

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Financial Highlights (continued)

Operating revenue - Revenues from the retail sale of electricity decreased by 4.8% from \$30,564,662 in 2009 to \$29,102,331 in 2010, compared with a decrease in retail sales in 2009 of 3.7%. The District anticipated that sales would increase during 2010, since it refunded \$1,540,522 to customers during 2009. The refund was a portion of a BPA refund the District received in 2008. Instead, retail sale revenues went even lower due to decreased loads, which was the result of much milder weather. During 2010, revenue from wholesale sales of electricity increased 38.2% to \$5,801,904 from \$4,198,885, as reported in 2009. The increase in wholesale sales of electricity was the result of larger quantities of electricity to sell in the wholesale market and slightly better prices than 2009. Wholesale telecommunications continues to expand its market, which is reflected by continued significant revenue increases of 17.8% to \$1,912,283 in 2010, compared with \$1,622,655 in 2009.

Operating expenses - Operating expenses increased by \$2,636,877, or 6.8%, to \$41,697,042. The driving force behind the increase was an increase in cost of power expenses of \$2,167,231, or 9.7%. The increase in cost of power was due to a \$2,090,380 refund the District received from BPA during 2008, of which \$2,074,618 was carried forward into 2009, resulting in a decrease in the cost of power expenses in 2009.

Rates - After several years of studies, the District approved its first rate increase in nine years, effective July 1, 2010. The increase, in the amount of 6.5%, was the first increase of three, with the remaining increases effective July 1, 2011 and 2012. Each of the three rate increases is expected to bring in an additional \$2,000,000 annually. The rate studies were performed by R.W. Beck with assistance from District staff.

Significant Capital Assets and Long-Term Debt

During 2010, the District issued revenue bonds and anticipates issuing new debt in the future to finance projects as discussed in the following:

During 2010 the District issued \$32,460,000 in revenue bonds, in part, to reimburse District funds used to construct a new headquarters building and install an automated meter infrastructure. A portion of the proceeds, \$5,285,000, was used to refund a portion of the outstanding 2002 revenue bonds. In addition, bond construction funds remain to construct an approximately 26-mile transmission line to serve the Methow Valley.

The District continues to invest in wholesale telecommunications infrastructure. As of December 31, 2010, the District has invested a total of \$4,685,267 in wholesale telecommunications, which is a decrease of \$600,189 over year-end 2009. The decrease reflects that the wholesale telecommunications side of the District continues to realize a positive net income, as well as cover debt service. The District's telecommunications network is connected to the Northwest Open Access Network, a fiber optic system that is member-owned. The network is currently used by 15 retail service providers, supporting more than 2,200 end-user customers.

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Financial Highlights (continued)

During 2010, the District submitted for and was awarded American Recovery and Reinvestment Act (ARRA) funding to deploy a Middle Mile and Last Mile broadband communication system throughout the county. ARRA funding consisted of a \$5,501,782 grant and a \$3,667,855 loan. The proposed last-mile project will bring high-speed broadband to over 6,543 premises that currently lack such access. The proposed funded network design calls for placement of approximately 170 access nodes, as well as extends the fiber backbone approximately 179 miles to provide necessary redundancy to the last-mile network.

The District is the current owner of the Enloe Hydroelectric Dam, a small hydroelectric project on the Similkameen River near Oroville, Washington. The District continues to make progress in the process of relicensing Enloe Dam and, upon receipt of the Federal Energy Regulatory Commission (FERC) license, will begin the construction at an estimated cost of \$35,000,000.

Additional information is contained in the notes to the financial statements. Please refer to Note 3 - Utility Plant and Note 4 - Long-Term Debt.

Contacting the District's Financial Management

This financial report is designed to provide the District's ratepayers, investors, and other readers with a general overview of the District's finances and to show the District's accountability for money it receives. If you have questions about this report or need additional information, contact the District's Director of Finance at Public Utility District No. 1 of Okanogan County, P.O. Box 912, Okanogan, WA 98840, or by phone at (509)422-3310.



Don Coppock
Director of Finance/Auditor

(This page intentionally left blank.)

