

Public Utility District No. 2 of
Grant County, Washington
Financial Statements
December 31, 2009 and 2008

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

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DECEMBER 31, 2009 AND 2008**

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Report of Independent Auditors

To the Board of Commissioners of
Public Utility District No. 2 of
Grant County, Washington

In our opinion, the accompanying balance sheets and the related statements of revenues and expenses and changes in net assets and of cash flows of the Public Utility District No. 2 of Grant County, Washington (the "District"), present fairly, in all material respects, the financial position of the District at December 31, 2009 and 2008, and its changes in financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, on January 1, 2009 the District adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The management's discussion and analysis for the year ended December 31, 2009 on pages 2 through 9, is not a required part of the financial statements as of and for the year then ended but is supplementary information required by the accounting principles generally accepted in the United States of America. 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.

Our audits were conducted for the purposes of forming an opinion on the financial statements taken as a whole. The Schedules of Changes in Working Capital, and Schedules of Power Costs and Allocation to Power Purchasers included as Supplementary Information on pages 53-56, as well as Note 11: the Supplemental Disclosure of Telecommunication Activities, are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 28, 2010

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009 AND 2008

As of December 31, 2009, Public Utility District No. 2 of Grant County, Washington (the "District") comprises three operating systems: the Electric System, the Columbia River-Priest Rapids Hydroelectric Production System ("Priest Rapids") and the Wanapum Development ("Wanapum"). Priest Rapids and Wanapum (collectively, the "Priest Rapids Project") are operated under Federal Energy Regulatory Commission ("FERC") License, Project No. 2114. During 2010, per Commission resolution, the Columbia River-Priest Rapids Hydro Electric Production System and the Wanapum Development were combined into one system, the Priest Rapids Hydroelectric Project ("Priest Rapids Project").

Presented below is a discussion and analysis of the financial activities for the years ended December 31, 2009, 2008 and 2007. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF DISTRICT'S FINANCIAL STATEMENTS

This annual financial report consists of a series of financial statements and reflects the self-supporting, proprietary activities of the District funded primarily by the sale of electrical power and energy and wholesale telecommunication services. The District reports the business-type activities in a manner similar to private business enterprises. The District's financial statements presented in this report consist of the Balance Sheets, Statements of Revenues and Expenses and Changes in Net Assets, Statements of Cash Flows and the Notes to the Financial Statements.

The Balance Sheets include all of the District's assets, liabilities and net assets and provide information about the nature and amounts of investments in assets and the obligations of the District.

All of the revenues and expenses of the District are accounted for in the Statements of Revenues and Expenses and Changes in Net Assets. These statements measure the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through rates and other charges.

The primary purpose of the Statements of Cash Flows is to provide information about the District's cash receipts and cash disbursements during the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities.

The Notes to the Financial Statements provide additional information that is essential for a full understanding of the information provided in the three statements described above.

FINANCIAL HIGHLIGHTS

On April 17, 2008, the Federal Energy Regulatory Commission issued the District a 44-year License to operate the Priest Rapids Project effective April 1, 2008. Issuance of the new license represents both the culmination of over a decade of work to obtain that authorization, and the beginning of several decades of significant new license implementation activities. The original license to operate the Priest Rapids Project expired October 31, 2005 with annual licenses in effect until the new license was issued.

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MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009 AND 2008

The District has constructed a new fish passage facility through the center slot of future Unit 11 at Wanapum Dam. This fish bypass facility was designed to improve downstream passage of migrating smolts and improve water quality by reducing the amount of spill, total dissolved gas entrainment, fish injury and erosion at the Wanapum Dam. Construction began in 2005 and was completed in April, 2008. The District began operating the bypass in late April 2008. The bypass will be operated from April through August annually.

The financial stability of the Electric System has allowed it to revenue finance capital improvements. With the large industrial loads such as Microsoft and Yahoo! entering the service area and REC Solar Grade Silicon's expansion, the Electric System is required to add transmission and distribution infrastructure. These large industrial customers were required to make Contributions in Aid of Construction (CIAC) to the Electric System for specific infrastructure required to deliver power to their facilities. CIAC's surged to over \$9 million in both 2007 and 2008 during a period of concentrated industrial growth. CIAC's for 2009 reflect a return to more normal levels around \$1 million.

During 2007, the District reached an historic agreement with the Yakama Nation regarding various issues. Among them, the Yakama Nation agreed to drop pending legal claims against the District, grant the District the right of first refusal to participate in the development of new generation resources, and to represent itself on committees, subcommittees and groups associated with implementation of the various agreements associated with the Priest Rapids Project and the new license requirements. The Yakama Nation in turn will receive direct benefit from the Priest Rapids Project and pay the associated power costs. See Note 6.

The District has installed a fiber optic distribution system (the "Fiber Optic Network") in its service area for use by the Electric System. This fiber optic distribution system is connected to the Northwest Open Access Network ("NoaNet"), a fiber optic communication system. The District has made excess capacity on this system available to providers of high speed internet services and telephone services, among others. The Commission has approved the continued expansion of the fiber optic distribution system and allocates resources for expansion on an annual basis.

In December of 2001, the District signed the Priest Rapids Power Sales Contracts with the original power purchasers and 10 purchasers in Idaho for the purchase and sale of output from Priest Rapids (after October 31, 2005) and output from Wanapum (after October 31, 2009). The Priest Rapids Power Sales Contracts consist of contracts with terms that extend through the New License term, March 31, 2052. The contract provisions relating to Priest Rapids took effect on November 1, 2005 and those relating to Wanapum took effect on November 1, 2009. In accordance with the Federal Energy Regulatory Commission ("FERC") Order in the Public Law 83-544 proceeding, the District dedicates 30% of the combined output of the Priest Rapids Project for sales based on market principles. The power purchasers are entitled to receive the net revenues from the sale of the 30% portion to the extent the District does not need the revenues to purchase power to meet the Electric System's firm loads.

The Priest Rapids Power Sales Contracts provide that each power purchaser will be obligated to make payments equal to annual power costs, which include all operating expenses and debt service

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009 AND 2008

on the Parity Bonds and debt service coverage less any interest earnings multiplied by the percentage of output or revenue, as applicable, that the purchaser is entitled to that year. Since November 1, 2005, the start of the term of the new power sales contracts, the District has been able to meet all of its firm load requirements with Priest Rapids and Wanapum generation and other benefits derived from the hydro facilities.

