400
Materials & Supplies, at Aver. Cost	3,975,976	283,016		4,258,992
Prepayments	1,447,742	85,059		1,532,801
Accrued Interest Receivable	24,681	2,321		27,002
TOTAL CURRENT ASSETS	37,000,395	4,274,820	134,068	41,409,283
NONCURRENT ASSETS				
RESTRICTED ASSETS				
Bond Funds Cash & Invest.		104,860		104,860
Funds Held by Fiscal Agent	1,242,829			1,242,829
Debt Service Reserve Fund				-
Construction Fund 2010	-			-
TOTAL RESTRICTED ASSETS	1,242,829	104,860	-	1,347,689
UTILITY PLANT, at Cost				
Plant in Service	159,972,056	21,738,740	826,930	182,537,726
Construction Work in Progress	9,612,328	439,819	2,232	10,054,379
TOTAL UTILITY PLANT	169,584,384	22,178,559	829,162	192,592,105
Less: Accumulated Depreciation	(62,987,935)	(5,720,918)	(221,676)	(68,930,529)
NET UTILITY PLANT	106,596,449	16,457,641	607,486	123,661,576
Assessments Receivable		1,389		1,389
Net OPEB Asset	107,244	10,607		117,851
Unamortized Debt Expense	248,196	29,367		277,563
Deferred Charges	292,686	228,398	203,291	724,375
TOTAL NONCURRENT ASSETS	108,487,404	16,832,262	810,777	126,130,443
TOTAL ASSETS	\$ 145,487,799	\$ 21,107,082	\$ 944,845	\$ 167,539,726
Liabilities and Net Assets				
CURRENT LIABILITIES				
Accounts Payable	\$ 7,728,567	\$ 239,770	\$ 15,796	\$ 7,984,133
Customer Deposits	1,199,742	-	1,115	1,200,857
Accrued Taxes Payable	1,316,509	9,628	-	1,326,137
Current Portion of Capital Leases	42,587			42,587
Other Payables	1,062,272	122,865	15	1,185,152
Payables from Restricted Assets				
Accrued Interest Payable	377,829	15,177	-	393,006
Current Portion on Long-Term Debt	865,000	248,947	-	1,113,947
TOTAL CURRENT LIABILITIES	12,592,506	636,387	16,926	13,245,819
NONCURRENT LIABILITIES				
Revenue Bonds Payable	15,895,000	3,379,477	-	19,274,477
Unamortized Premium on Bonds	321,547			321,547
Capital Leases Payable	168,860	-	-	168,860
Customer Advances for Construction	417,612	35,113	540	453,265
Net OPEB Obligation				-
Miscellaneous Deferred Credits	224,808	-	687	225,495
TOTAL NONCURRENT LIABILITIES	17,027,827	3,414,590	1,227	20,443,644
TOTAL LIABILITIES	29,620,333	4,050,977	18,153	33,689,463
NET ASSETS				
Invested in Capital Assets, Net of Related Debt Restricted For	89,303,455	12,829,217	607,486	102,740,158
Capital Projects	-	-	-	-
Debt Service	1,242,829	104,860	-	1,347,689
Unrestricted	25,321,182	4,122,028	319,206	29,762,416
TOTAL NET ASSETS	115,867,466	17,056,105	926,692	133,850,263
TOTAL LIABILITIES & NET ASSETS	\$ 145,487,799	\$ 21,107,082	\$ 944,845	\$ 167,539,726

Public Utility District No. 1 of Clallam County, Washington
Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended December 31, 2009

	Electric System	Water System	Sewer System	2009
OPERATING REVENUES	\$ 49,839,824	\$ 2,592,878	\$ 24,123	\$ 52,456,825
OPERATING EXPENSES				
Operations				
Purchased Power	\$ 21,426,494			\$ 21,426,494
Purchased Water		\$ 266,148		\$ 266,148
Other Expenses	\$ 10,554,494	\$ 1,168,371	\$ 24,694	\$ 11,747,559
Maintenance	\$ 3,078,364	\$ 149,179	\$ 1,292	\$ 3,228,835
General Taxes	\$ 2,772,357	\$ 132,470	\$ -	\$ 2,904,827
Depreciation and Amortization	\$ 5,577,410	\$ 563,999	\$ 17,173	\$ 6,158,582
TOTAL OPERATING EXPENSES	\$ 43,409,119	\$ 2,280,167	\$ 43,159	\$ 45,732,445
NET OPERATING INCOME	\$ 6,430,705	\$ 312,711	\$ (19,036)	\$ 6,724,380
NONOPERATING REVENUES AND EXPENSES				
NONOPERATING REVENUES				
Interest Income	\$ 170,473	\$ 25,793	\$ 802	\$ 197,068
Miscellaneous Nonoperating Income	\$ 94,142	\$ 1,348	\$ 55,416	\$ 150,906
TOTAL NONOPERATING REVENUES	\$ 264,615	\$ 27,141	\$ 56,218	\$ 347,974
NONOPERATING EXPENSES				
Interest Expense	\$ 708,924	\$ 63,442	\$ 9	\$ 772,375
Misc Nonoperating Expenses	\$ 89,386	\$ 994	\$ -	\$ 90,380
TOTAL NONOPERATING EXPENSES	\$ 798,310	\$ 64,436	\$ 9	\$ 862,755
NET NONOPERATING INCOME	\$ (533,695)	\$ (37,295)	\$ 56,209	\$ (514,781)
CONTRIB. IN AID OF CONSTR.	\$ 978,716	\$ 231,670	\$ 242,197	\$ 1,452,583
CHANGE IN NET ASSETS	\$ 6,875,726	\$ 507,086	\$ 279,370	\$ 7,662,182
Net Assets, January 1	\$ 108,991,740	\$ 16,549,019	\$ 647,322	\$ 126,188,081
NET ASSETS, December 31	\$ 115,867,466	\$ 17,056,105	\$ 926,692	\$ 133,850,263