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
BALANCE SHEET

ASSETS

	DECEMBER 31,	
	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and temporary investments		
Cash and cash equivalents	\$ 1,946,428	\$ 2,385,905
Temporary investments	6,172,971	12,079,254
Accounts receivable, less allowance for doubtful accounts of \$25,000 for 2010 and 2009	2,449,895	1,493,952
Unbilled revenue	2,321,032	2,697,011
Materials and supplies	3,224,633	3,054,100
Prepayments and other	<u>378,472</u>	<u>19,180</u>
Total current assets	<u>16,493,431</u>	<u>21,729,402</u>
RESTRICTED ASSETS		
Bond reserve	2,511,398	129,507
Board-designated reserve	7,685,000	9,085,000
Construction funds	<u>12,953,457</u>	
Total restricted assets	<u>23,149,855</u>	<u>9,214,507</u>
UTILITY PLANT, at cost		
Plant in service	120,970,358	105,275,372
Construction work in progress	<u>21,080,431</u>	<u>22,329,965</u>
	142,050,789	127,605,337
Less accumulated depreciation and amortization	<u>54,047,676</u>	<u>52,099,159</u>
Net utility plant	<u>88,003,113</u>	<u>75,506,178</u>
OTHER ASSETS		
Conservation loans and notes receivable	791,704	815,559
Deferred charges	<u>506,133</u>	<u>254,372</u>
Total other assets	<u>1,297,837</u>	<u>1,069,931</u>
Total assets	<u>\$ 128,944,236</u>	<u>\$ 107,520,018</u>

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
BALANCE SHEET

LIABILITIES AND NET ASSETS

	DECEMBER 31,	
	2010	2009
CURRENT LIABILITIES		
Accounts payable	\$ 4,048,806	\$ 5,734,765
Accrued compensated absences	1,199,092	1,037,556
Accrued taxes	832,198	809,632
Customer deposits and prepayments	557,542	501,951
Accrued bond interest	431,064	57,007
Current portion of long-term debt	1,190,000	870,000
Total current liabilities	8,258,702	9,010,911
 LONG-TERM DEBT		
Revenue bonds	39,595,000	13,610,000
Bond issue premium	427,571	
Bond issue discount	(65,183)	(101,464)
Loss on debt refunding	(845,151)	(323,947)
Total long-term debt	39,112,237	13,184,589
Total liabilities	47,370,939	22,195,500
 NET ASSETS		
Invested in capital assets, net of related debt	61,069,526	61,641,028
Restricted	8,008,700	9,157,500
Unrestricted	12,495,071	14,525,990
Total net assets	81,573,297	85,324,518
Total liabilities and net assets	\$ 128,944,236	\$ 107,520,018

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	YEAR ENDED DECEMBER 31,	
	2010	2009
OPERATING REVENUES		
Electric - retail	\$ 29,102,331	\$ 30,564,662
Electric - wholesale	5,801,904	4,198,885
Telecommunications	1,912,283	1,622,655
Other operating revenue	1,024,195	1,176,193
Total operating revenue	<u>37,840,713</u>	<u>37,562,395</u>
OPERATING EXPENSES		
Cost of power	24,501,801	22,334,570
Transmission	82,188	95,078
Distribution - operation	5,380,943	5,214,906
Telecommunications	638,124	690,763
Customer accounts	1,285,263	1,391,185
Customer service and information	677,404	571,666
Administration and general	3,863,210	3,767,340
Depreciation and amortization	3,428,771	3,118,253
Taxes	1,839,338	1,876,404
Total operating expenses	<u>41,697,042</u>	<u>39,060,165</u>
Net operating expenses	<u>(3,856,329)</u>	<u>(1,497,770)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	214,510	964,500
Grant revenue	140,331	214,852
Contributed capital	996,025	884,846
Interest on long-term debt	(992,488)	(767,365)
Impairment of investment		(1,147,139)
Other expenses	(253,270)	(418,676)
Net nonoperating revenues (expenses)	<u>105,108</u>	<u>(268,982)</u>
CHANGE IN NET ASSETS	<u>(3,751,221)</u>	<u>(1,766,752)</u>
ACCUMULATED NET ASSETS		
Beginning of year - as previously reported	85,324,518	84,794,374
Prior-period adjustment		2,296,896
Beginning of the year - as restated	<u>85,324,518</u>	<u>87,091,270</u>
End of year	<u>\$ 81,573,297</u>	<u>\$ 85,324,518</u>