The District is in the process of a long-term turbine upgrade project at Wanapum Dam. In August 2009, the installation of the fifth advanced turbine was complete and began generating power. The sixth turbine replacement was recently completed and began generating in April, 2010. The District anticipates replacing the remaining units at a rate of one every nine months, until all ten have been replaced, with a projected completion date of May, 2013. As of December 31, 2009, the cost of the remaining turbines to be replaced is estimated at \$64 million.

In 2008 the District determined the final scope and design of a long term capital improvement project for the Wanapum facilities. A contract was awarded January 5, 2009, to Alstom Hydro US, Inc. for approximately \$150 million to upgrade all ten generators at Wanapum Dam. The on-site construction is scheduled for June 2010 through January 2018. The turbine and generator schedules will match up on the seventh turbine. The existing generators are currently rated at 109.25 megavolt-amperes ("MVA"). The new generators will have a name plate rating of 128.6 MVA, an increase of 17.7%.

Priest Rapids consists of a dam and hydroelectric generating station having a nameplate rating of 955,600 kilowatts ("KW"). Priest Rapids is located on the Columbia River in Grant and Yakima Counties about 150 air miles northeast of the City of Portland, 130 air miles southeast of the City of Seattle and 18 miles downstream of Wanapum.

During the year ended December 31, 2009, Priest Rapids provided 3,898,009 megawatt hours ("MWh") of electric energy at an average cost of \$13.42 per MWh. During the year ended December 31, 2008, Priest Rapids provided 4,332,185 MWh of electric energy at an average cost of \$12.50 per MWh. During the year ended December 31, 2007, Priest Rapids provided 4,677,541 MWh of electric energy at an average cost of \$9.99 per MWh.

Wanapum consists of a dam and hydroelectric generating station having a nameplate rating of 1,038,000 KW. Wanapum is located on the Columbia River in Grant and Kittitas Counties about 160 air miles northeast of the City of Portland, 129 air miles southeast of the City of Seattle and 18 miles upstream of Priest Rapids.

During the year ended December 31, 2009, Wanapum provided 3,678,716 MWh of electric energy at an average cost of \$17.41 per MWh. During the year ended December 31, 2008, Wanapum provided 4,050,691 MWh of electric energy at an average cost of \$16.21 per MWh. During the year ended December 31, 2007, Wanapum provided 4,573,711 MWh of electric energy at an average cost of \$11.95 per MWh.

While operating costs were comparable to the prior year, the increase in average costs per MWh at both Priest Rapids and Wanapum 2009 from 2008 was driven by reduction in water for generation.

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009 AND 2008

The increases in average cost per MWh in 2008 from 2007 at both Priest Rapids and Wanapum were attributable to lower generation output and an increase in operating costs in compliance with the new license.

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MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009 AND 2008

CONDENSED COMPARATIVE FINANCIAL INFORMATION

Balance Sheet	2009	2008	2007
Assets			
Current	\$ 370,935,479	\$ 459,202,288	\$ 473,030,318
Net utility plant	1,208,166,613	1,115,614,217	945,085,788
Noncurrent	19,794,448	23,429,478	83,652,072
Total assets	<u>\$ 1,598,896,540</u>	<u>\$ 1,598,245,983</u>	<u>\$ 1,501,768,178</u>
Liabilities			
Current	\$ 140,599,612	\$ 122,067,314	\$ 119,704,200
Noncurrent	798,202,193	833,288,908	821,371,899
Total liabilities	<u>938,801,805</u>	<u>955,356,222</u>	<u>941,076,099</u>
Net assets			
Invested in capital assets, net of related debt	452,705,402	399,831,412	344,510,152
Restricted	34,830,612	31,600,096	29,720,193
Unrestricted	172,558,721	211,458,253	186,461,734
Total net assets	<u>660,094,735</u>	<u>642,889,761</u>	<u>560,692,079</u>
Total liabilities and net assets	<u>\$ 1,598,896,540</u>	<u>\$ 1,598,245,983</u>	<u>\$ 1,501,768,178</u>
Revenues and Expenses and Changes in Net Assets			
Operating revenues	\$ 256,129,132	\$ 286,960,543	\$ 271,201,710
Operating expenses	204,026,830	186,270,334	162,256,129
Net operating income	<u>52,102,302</u>	<u>100,690,209</u>	<u>108,945,581</u>
Other revenues (expenses)	(35,890,904)	(27,339,585)	(21,283,520)
Contribution in aid of construction	993,576	9,103,456	10,287,593
Net extraordinary (loss) gain	<u>-</u>	<u>(256,398)</u>	<u>3,835,891</u>
Change in net assets	<u>\$ 17,204,974</u>	<u>\$ 82,197,682</u>	<u>\$ 101,785,545</u>

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009 AND 2008

FINANCIAL ANALYSIS

The following discussion provides comparative financial information for the years ended December 31, 2009, 2008, and 2007.

ASSETS

While current assets remained relatively consistent from 2007 to 2008, 2009 showed a 20% decrease from the prior year. This reflects the difference in the operating environment in 2009. Current assets were used to buy power needed due to lower than expected water supplies. The inflows of revenues were also lower than forecast due to decreased surplus power available for resale and lower market prices. Current assets were also used to purchase Net utility plant as discussed below.

2009 showed a \$92 million increase in Net utility plant from the prior year. The continued growth of the Electric System and the replacement of turbines at Wanapum and other improvements to Priest Rapids and Wanapum have required a considerable investment in Plant. Net utility plant increased by over \$170 million from 2007 to 2008. The new license to operate the Priest Rapids Project was a major contributor to this large increase. A \$42 million liability and related intangible asset were recorded April 1, 2008, related to commitments and obligations the District has incurred to comply with specific license requirements over the next 44 years. The District also transferred over \$57 million in relicensing costs that have accumulated in Noncurrent assets to Net utility plant. These costs are being amortized over the life of the license.

Noncurrent assets remained relatively constant from 2008 to 2009. The decrease in other Noncurrent assets from 2007 to 2008 is due in large part to the \$57 million transfer of relicensing costs to Net utility plant mentioned above. During 2008, the District also received a settlement of \$11.5 million from the California Independent System Operator Corporation (ISO) on a dispute dating back to 2001.

LIABILITIES

January 1, 2007, the District called \$57.3 million of Electric System 2001H Series Term bonds with a maturity in 2022. All other changes in long-term debt from 2007 to 2009 were due to scheduled principal payments. The District has not issued any bonds or other forms of long-term debt from 2007 to 2009.