Public Utility District No. 1 of Clallam County, Washington

Statement of Cash Flows

For the year ended December 31, 2009

	Electric System	Water System	Sewer System	2009 Total
CASH FLOW FROM OPER. ACTIVITIES				
Cash Received from Customers and Others	\$ 50,194,143	\$ 2,594,899	\$ 20,695	\$ 52,809,737
Other Cash Receipts	37,825	(160)	55,415	93,080
Cash Paid to Suppliers	(26,570,800)	(706,917)	(10,558)	(27,288,275)
Cash Paid to Employees	(8,046,382)	(892,556)	(15,196)	(8,954,134)
Taxes Paid	(2,742,197)	(132,221)		(2,874,418)
Other Cash Payments	(89,386)	(994)	(44,442)	(134,822)
Net Cash Provided From Operating Activities	12,783,203	862,051	5,914	13,651,168
CASH FLOW FROM CAPITAL & RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(9,222,002)	(588,655)	(10,191)	(9,820,848)
Capital Contributions	707,647	266,258	8,484	982,389
LUD Assessment Payments		1,557		1,557
Proceeds from Revenue Bond	-	-		-
Principal paid on Capital Debt & Leases	(855,468)	(245,994)		(1,101,462)
Interest Paid on Capital Debt & Leases	(728,517)	(64,600)	(9)	(793,126)
Net Cash Used by Capital & Related Financing Activities	(10,098,340)	(631,434)	(1,716)	(10,731,490)
CASH FLOW FROM INVESTING ACTIVITIES				
Interest Income	219,032	27,960	803	247,795
Net Cash Provided by Investing Activities	219,032	27,960	803	247,795
NET INCREASE (DECREASE) IN CASH	2,903,895	258,577	5,001	3,167,473
Cash and cash equivalents, incl restricted cash - Beginning of the Year	26,624,452	3,557,671	126,847	30,308,970
Less Restricted Cash	(1,242,829)	(104,860)		(1,347,689)
Cash and cash equivalents - End of the Year	\$ 28,285,518	\$ 3,711,388	\$ 131,848	\$ 32,128,754
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	6,430,705	312,711	(19,036)	6,724,380
Adjustments to reconcile Operating Income To Net Cash Provided by Operating Activities				
Add:				
Depreciation & Amortization	5,577,410	563,999	17,173	6,158,582
Other Non-Operating (Receipts) Payments	4,756	354	55,415	60,525
Changes in Assets and Liabilities				
(Increase) Decrease in Accounts Receivable	244,907	513	(405)	245,015
(Increase) Decrease in Other Receivables	388,597			388,597
(Increase) Decrease in Materials	125,366	(11,869)		113,497
(Increase) Decrease in Prepayments	(456,462)	(4,482)		(460,944)
(Increase) Decrease in Deferred Charges	(261,913)	(92,406)	(58,533)	(412,852)
(Increase) Decrease in Other Assets				
Increase (Decrease) in Accounts Payable	1,012,954	84,191	14,308	1,111,453
Increase (Decrease) in Customer Deposits	50,904		(2,794)	48,110
Increase (Decrease) in Accrued Taxes	29,451	249		29,700
Increase (Decrease) in Other Payables	(5,390)	5,990	15	615
Increase (Decrease) in Restricted Assets	-			-
Increase (Decrease) in Net OPEB Asset	28,323	2,801		31,124
Increase (Decrease) in Deferred Credits	(386,405)		(229)	(386,634)
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,783,203	862,051	5,914	13,651,168
SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Assets acquired by capital lease	241,915			241,915
Assets acquired by donated contribution			232,713	232,713



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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