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS

	YEAR ENDED	
	DECEMBER 31,	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 37,340,195	\$ 36,561,392
Payments to suppliers and employees	<u>(40,551,714)</u>	<u>(35,930,901)</u>
Net change in cash from operating activities	<u>(3,211,519)</u>	<u>630,491</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(16,128,758)	(15,094,570)
Proceeds from sale of bonds	32,460,000	
Cash contributions in aid of construction	996,025	884,846
Proceeds from grants	140,331	214,852
Scheduled payments debt	(6,155,000)	(835,000)
Interest paid on debt	<u>(675,781)</u>	<u>(737,605)</u>
Net change in cash from capital and related financing activities	<u>10,636,817</u>	<u>(15,567,477)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(46,149,732)	(32,112,681)
Sales and maturities of investments	38,120,666	47,560,088
Interest on investments	214,510	964,500
Payments for joint venture assessments	<u>(50,219)</u>	<u>(85,609)</u>
Net change in cash from investing activities	<u>(7,864,775)</u>	<u>16,326,298</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(439,477)	1,389,312
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,385,905</u>	<u>996,593</u>
End of year	<u><u>\$ 1,946,428</u></u>	<u><u>\$ 2,385,905</u></u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating expenses	\$ (3,856,329)	\$ (1,497,770)
Adjustments to reconcile net operating revenues (expenses) to net cash from operating activities		
Depreciation and amortization	3,428,771	3,118,253
Cash from changes in operating assets and liabilities		
Receivables	(932,088)	(634,383)
Unbilled revenue	375,979	(400,115)
Materials and supplies	(170,533)	(235,465)
Prepaid expenses and other current assets	(359,292)	(1,484)
Deferred charges	(251,761)	561,632
Accounts payable	(1,685,959)	(463,185)
Accrued compensation, benefits, and taxes	<u>239,693</u>	<u>183,008</u>
NET OPERATING ACTIVITIES	<u><u>\$ (3,211,519)</u></u>	<u><u>\$ 630,491</u></u>

See accompanying notes.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Organization - Public Utility District No. 1 of Okanogan County (the District) is a municipal corporation governed by an elected three-member Board of Commissioners. The District owns, operates, and maintains an electric distribution system incorporating both electrical and telecommunication facilities and equipment. Financial information for both divisions is presented in a consolidated format.

Reporting entity - For financial reporting purposes the District includes activities over which it exercises oversight responsibility. As required by generally accepted accounting principles (GAAP), management has considered all potential component units in defining the reporting entity. The District has no component units.

Basis of accounting and presentation - The accounting policies of the District conform to GAAP as applicable to proprietary funds of governmental units. 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 Standards Board (FASB) Statements and Interpretations issued after November 30, 1989. The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.

Cash and cash equivalents - The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Investments and restricted assets - The District records investments at cost, which approximates fair value. The District's investment portfolio consists entirely of fully insured, interest-bearing institutional deposits with terms of one year or less where the redemption value equals the purchase price plus a stated rate of interest. Therefore, the District's financial statements reflect no market adjustments.

In accordance with Board Resolutions and Bond Covenants, a number of separate funds have been established, and cash and investments held in these funds are restricted for special uses as follows:

	<u>2010</u>	<u>2009</u>
Rate stabilization fund	\$ 6,135,000	7,535,000
Employee compensated absences fund	1,100,000	1,100,000
Customer deposit fund	450,000	450,000
Sinking funds - 2002 Bonds	35,662	56,766
Sinking funds - 2003 Bonds	72,799	72,741
Sinking funds - 2010 Bonds	458,437	
Bond reserve fund	1,944,500	
Construction funds	<u>12,953,457</u>	
	<u>\$ 23,149,855</u>	<u>\$ 9,214,507</u>

Note 1 - Summary of Significant Accounting Policies (continued)

Accounts receivable and allowance for doubtful accounts - The District renders billings for electrical consumption, sales, and services on both a monthly and bi-monthly basis, and for wholesale power and telecom sales and services on a monthly basis. Management reviews accounts receivable for collectability on a regular basis and an allowance for uncollectable accounts is established based on evaluation of specific accounts and historical experience. If the account is determined to be uncollectible, it is turned over to the local credit bureau for collection.

Materials and supplies - Material and supplies provide for additions, maintenance, and repairs to the utility plant and are valued at weighted average cost, which approximates fair value.

Utility plant and depreciation - See Note 3 for asset capitalization, depreciation, and retirement policies.

Compensated absences - The District accrues unpaid personal leave benefit amounts as earned. The recorded liability for unpaid personal leave benefits at December 31, 2010 and 2009, was \$1,199,092 and \$1,037,556, respectively. Personal leave, which may be accumulated up to 1,200 hours, is payable in full upon resignation, termination, retirement, or death.

Deferred charges - Deferred charges consist primarily of costs relating to the sale of bonds. These costs are amortized over the lives of the related bond issues using the straight-line method. Unamortized bond issue costs amounted to \$415,193 and \$189,439 as of December 31, 2010 and 2009, respectively.