The upheaval in the financial markets over recent years has to date had little effect on the District. While the District has approximately \$787 million in bonded debt as of year-end, all of that debt is at fixed rates. During first quarter of 2010, the District has been preparing for a bond issue to finance capital improvements for the Priest Rapids Project. The total par value of the bond offering is over \$349 million of which \$35 million will be used to refund prior bond issues. In March of 2010, Standard & Poor's and Fitch reaffirmed the 'AA-/stable outlook' and 'AA/stable outlook', respectively, for the Electric System, Priest Rapids, Wanapum and the Priest Rapids Project System's bonds. Moody's, on the other hand, downgraded the District's bonds from 'Aa2' to 'Aa3/stable outlook'. The strengths listed by all rating agencies included low cost hydro electric

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MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009 AND 2008

resources from the Priest Rapids Project and low retail rates in the Electric System. The 2010 bond issue will also be at fixed interest rates with the District taking advantage of Build America Bonds and Clean Renewable Energy Bonds which offers respectively a 35% and 70% refund from the Federal Government on interest payments made.

NET ASSETS

Net assets increased approximately \$17 million and \$82 million in 2009 and 2008, respectively. The results are indicative of the change in river flows for generation, market price for surplus generation, and increasing costs of purchased power for the Electric System.

STATEMENT OF REVENUES AND EXPENSES

The revenues of Priest Rapids and Wanapum are directly tied to their respective power costs (operating expenses – noncash items + debt service – interest earnings). Additional expenses related to compliance with the new license and other fish and operational costs have added to the revenues required to cover the cost of production.

The Electric System's revenues, on the other hand, are reflective of the individual ebbs and flows of the economy through power consumption and market forces on wholesale power prices. The retail power sales for 2008 reflected a modest increase in all categories with the commercial and industrial category showing the largest increase of 14% from the prior year. Overall Retail sales also increased in 2009, but at a lower rate than in recent years. The lower than expected water flows and the relatively low wholesale prices resulted in a 25.8% decrease in Sales to other utilities for 2009 from 2008.

Reduced generation from the Priest Rapids Project also caused the Electric System to purchase more power in 2009 to meet its loads. This resulted in an increase of purchased power expense by over \$22 million. The increase in Operating expenses from 2007 to 2008 was attributable to the increase in purchased power expense for the Electric System of over \$18 million due to the load growth as well as a \$9 million increase in generation expense at Priest Rapids and Wanapum and the \$4 million increase in the net payments to the Yakama Nation in accordance with the agreement reached in 2007. The payments to the Yakama Nation decreased by over \$5 million from 2008 to 2009 due to the fact that the payments are directly tied to wholesale power prices.

The decrease in Other revenues (expenses) from 2007 through 2009 is largely due to the collapse of interest rates on investments and an overall decrease in investment balances of approximately \$93 million due to capital expenditures during 2009.

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009 AND 2008

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to provide the District's ratepayers, bondholders, creditors and other interested parties with a general overview of the District's finances. If you have questions about this report or need additional information, contact the District's Treasurer/Controller at the Public Utility District No. 2 of Grant County, P.O. Box 878, Ephrata, Washington, 98823.

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

BALANCE SHEETS DECEMBER 31, 2009 AND 2008

ASSETS	2009	2008
CURRENT ASSETS		
Cash	\$ 2,457,586	\$ 3,348,091
Investments	148,620,498	186,973,779
Restricted funds		
Cash	14,791,962	10,193,344
Investments	159,724,274	210,204,234
Customer accounts receivable, net of allowance for uncollectible accounts	23,159,401	27,235,515
Materials and supplies	18,745,624	18,195,780
Other current assets	3,436,134	3,051,545
	<u>370,935,479</u>	<u>459,202,288</u>
NONCURRENT ASSETS		
Long-term investments	2,597,656	7,912,406
Unamortized debt expense	6,466,241	7,268,746
Conservation loans	410,872	421,072
Long-term receivables, net of allowance for uncollectible accounts	637,956	644,180
Demand-side management	6,408,874	6,615,592
Deposits	2,336,400	-
Deferred preliminary expenses	936,449	567,482
	<u>19,794,448</u>	<u>23,429,478</u>
Utility plant, net of accumulated depreciation and amortization	<u>1,208,166,613</u>	<u>1,115,614,217</u>
Total noncurrent assets	<u>1,227,961,061</u>	<u>1,139,043,695</u>
TOTAL ASSETS	<u>\$ 1,598,896,540</u>	<u>\$ 1,598,245,983</u>

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

BALANCE SHEETS DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS	2009	2008
CURRENT LIABILITIES		
Accounts payable		
Trade	\$ 43,714,223	\$ 39,546,548
Wages payable	11,834,395	11,124,249
Power purchasers	13,041,494	1,899,514
Accrued taxes	4,523,761	4,843,464
Customer deposits	3,120,541	3,406,247
Accrued bond interest	19,857,608	20,580,787
Unearned revenue	1,300,386	289,636
Habitat liability	6,653,104	6,087,681
Other current liabilities	20,096	35,096
Current portion of licensing obligations	3,429,004	2,689,092
Current portion of long-term debt	33,105,000	31,565,000
	140,599,612	122,067,314
Total current liabilities		
NONCURRENT LIABILITIES		
Accrued other postemployment benefits	441,000	340,672
Federal arbitrage tax liability	-	730,914
Long-term unearned revenue	1,714,304	1,821,440
Licensing obligations, less current portion	40,258,592	41,430,904
Revenue bonds, less current portion	753,725,000	786,830,000
Unamortized premium	12,335,838	14,046,554
Unamortized discount	(837,215)	(903,281)
Unamortized refunding loss	(9,435,326)	(11,008,295)
	798,202,193	833,288,908
Total noncurrent liabilities		
Total liabilities	938,801,805	955,356,222
COMMITMENTS AND CONTINGENCIES (NOTES 6, 7, 8, 9, 10 and 11)		
NET ASSETS		
Invested in capital assets, net of related debt	452,705,402	399,831,412
Restricted	34,830,612	31,600,096
Unrestricted	172,558,721	211,458,253
	660,094,735	642,889,761
Total net assets		
TOTAL LIABILITIES AND NET ASSETS	\$ 1,598,896,540	\$ 1,598,245,983

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
OPERATING REVENUES		
Sales to power purchasers at cost	\$ 49,177,505	\$ 53,598,558
Retail energy sales		
Residential	33,211,379	31,926,286
Irrigation	16,422,107	16,555,562
Commercial and industrial	64,260,218	61,773,063
Governmental and others	971,009	931,072
Sales to other utilities	87,908,037	118,497,247
Fiber optic network sales	2,659,832	2,025,299
Other	1,519,045	1,653,456
	256,129,132	286,960,543
OPERATING EXPENSES		
Purchased power	57,340,645	35,220,767
Generation	27,085,275	25,592,323
Transmission	10,248,867	9,146,854
Distribution	11,741,454	9,461,035
Customer and information services	5,127,564	4,385,547
Fiber optic network operations	1,138,701	1,132,614
Administrative and general	27,756,824	28,602,226
License compliance and related agreements	15,672,861	25,807,223
Depreciation and amortization	37,380,575	36,747,081
Taxes	10,534,064	10,174,664
	204,026,830	186,270,334
NET OPERATING INCOME	52,102,302	100,690,209
OTHER REVENUES (EXPENSES)		
Interest and other income	5,137,399	11,503,116
Interest on revenue bonds and other, net of capitalized interest of \$1,704,256 and \$5,141,635	(40,297,477)	(37,833,462)
Amortization of debt expense, discount, and premium	(730,826)	(1,009,239)
	(35,890,904)	(27,339,585)
CONTRIBUTION IN AID OF CONSTRUCTION	993,576	9,103,456
EXTRAORDINARY LOSS		
Loss related to powerhouse fire	-	(176,482)
Loss on insurance settlements	-	(79,916)
	-	(256,398)
CHANGE IN NET ASSETS	17,204,974	82,197,682
NET ASSETS		
Beginning of year	642,889,761	560,692,079
End of year	\$ 660,094,735	\$ 642,889,761

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retail energy sales	\$ 115,250,035	\$ 109,773,701
Cash received from sales to power purchasers at cost	54,785,306	55,403,046
Cash received from sales to other utilities	92,479,650	107,622,004
Other cash receipts	3,767,529	6,188,963
Cash paid for customer deposits	(314,288)	(245,546)
Cash paid for demand-side management	(701,611)	(1,133,311)
Cash paid for purchase of power	(50,690,929)	(28,994,240)
Cash paid to contractors, suppliers, and employees	(100,210,567)	(102,202,264)
Cash paid for deposits	(2,336,400)	-
Cash received from other noncurrent assets	-	11,500,000
Cash (paid for) received from long-term contracts	(107,136)	1,821,440
Taxes paid	(10,876,409)	(10,070,276)
	<u>101,045,180</u>	<u>149,663,517</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on revenue bonds	(31,565,000)	(29,665,000)
Interest paid on revenue bonds	(40,438,516)	(41,813,899)
Relicensing costs	-	(76,070)
Cash received from contribution in aid of construction	2,004,326	5,623,169
Insurance proceeds	-	3,798,505
Extraordinary loss - powerhouse fire	-	(256,398)
Licensing obligation payments	(2,541,064)	-
Acquisition and construction of plant assets	(124,339,854)	(102,494,129)
Proceeds on sale of plant assets	437,668	1,320,157
	<u>(196,442,440)</u>	<u>(163,563,665)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(442,864,230)	(724,919,992)
Sale proceeds of investment securities	538,901,783	724,403,332
Investment income proceeds	7,457,620	9,693,915
Net repurchase agreement	(4,400,000)	(1,320,285)
Cash received from conservation loans	10,200	173,963
	<u>99,105,373</u>	<u>8,030,933</u>
NET INCREASE (DECREASE) IN CASH	<u>\$ 3,708,113</u>	<u>\$ (5,869,215)</u>

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH AT END OF YEAR	\$ 17,249,548	\$ 13,541,435
CASH AT BEGINNING OF YEAR	<u>13,541,435</u>	<u>19,410,650</u>
NET INCREASE (DECREASE) IN CASH	<u>\$ 3,708,113</u>	<u>\$ (5,869,215)</u>
OPERATING ACTIVITIES		
Net operating income	\$ 52,102,302	\$ 100,690,209
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	37,380,575	36,747,081
Provision for uncollectible accounts	(9,871)	312,133
Cash provided by (used in) changes in operating assets and liabilities:		
Change in Habitat funds held in trust	(12,368)	919,722
Customer accounts receivable	4,085,984	(6,798,657)
Materials and supplies	(549,844)	454,735
Other current assets	(925,288)	(367,937)
Deposits and other noncurrent assets	(2,336,400)	11,500,000
Unearned revenue	(107,136)	1,821,440
Demand-side management	(701,611)	(1,133,311)
Trade and wages payables	1,525,519	3,240,057
Payable to power purchasers, net	11,141,981	2,293,825
Accrued taxes	(319,703)	108,513
Customer deposits	(314,288)	(245,546)
Other current liabilities	(15,000)	(20,097)
Accrued other postemployment benefits	100,328	141,350
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 101,045,180</u>	<u>\$ 149,663,517</u>

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTES TO THE FINANCIAL STATEMENTS

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1. ORGANIZATION AND ACCOUNTING POLICIES

Public Utility District No. 2 of Grant County, Washington (the “District”) is comprised of three operating systems: the Electric System, the Columbia River-Priest Rapids Hydroelectric Production System (“Priest Rapids”), and the Wanapum Development (“Wanapum”). Priest Rapids and Wanapum (collectively, the “Priest Rapids Project”) are operated under Federal Energy Regulatory Commission (“FERC”) License, Project No. 2114. The District also maintains a Service System, to provide administrative services to the operating systems. Internal transactions including revenues and expenses between the District’s reporting segments and the Service System have been eliminated in the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America. The District is required by its financing arrangements to maintain separate accounts and to report separately on each operating system. See Note 13. The financing arrangements require maintenance of certain funds and application of accounting procedures prescribed by the State of Washington, which generally conform to those prescribed by FERC and accounting principles generally accepted in the United States of America. The accompanying financial statements are those of the District, which transmits and distributes electric energy and wholesale telecommunication services within Grant County, Washington.