Revenue recognition - The District recognizes revenue as earned on a monthly basis based on rates established by the District's Board of Commissioners. Because the customer meters are read and billed at various times during each month, the District estimates unbilled revenues for energy delivered to customers between their last respective cycle billing date and December 31, and records that amount as unbilled revenue for the current year.

Unamortized loss on debt refunding - The difference between the cost to refund outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds, using the straight-line or effective-interest method.

Revenues and expenses - The District distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses are derived directly from the provision of wholesale and retail electrical generation, transmission, and distribution sales and service, and from providing wholesale telecommunications sales and service. Revenues and expenses ancillary to these purposes are treated as nonoperating.

Contributed capital - Contributions in aid of construction are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer. These payments are recognized in nonoperating revenue as contributed capital when the associated facilities are constructed or acquired.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 10 - Energy Northwest (continued)

The District's net billing obligations in 2010 and 2009 were as follows:

ENW Fiscal 2011 Budget Year	<u>No. 1</u>	<u>No. 2</u>	<u>No. 3</u>	<u>Total</u>
Annual budget	\$ 184,856,000	\$ 558,930,000	\$ 183,097,000	\$ 926,883,000
District's share	0.00255	0.01042	0.00143	
District's net billing obligation	\$ 471,383	\$ 5,824,051	\$ 261,829	\$ 6,557,263
ENW Fiscal 2010 Budget Year				
Annual budget	\$ 179,342,000	\$ 466,854,000	\$ 145,294,000	\$ 791,490,000
District's share	0.00255	0.01042	0.00143	
District's net billing obligation	\$ 457,322	\$ 4,864,619	\$ 207,770	\$ 5,529,711

Hanford project - In accordance with agreements between ENW, BPA, and 76 participants, and between ENW and the U.S. Department of Energy (DOE), ENW constructed the Hanford Project, which began commercial operation in 1966 with capacity of approximately 860 MW.

Pursuant to an exchange agreement entered into between the District, ENW, and BPA, the District had purchased .424% of the output of the Hanford Project and is obligated to pay ENW the same percentage of the annual costs.

Under an exchange agreement with the other participants in the Hanford Project, BPA had acquired the capability of the Hanford Project, including the District's share, in exchange for power from BPA. A decision was made in February 1988 by the DOE to maintain the project in a "cold standby" mode of operation.

ENW has evaluated alternative energy uses for the plant to no avail. Current options include a transfer to DOE for removal and site restoration, or removal and site restoration by ENW. At this time, it is unknown what the eventual disposition of the Hanford Project will be. ENW has reduced the project's assets to net realizable value and accrued the estimated cost of removal and site restoration.

Nine Canyon Wind Project - On October 1, 2001, the District entered into a power purchase agreement with ENW for output from the Nine Canyon Wind Project. The original project consisted of 37 wind turbines with an aggregate generating capacity of approximately 48 MW, and was launched into commercial operation in fall 2002. During 2003, a second phase of the project was completed, adding an additional 12 turbines and bringing the project capacity up to about 63.7 MW. During 2006, a third phase of the project was completed, adding an additional 14 turbines and bringing the current total project capacity up to about 96 MW.

Note 10 - Energy Northwest (continued)

The District is currently one of 10 public utility districts participating in the power purchase agreements for project output. The District purchased a 25% share of the generation output from Phases 1 and 2 and no output at all from Phase 3, bringing its combined share of total project output to 16.61%. The District is committed to paying its pro-rata share of debt service on the Nine Canyon Wind Project Revenue Bonds issued by ENW for Phases 1 and 2. A bond refunding/reissuance process commenced in 2004 and completed in 2005, thereby establishing the District's estimated liability for project bond principal at \$23,312,500. That amount could escalate to as much as \$29,140,625 after a step-up provision that could trigger in the event that other purchasers defaulted on their contractual obligations. The District pays its share of the ongoing project operational costs through monthly power purchase agreement assessment invoices.

Note 11 - Other Power Supply Agreements

Wells Hydroelectric Project - Since the initial construction of the Wells Hydroelectric Project, the District has been a party to a power sales contract governing the apportionment of the project output. However, during the 1980s, both the District and Public Utility District No. 1 of Douglas County (Douglas PUD) contested several provisions of the 1963 agreement and sought resolution of the disputed issues in Chelan County Superior Court. All disputes between the parties were resolved with a Memorandum of Understanding signed August 5, 1991, requiring the two Districts to negotiate a new power sale contract commencing in September 2018 and extending for an additional 50 years. Negotiations and relicensing efforts are pending. The District's current share of the total output from Wells Hydroelectric Project is 7.64%, which represents 28.3% and 28.5% of the District's total power purchases in 2010 and 2009, respectively.