The District maintains its accounts in accordance with accounting principles generally accepted in the United States of America for proprietary funds as prescribed by the Governmental Accounting Standards Board (“GASB”). GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, requires that governmental utilities also follow accounting principles prescribed by the Financial Accounting Standards Board and predecessor organizations that are not in conflict with GASB pronouncements (“non-conflicting FASB standards”) and that were issued prior to November 30, 1989. It also permits governmental utilities to elect to follow all nonconflicting FASB standards issued after that date, which heretofore the District had elected to do. During 2009, the District changed its accounting policy to reverse this election to follow nonconflicting FASB standards issued after November 30, 1989 because substantially all of the Districts transactions are currently addressed by existing GASB standards. There was no material impact to the accompanying financial statements as a result of this change.

The District’s accounting records generally follow the Uniform System of Accounts for public utilities and licensees prescribed by FERC except as it relates to the accounting for contributions in aid of construction (“CIAC”). FERC would account for CIAC’s as a reduction to plant.

Change in accounting principle – In June 2008, the GASB issued Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB Statement No. 53 is required for financial statements for periods beginning after June 15, 2009. The District elected early adoption of GASB No. 53 effective January 1, 2009.

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Prior to adoption of GASB 53, the District accounted for its derivative contracts under the provisions of Accounting Standard Codification (“ASC”) 815 (*Derivative Instruments and Hedging Activities*). Under ASC 815, there were several derivative instruments that did not meet the definition of normal purchase/normal sales and as a result the fair value of these contracts were recorded and marked to market each period end. Based on the definition of normal purchase normal/sale under GASB 53 these contracts meet the definition of normal and as a result would not have been recorded. Therefore, the District has restated the prior periods presented in these financial statements to remove the effect of ASC 815 as the adoption of GASB 53 is applied retroactively. As presented in the Balance Sheets, the effect to net assets as a result in this change in accounting principle is as follows:

	Total net assets	
	Beginning of year	End of year
As restated for 2008	\$ 560,692,079	\$ 642,889,761
As previously reported for 2008	560,545,777	641,382,997
Adjustment to Net Assets	\$ 146,302	\$ 1,506,764

In the Statement of Revenues and Expenses and Changes in Net Assets, the impact of adoption of this change is an increase to Sales to other utilities of \$534,871, a decrease to Purchased power expense of \$825,591 and an increase to the change in Net assets of \$1,360,462 for the year ended December 31, 2008. The accompanying Statement of Revenues and Expenses and Changes in Net Assets has been restated to reflect these adjustments. Additionally, the accompanying Statement of Cash Flows has been restated to reflect the impact of these adjustments on operating income and related operating accounts. However, there was no change to reported net cash flows.

Pending accounting standard – In June 2007, the GASB issued Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*. The objective of this statement is to establish accounting and financial reporting requirements for intangible assets and is expected to enhance the comparability of the accounting and reporting of such assets among state and local governments. GASB Statement No. 51 is required for financial statements for periods beginning after June 15, 2009. The District is currently evaluating the impacts of adopting this statement for the District’s financial statements.

Revenue Recognition – The District recognizes revenues associated with power sales to its retail and wholesale customers when delivered, which includes an estimate of revenue earned but not billed to customers as of year-end.

Revenues associated with power sales from the Priest Rapids Project under the Power Sales Contracts described in Note 6 are recorded based on a cost-based formula specified in the

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

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contracts which include operation and maintenance costs, 115% of debt service and adjustments related to other factors. Depreciation and amortization, extraordinary maintenance, and charges paid by the Reserve and Contingency Fund, Supplemental Repair and Renewal Fund, Supplemental Renewal and Contingency Fund, and Construction Funds and are not considered costs of producing and delivering power for this purpose.

Allowance for Uncollectible Accounts – Management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts of specific customers that may be unable to meet their financial obligations and an estimate based on historical experience.

Contributions in Aid of Construction – A portion of the District’s utility plant is financed through contributions from customers in accordance with the District’s line extension policy. Additionally, a portion of utility plant is financed through contributions from external sources, such as customers and other governmental organizations. The District recognizes capital contributions from external sources as nonoperating revenue at the point at which it becomes nonrefundable. The District recognized \$993,576 and \$9,103,456 of contributions in aid of construction for the years ended December 31, 2009 and 2008, respectively.

Allowance for Funds Used During Construction – Interest costs incurred to finance major construction projects are capitalized as part of the cost of the project. The composite interest rate for calculating capitalized interest was 5.05% and 4.98% for 2009 and 2008, respectively. Total capitalized interest was \$1,704,256 and \$5,141,635 during 2009 and 2008, respectively.

Utility Plant – Utility plant assets are recorded at cost including an allocation of administrative and general costs. Depreciation is determined by the straight-line method over the estimated life of the asset. The District’s asset lives used for computing depreciation range from seven to 100 years, with a composite rate of 2.28% and 2.36% for 2009 and 2008, respectively. When utility plant assets are retired, their original cost, together with removal costs, less salvage, are charged to accumulated depreciation. The District does not collect costs of disposal through rates. Such costs are charged to accumulated depreciation.

The costs of maintenance and repairs are charged to operations as incurred. Renewals, replacements and betterments are capitalized. On a periodic basis, the District identifies impaired assets and strives to minimize the financial loss through liquidation of these assets. Once an asset has been identified as impaired and selected for liquidation, it is written down to its net realizable value, based on fair market value less settlement costs.

Energy Conservation and Demand-Side Management (“DSM”) Programs – The District’s expenditures for regional conservation programs and other DSM programs which benefit future periods by reducing energy supply requirements have historically been capitalized and amortized over the expected useful lives of the programs. During 2009, the District began expensing DSM costs as Customer information and services expense. Any balances accumulated prior to the change in accounting will continue to be amortized over the original useful lives of the programs.

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

Cash – For purposes of the statements of cash flows, the District classifies only amounts held in demand deposit accounts as cash.

Investments – Investments to be held for more than twelve months are presented at fair value. Fair values are based on quoted market prices for those investments. All other investments are presented at amortized cost in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Discounts and premiums on investments are amortized as adjustments to interest income over the remaining term of the investments using the constant yield method.

All investment instruments, which are held in demand deposit accounts, are classified as investments. Short-term investments are defined as an investment with a maturity of less than one year. The purchase and maturity of investment instruments are reported on a gross basis in the Statement of Cash Flows, with the exception of repurchase agreements, which are reported on the net basis. Repurchase agreements are an overnight sweep account, which represents the primary difference between the repurchase agreements and other investments.

Unrealized gains and losses on investments with maturities held for more than one fiscal year and realized gains and losses during the current year are reflected as interest and other income on the Statements of Revenues and Expenses and Change in Net Assets.

Materials and Supplies – Materials and supplies consist of hydroelectric generation, transmission, and distribution assets as well as fiber optic cable and fiber-related supplies. All inventory amounts are recorded at average cost.

Deposits – Deposits consist of a prepaid security deposit for future transmission services. See Note 6.

Due from (to) Power Purchasers – Balance represents actual power costs in excess (deficit) of estimated power costs received by Priest Rapids and Wanapum from power purchasers to be collected from, or due to, the power purchasers.

Debt Discounts, Premiums and Issuance Costs – Debt discounts and premiums relating to the sale of bonds are amortized over the lives of the related bonds using the constant yield method. Debt issuance costs are amortized over the lives of the related bonds using the effective interest method.

Refunds of Debt – The gain or loss on refunding of debt is amortized over the remaining life of the refunded or newly issued bond, whichever is shorter. If debt is extinguished using the District's own resources, any resulting gain or loss will be recognized during the current period.

Unearned Revenue – Unearned revenue consists of contributions in aid of construction that were refundable as of year-end in accordance to the District's facilities cost contribution agreements.

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Additionally, during 2008, the District entered into three exchange contracts that resulted in unearned revenue. Two of the contracts relate to exchanges and expire January 1, 2027. For each hour of the counterparty's contracted Grand Coulee Project output delivered to the District, the District will deliver power to the counterparties. Both counterparties made a one-time prepayment of \$1,000,000 during 2008. The District recognizes the revenue monthly on a straight line basis over the life of these agreements. The third contract expired in June, 2009.

Revenue Taxes – Utility revenue-based taxes assessed by governmental entities are accounted for as a separate cost collected from customers for remittance to those governmental entities. Therefore, revenue taxes paid to the taxing authorities are accounted for as an operating expense on the Statements of Revenues and Expenses and Changes in Net Assets. Taxes collected from customers on behalf of other governmental entities are included in retail energy sales in the Statements of Revenues and Expenses and Changes in Net Assets.

Net Assets – The District classifies its net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses, and related unspent project and debt service funds.
- *Restricted* – This component consists of net assets with constraints placed on their use. Constraints include those imposed by debt trust indentures, grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Significant Risk and Uncertainties – The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include weather and natural-disaster-related disruptions, collective bargaining labor disputes, fish and other Endangered Species Act (“ESA”) issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of hydroelectric facilities, and the deregulation of the electrical utility industry.

With regard to liability risk, the District has elected self-insurance for general liability up to \$500,000 per incident. The District has historically had minimal liability claims activity, and estimates claims incurred but not reported are not significant as of December 31, 2009. There are no significant claims outstanding under this program at December 31, 2009.

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Personal Leave Benefit – Employees of the District accrue a personal leave benefit based upon a years of service schedule. Personal leave may be used for vacation, sick leave or other employee absences. The District records personal leave as an expense and a liability as earned. Unused personal leave may be accumulated up to a maximum of 1,200 hours. At the time of resignation, termination, or death of the employee all accrued personal leave is cashed out to the employee or surviving beneficiary. For bargaining unit employees only, upon retirement 90% of accumulated personal leave is deposited into a personal HRA-Voluntary Employees' Beneficiary Association (VEBA) account. The remaining 10% of accumulated personal leave is cashed out to the employee on the last paycheck.

Use of Estimates – The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The District has used significant estimates in determination of useful lives of DSM, unbilled revenue, licensing obligations, allowance for uncollectible accounts, accrued other postemployment benefits and in the determination of depreciable lives of utility plant.

Extraordinary items – Gains and losses on extraordinary events, outside the normal operations of the District, are recorded based on the best estimates of the ultimate cost or net recovery related to the event. During 2008, the District recorded an extraordinary loss of \$256,398 for the final settlement of insurance proceeds related to damages from a 2006 fire incurred in the Wanapum Powerhouse.

Revisions and Reclassifications – The District has revised certain 2008 balances to conform with 2009 presentation. Specifically, cash and accounts payable amounts were revised as a result of changes in the treatment of intersystem allocations. These changes also resulted in an immaterial change in cash flows from operating activities as reflected in the statement of cash flows. Additionally, certain reclassifications were made to the 2008 financial statements presentation to conform to the classifications used in 2009. These reclassifications were made for further breakout of the District's operating expenses and to consolidate certain cash and investment descriptions.

2. CASH AND INVESTMENTS

The District's cash deposits at December 31, 2009 and 2008 were either entirely covered by federal depository insurance or protected against loss by being on deposit with financial institutions recognized as qualified public depositories of the State of Washington under the Revised Code of Washington ("RCW") Chapter 39. Subject to specific bond resolution limitations, management is permitted to invest as provided under the laws of the State of Washington.

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Cash and investments are recorded in funds as required by the District's bond indentures. Restricted assets represent funds that are restricted by bond covenants or third party contractual agreements. Funds that are allocated by resolution of the Commissioners are considered to be board designated funds. Board designated funds are a component of unrestricted assets as their use may be redirected at any time by approval of the Commissioners.

As of December 31, the District's unrestricted, board designated and restricted assets included on the Balance Sheets as cash and investments, including accrued interest, consisted of the following:

	2009	2008
Unrestricted assets:		
Unrestricted funds:		
Revenue and Service System funds	\$ 49,095,824	\$ 94,410,323
Board designated funds:		
Future Generation Development fund	8,322,255	8,301,402
Electric System Reserve and Contingency fund	95,072,102	94,318,783
Self-Insurance Reserve fund	1,185,559	1,203,768
Total board designated funds	<u>104,579,916</u>	<u>103,823,953</u>
Total unrestricted funds	<u>153,675,740</u>	<u>198,234,276</u>
Restricted:		
Construction funds	84,964,373	132,007,395
Quincy Chute Renewal and Replacement fund	1,705,516	1,701,650
Wanapum Reserve and Contingency fund	6,021,966	6,116,018
Supplemental Repair and Renewal fund	10,287,513	10,251,818
Supplemental Renewal and Contingency fund	11,891,467	11,849,470
Bond Sinking funds	33,114,185	31,704,074
Bond Interest funds	19,878,112	20,613,071
Habitat funds	6,653,104	6,154,082
Total restricted funds	<u>174,516,236</u>	<u>220,397,578</u>
Total	<u>\$ 328,191,976</u>	<u>\$ 418,631,854</u>

Interest Rate Risk – The District has no formal investment policy limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

Credit Risk – The District has no formal investment policy that specifies credit ratings of potential investment issuers as a means of managing the District’s exposure to credit risk.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. All repurchase agreements are brokered by one financial institution. The investments underlying these repurchase agreements are United States Treasury debt securities and, as such, credit ratings are not reported.