Enloe Hydroelectric Project - For many years, the District has been pursuing the possible rehabilitation of Enloe Hydroelectric Dam on the Similkameen River near Oroville, Washington. The District is the present owner of the dam and relicensing attempts prior to 2005 were intended to revive an existing facility with its original output of 26,000 MWh annually and installed capacity of 4,100 KW.

On March 3, 1983, the District was issued a license by FERC for renovation and resumed operation of the Enloe project. The District subsequently appealed 14 of the licensing provisions. After extensive review, on March 6, 1986, FERC repealed the license previously granted to the District and placed the license in a "License Application Pending File" until all outstanding issues were resolved. FERC dismissed the license application in December 1987.

In February 1988, the District submitted a new application for a preliminary permit on the project. FERC granted the permit on June 8, 1988, and the District began the required preliminary studies. The District then submitted a license application to FERC on June 1, 1991, and FERC prepared an environmental assessment with the possibility of issuing an operating license.

Note 11 - Other Power Supply Agreements (continued)

On September 13, 1996, FERC again issued a license to the District for restoration of the project. Although fish passage was not a stated requirement of the license, the licensing language left an open-ended opportunity for certain federal agencies to intervene and require fish passage at a later date. The uncertainty of this language made it impossible to accurately forecast the project costs or determine feasibility, so the District, along with several other entities, appealed the licensing conditions. A stay of the license was issued as a result of the pending listing of the Upper Columbia Steelhead under the Endangered Species Act and a determination of the Enloe Project's negative impact upon them. On February 23, 2000, FERC rescinded the license because the National Marine Fisheries Service continued to require upstream fish passage as a condition of the license, while the British Columbia Provincial and Tribal Authorities remain opposed to any such passage requirements.

On January 21, 2005, the District again submitted a new application to FERC for a preliminary permit on the project. Using the FERC Traditional Licensing Process (TLP), the District filed the license application with FERC on August 22, 2008. The proposed configuration would approximately double the project output to 47,300 MWh of energy per year and 9,000 KW of capacity.

Throughout the licensing process, the District has consulted with many entities, including Native tribes in Washington and Canada; the Bureau of Land Management (the underlying landowner); NOAA Fisheries and the U.S. Department of Interior, Fish and Wildlife Service (under Section 7 of the Endangered Species Act); U.S. Army Corps of Engineers (under Section 404 of the Clean Water Act); Washington State Department of Ecology (under Section 401 of the Clean Water Act and state law); Washington State Historic Preservation Office (under Section 106 of the National Historic Preservation Act); and Okanogan County. The District responded to additional information requests from FERC on the final license application. Under the National Environmental Policy Act (NEPA), FERC held scoping meetings on the project and issued scoping documents in early 2009. In December 2009, FERC issued the Notice of Application Ready for Environmental Analysis and solicited comments, recommendations, terms and conditions, and prescriptions. Comments were received, and the District filed responses to the comments with FERC on April 12, 2010. FERC anticipated that a Draft Environmental Assessment/Draft Environmental Impact Statement would be issued by June 2010, with the final licensing order issued in the fall. To date, the release of the draft environmental assessment has not occurred.

Shanker's Bend Water Storage Dam and Proposed Generation Facility - In 2007, the District submitted a new Preliminary Permit Application to FERC for a second potential water storage and hydroelectric project that would also be located on the Similkameen River. The proposed dam and associated facilities would be located approximately two miles upstream of Enloe Dam in what is commonly referred to as Shanker's Bend. The Shanker's Bend Project is being proposed for study in coordination with the state of Washington's Columbia River Water Management Program.

Note 11 - Other Power Supply Agreements (continued)

In a cooperative effort, the District and the Washington State Department of Ecology (Ecology) began analyzing the next steps to achieve the goals of both organizations. The District received \$325,000 in funding from Ecology to work collectively and collaboratively in performing an appraisal-level study of the Shanker's Bend area as a potential site for water storage, power generation, and a flood control facility. The District also worked with the U.S. Army Corps of Engineers in initiating a Hydrology Water Availability Study that was subsequently integrated into the Similkameen River Appraisal Level Study (SRALS).

All aspects of the study were complete as of April 2009 and the District's obligations under the grant fulfilled as of June 30, 2009.

The District is currently evaluating all options and financial obligations. At this time, given the current economic downturn, the District is considering what, if any, are the next steps in advancing the SRALS report. The District has identified data gaps that require further investigation to establish the feasibility of the options.

The District is also evaluating the needed funds for the additional studies necessary to conduct the next level of analysis.

Note 12 - Northwest Open Access Network

The District is a member of Northwest Open Access Network (NoaNet), a nonprofit mutual corporation formed by the District in collaboration with several other public utilities in the state of Washington. NoaNet was incorporated in February 2000 to facilitate the construction of a communications backbone to accommodate the increasing broadband needs of the member utilities and their customers. The NoaNet network began commercial operation in early 2001.

In July 2001, NoaNet issued \$27 million in Telecommunications Network Revenue Bonds (taxable) to finance the repayment of startup funds advanced by founding members and the initial costs of construction and commissioning. The bonds began maturing in December 2003 and will continue through December 2016, with interest due semi-annually at rates ranging from 5.05% to 7.09%. The District has entered into a repayment agreement to guarantee its 5.45% portion of the NoaNet bond debt, which totaled \$14,625,000 and \$16,550,000 as of December 31, 2010 and 2009, respectively.

In 2006, NoaNet signed an agreement with Yahoo that required NoaNet to install additional capacity on its system. A capital expenditure of \$4.5 million was required for the additional equipment; therefore, a nonrevolving line of credit from a lending institution was procured with the repayment funds to come from the Yahoo revenue stream. Yahoo's contract contains a cancellation penalty clause equivalent to the repayment balance of the \$4.5 million loan. The balance owing on this line of credit at December 31, 2010 and 2009, is \$292,280 and \$1.5 million, respectively.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 12 - Northwest Open Access Network (continued)

In 2008, NoaNet established an additional nonrevolving line of credit in the amount of \$1.5 million to finance capital expenditures and network upgrades. The outstanding balance on this credit line as of December 31, 2010 and 2009, is \$0.9 million and \$1.2 million, respectively.

In 2010, NoaNet established yet another nonrevolving line of credit in the amount of \$1.5 million to finance capital expenditures and network upgrades for new customers. The outstanding balance on this credit line as of December 31, 2010, is \$1.2 million.

Due to changes in ownership shares, the District's ownership interest in NoaNet was 5.5% as of December 31, 2010. In 2010, NoaNet incurred a net profit from operations of \$4,624,200 which, when augmented by member assessments of \$921,420, resulted in a vastly reduced accumulated members' equity deficit of \$1,680,268 as of December 31, 2010. NoaNet financial results for 2010 are estimated; however, any variance will not have a material impact on District's financial position. At year-end 2009, the District made the determination that its investment in NoaNet in the amount of \$1,147,139 was not recoverable; therefore, the entire amount of the investment was written off as impaired. From December 31, 2009, forward, the District's financial reports carry no investment or liability account balances reflecting NoaNet membership.

Financial and operating information regarding NoaNet may be obtained from the NoaNet Financial Center, 5802 Overlook Ave NE, Tacoma, WA 98422.

Note 13 - Pending Litigation

Pateros-Twisp Transmission Line - For many years, the District has sought to construct a second transmission line into the Methow Valley. This project, along with a proposed new substation, would alleviate the current issues of both marginal electrical capacity and reliability. A coalition of local citizens and environmental groups has been consistently opposing the project and challenged the validity of the District's Final Environmental Impact Statement (FEIS) on grounds of various alleged deficiencies. On November 22, 2006, a ruling by an Okanogan County Superior Court judge upheld the validity of the FEIS; however, that decision was appealed by the plaintiffs to the Washington State Court of Appeals and spent the entire year of 2007 undergoing further review. On May 1, 2008, the appellate court upheld Okanogan County Superior Court's ruling on all counts. The plaintiffs then filed a petition for review with the Washington State Supreme Court on June 5, 2008, which was subsequently denied on December 2, 2008.

Note 13 - Pending Litigation (continued)

During 2009, the District started the process of acquiring right-of-way easements and various other permits required for construction. Condemnation proceedings were initiated against two land owners, one being a private individual and one being a state entity, to obtain the remaining easements necessary to complete the route. In 2010 Okanogan County Superior Court granted “public use and necessity” against the two land owners. The condemnation process has now moved to the appraisal stage and a court date has been set for July 5, 2011, to determine values for the take. Additionally the District is awaiting a decision from the Washington State Supreme Court regarding a potential appeal by the Washington State Department of Natural Resources with regard to the Superior Court decision to allow the condemnation.

Other litigation - The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material adverse impact on its financial position or results of operations.