The District’s investments at December 31, 2009 and 2008, as identified on both the Balance Sheets are shown below by investment type. All investments are either issued or registered in the name of the District or are held by the District or by the District’s agent in the District’s name. The difference between the totals shown in the previous table and the following table is accrued interest of \$1,118,389 and \$2,435,112 for 2009 and 2008, respectively.

During 2009 and 2008, the District realized \$4,027,038 and \$10,896,545, respectively, of interest earnings and realized gains from investments. The unrealized (loss) gain on investments held at December 31, 2009 and 2008 was (\$279,590) and \$240,859, respectively.

Investments are made in investment types authorized by the RCW. The types are 1) Obligations of the U.S. Government and its agencies, 2) Money market funds that have holdings of or are backed by U.S. Government obligations, 3) Repurchase agreements collateralized by U.S. Government obligations, and 4) Certificate of deposit.

	2009	2008
U.S. treasuries	\$ 149,651,060	\$ 148,632,775
U.S. agencies	78,141,578	176,882,178
Repurchase agreements	39,500,000	35,100,000
Money market funds	38,431,401	37,940,354
Certificate of deposit	4,100,000	4,100,000
Total investments	<u>309,824,039</u>	<u>402,655,307</u>
Cash	<u>17,249,548</u>	<u>13,541,435</u>
Total cash and investments	<u><u>\$ 327,073,587</u></u>	<u><u>\$ 416,196,742</u></u>

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The District places no limit on the amounts invested in any one issuer for federal agency securities. The following are the concentrations of risk greater than 5%, in either year. The credit ratings listed are from Standard and Poor's as of December 31, 2009. TSY refers to U.S. Treasury securities and N/R means not rated.

	Credit Rating	2009	2008
U.S. treasuries	TSY	48%	37%
Repurchase agreements	N/R	13%	9%
Money market funds	N/R	12%	9%
Federal Home Loan Bank	AAA	9%	26%
Federal National Mortgage and Discount Note	AAA	8%	12%
FNMA Discount Notes	AAA	8%	Less than 5%

3. UTILITY PLANT

Utility plant of the District as of December 31 is summarized as follows:

	Balance 2008	Additions	Retirements/ Transfers	Balance 2009
Distribution facilities				
Electric System	\$ 349,043,982	\$ 9,084,691	\$ (524,538)	\$ 357,604,135
Telecommunications	84,412,811	50,138	(84,462,949)	-
Transmission facilities	142,658,067	9,003,195	-	151,661,262
Hydro facilities				
Power plant structures	42,991,313	754,368	-	43,745,681
Reservoirs, dams, waterways	368,726,845	4,198,549	-	372,925,394
Power plant equipment	292,909,393	25,991,035	(5,349)	318,895,079
General facilities				
Quincy Chute (Note 6)	17,643,370	39,714	-	17,683,084
Potholes East Canal (Note 6)	16,380,006	9,245	-	16,389,251
Other generation	29,656	-	-	29,656
General plant	133,538,207	3,813,114	84,404,351	221,755,672
FERC License	99,548,303	-	-	99,548,303
Total	1,547,881,953	52,944,049	(588,485)	1,600,237,517
Accumulated depreciation and amortization	(550,519,755)	(36,472,246)	(733,152)	(587,725,153)
Subtotal	997,362,198	16,471,803	(1,321,637)	1,012,512,364
Land and land rights	23,365,979	1,206,165	-	24,572,144
Construction in progress	94,886,040	126,971,999	(50,775,934)	171,082,105
Total net utility plant	\$ 1,115,614,217	\$ 144,649,967	\$ (52,097,571)	\$ 1,208,166,613

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

	Balance 2007	Additions	Retirements/ Transfers	Balance 2008
Distribution facilities				
Electric System	\$ 316,190,684	\$ 34,295,351	\$ (1,442,053)	\$ 349,043,982
Telecommunications	80,899,122	3,513,689	-	84,412,811
Transmission facilities	133,521,140	9,136,927	-	142,658,067
Hydro facilities				
Power plant structures	68,268,676	4,420,762	(29,698,125)	42,991,313
Reservoirs, dams, waterways	346,044,237	22,682,608	-	368,726,845
Power plant equipment	240,104,947	26,657,421	26,147,025	292,909,393
General facilities				
Quincy Chute (Note 6)	17,643,370	-	-	17,643,370
Potholes East Canal (Note 6)	16,380,006	-	-	16,380,006
Other generation	29,656	-	-	29,656
General plant	130,529,322	4,177,486	(1,168,601)	133,538,207
FERC License	-	99,548,303	-	99,548,303
Total	<u>1,349,611,160</u>	<u>204,432,547</u>	<u>(6,161,754)</u>	<u>1,547,881,953</u>
Accumulated depreciation and amortization	<u>(518,680,325)</u>	<u>(35,820,238)</u>	<u>3,980,808</u>	<u>(550,519,755)</u>
Subtotal	830,930,835	168,612,309	(2,180,946)	997,362,198
Land and land rights	22,302,261	1,063,718	-	23,365,979
Construction in progress	91,852,692	103,203,045	(100,169,697)	94,886,040
Total net utility plant	<u>\$ 945,085,788</u>	<u>\$ 272,879,072</u>	<u>\$ (102,350,643)</u>	<u>\$ 1,115,614,217</u>

4. LICENSING

On April 17, 2008, the FERC issued the District a 44-year License for the continued operation of the Priest Rapids Project effective April 1, 2008. Issuance of the license represented both the culmination of over a decade of work to obtain that authorization, and the beginning of several decades of significant new license implementation activities.

Costs associated with the relicensing efforts of approximately \$57.1 million were treated as a deferred charge pending issuance of the new license. Upon issuance of the new license, these costs were reclassified as an intangible asset included in Utility Plant and the District is amortizing these costs over the term of the license.

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Certain of the FERC license conditions require payments to other organizations using funds provided by the District. The present value of the obligations for which the District will provide funding totaled \$43.7 million as of December 31, 2009 of which approximately \$3.4 million is expected to be paid within one year. The present value of the obligations was \$44.1 million as of December 31, 2008. These amounts are included in the FERC license balance and are reflected as liabilities in the balance sheet. The elements of these obligating payments, comprised of the Salmon and Steelhead Agreement, Part A (Hatchery Renovation) and Part B (Resident Fish Monitoring and Trout Purchase), are further discussed in Note 7.