SUPPLEMENTAL INFORMATION (UNAUDITED)

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
COMPARATIVE RESULTS OF OPERATIONS AND
DEBT SERVICE COVERAGE (Unaudited)**

	YEAR ENDED DECEMBER 31,				
	2010	2009	2008	2007	2006
OPERATING REVENUES					
Electric - retail	\$ 29,102,331	\$ 30,564,662	\$ 31,725,275	\$ 30,864,028	\$ 29,679,325
Electric - wholesale	5,801,904	4,198,885	11,263,827	11,989,607	9,979,947
Telecommunications	1,912,283	1,622,655	1,023,170	839,421	615,245
Other operating revenue	1,024,195	1,176,193	727,419	706,821	645,541
Total operating revenue	37,840,713	37,562,395	44,739,691	44,399,877	40,920,058
OPERATING EXPENSES					
Cost of power	24,501,801	22,334,570	25,013,021	24,719,827	23,148,847
Electric operations and maintenance	5,463,131	5,309,984	5,552,945	4,138,020	3,103,958
Telecommunications operations and maintenance	638,124	690,763	572,726	437,571	424,866
Customer accounting and information	1,962,667	1,962,851	1,943,477	1,737,413	1,348,337
Administration and general	3,863,210	3,767,340	2,895,403	2,500,222	2,657,879
Depreciation and amortization	3,428,771	3,118,253	2,953,691	2,784,547	2,627,201
Taxes	1,839,338	1,876,404	1,921,890	1,896,453	2,212,731
Total operating expenses	41,697,042	39,060,165	40,853,153	38,214,053	35,523,819
Net operating revenue (expense)	(3,856,329)	(1,497,770)	3,886,538	6,185,824	5,396,239
NONOPERATING REVENUE (EXPENSE)					
Interest income	214,510	964,500	1,697,562	1,919,001	1,496,104
Other income	140,331	214,852	(39,597)	(3,779)	41,976
Contributed capital	996,025	884,846	1,795,823	1,951,582	1,750,852
Interest on long-term debt	(992,488)	(767,365)	(750,727)	(778,339)	(791,914)
Impairment of investment		(1,147,139)	(2,995,409)		
Other expenses	(253,270)	(418,676)	(48,073)	(48,073)	(48,073)
Net nonoperating revenue (expense)	105,108	(268,982)	(340,421)	3,040,392	2,448,945
CHANGE IN NET ASSETS	\$ (3,751,221)	\$ (1,766,752)	\$ 3,546,117	\$ 9,226,216	\$ 7,845,184
DEBT SERVICE COVERAGE ADJUSTMENTS					
Interest charges	\$ 992,488	\$ 767,365	\$ 750,727	\$ 778,339	\$ 791,914
Depreciation and amortization	3,428,771	3,118,253	2,953,691	2,784,547	2,627,201
Impairment of investment		1,147,139	2,995,409		
Rate stabilization transfer (to) from	1,400,000	(535,000)		(5,500,000)	
AVAILABLE FOR DEBT SERVICE	\$ 2,070,038	\$ 2,731,005	\$ 10,245,944	\$ 7,289,102	\$ 11,264,299
TOTAL DEBT SERVICE	\$ 1,428,314	\$ 1,557,495	\$ 1,563,293	\$ 1,555,616	\$ 1,217,941
DEBT SERVICE COVERAGE	1.45	1.75	6.55	4.69	9.25

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
CUSTOMER STATISTICAL DATA (Unaudited)**

	YEAR ENDED DECEMBER 31,				
	2010	2009	2008	2007	2006
ACTIVE CUSTOMER ACCOUNTS					
Residential	\$ 16,828	\$ 16,869	\$ 16,702	\$ 16,395	\$ 16,105
General service	2,370	2,374	2,349	2,365	2,344
Industrial	4	4	4	4	3
Irrigation and frost control	1,337	1,346	1,349	1,313	1,317
Street lighting	21	21	21	21	21
Sales for resale	5	3	5	8	10
Telecommunications ⁽¹⁾	21	19	32	33	34
Total active customer accounts	\$ 20,586	\$ 20,636	\$ 20,462	\$ 20,139	\$ 19,834
REVENUES BILLED					
Residential	\$ 14,961,740	\$ 15,156,514	\$ 15,268,716	\$ 14,761,937	\$ 14,062,644
General service	10,872,507	10,963,211	11,367,403	11,117,623	11,129,572
Industrial	982,599	1,720,197	2,581,701	2,479,156	2,113,442
Irrigation and frost control	2,158,725	2,597,766	2,382,594	2,380,867	2,249,687
Street lighting	126,761	126,974	124,861	124,445	123,980
Sales for resale	5,801,904	4,198,885	11,263,827	11,989,607	9,979,947
Telecommunications	1,912,283	1,622,655	1,023,170	839,421	615,245
Other operating revenue	1,024,195	1,176,193	727,419	706,821	645,541
Total revenues billed	\$ 37,840,714	\$ 37,562,395	\$ 44,739,691	\$ 44,399,877	\$ 40,920,058
ENERGY CONSUMED (kWh)					
Residential	289,163,326	312,799,371	301,280,297	290,554,285	275,414,662
General service	197,732,966	206,753,800	207,063,203	202,418,783	201,685,814
Industrial	21,602,188	40,935,028	61,861,650	58,953,315	49,237,193
Irrigation and frost control	60,258,036	75,416,713	68,141,702	68,582,278	63,845,157
Street lighting	1,340,152	1,326,639	1,309,306	1,309,130	1,304,919
Sales for resale	213,866,000	171,965,000	233,706,000	264,004,000	278,779,000
Total energy consumed (kWh)	783,962,668	809,196,551	873,362,158	885,821,791	870,266,745
ANNUAL AVERAGE REVENUE PER CUSTOMER					
Residential	\$ 889	\$ 898	\$ 914	\$ 900	\$ 873
General service	4,588	4,618	4,839	4,701	4,748
Industrial	245,650	430,049	645,425	619,789	704,481
Irrigation and frost control	1,615	1,930	1,766	1,813	1,708
Street lighting	6,036	6,046	5,946	5,926	5,904
Sales for resale	1,160,381	1,399,628	2,252,765	1,498,701	997,995
Telecommunications ⁽¹⁾	91,061	85,403	31,974	25,437	18,095
Total annual average revenue per customer	\$ 1,788	\$ 1,763	\$ 2,151	\$ 2,170	\$ 2,031
AVERAGE ANNUAL kWh PER CUSTOMER					
Residential	17,183	18,543	18,039	17,722	17,101
General service	83,432	87,091	88,150	85,589	86,043
Industrial	5,400,547	10,233,757	15,465,413	14,738,329	16,412,398
Irrigation and frost control	45,070	56,030	50,513	52,233	48,478
Street lighting	63,817	63,173	62,348	62,340	62,139
Total annual average kWh per customer	27,728	30,913	31,317	30,939	29,888

⁽¹⁾ Customer accounts were consolidated in 2009.

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
OTHER FINANCIAL DATA (Unaudited)**

	YEAR ENDED DECEMBER 31,				
	2010	2009	2008	2007	2006
COST OF PURCHASED POWER					
Bonneville Power Administration	\$ 17,357,446	\$ 14,602,775	\$ 17,542,942	\$ 18,337,324	\$ 16,909,839
Douglas County PUD - Wells Project	3,143,054	3,483,584	2,727,910	2,763,410	2,754,624
Energy NW - Nine Canyon Wind	2,963,835	2,953,233	3,015,740	2,346,663	1,734,130
Other cost of power, including market purchases	1,037,466	1,294,978	1,726,429	1,272,430	1,750,254
Total cost of purchased power	\$ 24,501,801	\$ 22,334,570	\$ 25,013,021	\$ 24,719,827	\$ 23,148,847
ENERGY RESOURCES mWh					
Bonneville Power Administration	530,461	549,191	581,711	580,390	567,919
Douglas County PUD - Wells Project	228,442	242,781	262,069	289,447	279,420
Energy NW - Nine Canyon Wind	37,178	38,961	52,050	41,377	41,282
Other cost of power, including market purchases	11,545	22,101	21,441	16,140	24,250
Total energy resources mWh	807,626	853,034	917,271	927,354	912,871
AVERAGE COST PER mWh					
Bonneville Power Administration	\$ 32.72	\$ 26.59	\$ 30.16	\$ 31.59	\$ 29.78
Douglas County PUD - Wells Project	13.76	14.35	10.41	9.55	9.86
Energy NW - Nine Canyon Wind	79.72	75.80	57.94	56.71	42.01
Other cost of power, including market purchases	89.86	58.59	80.52	78.84	72.18
Average cost per mWh (all resources)	\$ 30.34	\$ 26.18	\$ 27.27	\$ 26.66	\$ 25.36
PEAK DEMAND mW	155	166	173	161	162
NET UTILITY PLANT	\$ 88,003,113	\$ 75,506,178	\$ 63,948,537	\$ 58,348,349	\$ 50,407,340
EMPLOYEE DATA					
Full-time employees	91	91	88	87	83
Part-time employees	4	4	7	6	10
Total employees	95	95	95	93	93