5. REVENUE BONDS

All the outstanding issues, which are on parity with each other, are fixed rate obligations secured by a pledge of the gross revenues of the District.

The District's outstanding revenue bonds at December 31, are as follows:

	2009	2008
Electric System, interest rates of 5.0% to 5.375%, maturing through 2019	\$ 138,110,000	\$ 148,485,000
Priest Rapids, interest rates of 2.75% to 6.0%, maturing through 2036	238,010,000	247,880,000
Wanapum, interest rates of 2.5% to 6.0%, maturing through 2043	<u>410,710,000</u>	<u>422,030,000</u>
Total revenue bonds outstanding	<u>\$ 786,830,000</u>	<u>\$ 818,395,000</u>

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Scheduled debt service requirements for the District's bonds are as follows:

	Principal	Interest	Total
2010	\$ 33,105,000	\$ 39,172,167	\$ 72,277,167
2011	34,605,000	37,630,891	72,235,891
2012	36,215,000	35,939,145	72,154,145
2013	38,040,000	34,124,714	72,164,714
2014	39,950,000	32,166,033	72,116,033
2015 – 2019	206,120,000	129,575,204	335,695,204
2020 – 2024	112,250,000	88,757,412	201,007,412
2025 – 2029	90,090,000	64,091,027	154,181,027
2030 – 2034	93,150,000	40,058,657	133,208,657
2035 – 2039	68,515,000	18,505,897	87,020,897
2040 – 2043	34,790,000	4,687,661	39,477,661
	<u>\$ 786,830,000</u>	<u>\$ 524,708,808</u>	<u>\$ 1,311,538,808</u>
Total	<u>\$ 786,830,000</u>	<u>\$ 524,708,808</u>	<u>\$ 1,311,538,808</u>

The District is in compliance with all debt covenants related to the outstanding bonds, which includes debt service coverage, at December 31, 2009 and 2008.

During the years ended December 31 the following changes occurred in the District's long-term debt:

	Balance 2008	Additions	Reductions	Balance 2009	Due Within One Year
Revenue bonds payable	\$ 818,395,000	\$ -	\$ (31,565,000)	\$ 786,830,000	\$ 33,105,000
Unamortized premium	14,046,554	-	(1,710,716)	12,335,838	-
Unamortized discounts	(903,281)	-	66,066	(837,215)	-
Unamortized refunding loss	(11,008,295)	-	1,572,969	(9,435,326)	-
	<u>(11,008,295)</u>	<u>-</u>	<u>1,572,969</u>	<u>(9,435,326)</u>	<u>-</u>
Total	<u>\$ 820,529,978</u>	<u>\$ -</u>	<u>\$ (31,636,681)</u>	<u>\$ 788,893,297</u>	<u>\$ 33,105,000</u>

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

	Balance 2007	Additions	Reductions	Balance 2008	Due Within One Year
Revenue bonds payable	\$ 848,060,000	\$ -	\$ (29,665,000)	\$ 818,395,000	\$ 31,565,000
Unamortized premium	15,793,243	-	(1,746,689)	14,046,554	-
Unamortized discounts	(986,574)	-	83,293	(903,281)	-
Unamortized refunding loss	(12,786,412)	-	1,778,117	(11,008,295)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 850,080,257</u>	<u>\$ -</u>	<u>\$ (29,550,279)</u>	<u>\$ 820,529,978</u>	<u>\$ 31,565,000</u>

6. POWER PURCHASER COMMITMENTS

During the year ending December 31, the following resources were used to meet the District's load:

	2009	2008
BPA	44%	46%
Priest Rapids Project	31%	27%
Market and other	<u>25%</u>	<u>27%</u>
	<u>100%</u>	<u>100%</u>

Priest Rapids Project

The District met approximately 31% and 27% of its electric power loads for 2009 and 2008, respectively, through generation from its Priest Rapids Project. The balance of the load is met primarily through purchases from the Bonneville Power Administration ("BPA") and from other resources or suppliers. In connection with the original financing of the Priest Rapids Project, the District entered into power sales contracts expiring October 31, 2005 for Priest Rapids, and October 31, 2009 for Wanapum, with certain public and private utilities for the sale of 63.5% of the output of the Priest Rapids Project.

As of November 1, 2005, the new set of Priest Rapids Power Sales Contracts went into effect for Priest Rapids Dam and as of November 1, 2009, for Wanapum Dam. The amount of net power costs incurred by the District in serving its load changes on an annual basis in relation

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to its firm power requirements. For 2009 and 2008, the District incurred 55% of Priest Rapids Project power costs with power purchasers funding of 45%.

The District is committed to cover a minimum annual debt service requirement of approximately \$38 million over the next five years associated with the power costs at the Priest Rapids Project. Debt service requirements for Priest Rapids and Wanapum currently extend to year 2043.

In connection with these Power Sales Contracts, the District received proceeds of \$32,089,771 and \$49,839,797 in 2009 and 2008, respectively, to offset purchase power costs associated with the District buying power in the open market to cover its load not met by power from Priest Rapids and Wanapum. These proceeds are recorded as an offset to purchased power expense in the Statements of Revenues and Expenses and Changes in Net Assets.

Under the provisions in the new Power Sales Contracts, the District sells a portion of the Priest Rapids generation to displace the costs of purchasing BPA power. The net effect to the District is that the BPA portion of the District's load is served at Priest Rapids power cost.

Each purchaser is obligated to pay its share of the cost (excluding depreciation, amortization, and certain maintenance costs) of producing and delivering power, plus 115% of its share of the amounts required for debt service payments.

BPA

The District is a statutory preference customer of BPA. The District purchases power and transmission from BPA under contracts which expire September 30, 2011. BPA and the District agreed to a Shaped Block Purchase under which the District received 188 average megawatt hours for the years ended December 31, 2009 and 2008. Block deliveries are fixed at a flat rate within each month, but predetermined at different levels each month so as to more closely follow anticipated seasonal load requirements. The District signed a follow-up contract during 2008 for a small contract to serve its Grand Coulee load of approximately 5 average megawatts that expires September 30, 2028. In 2009, the District entered into a five-year agreement for 150 MW of Long-Term Firm (LTF) with a security deposit of \$2,336,400 for transmission services commencing January 1, 2011. Rollover rights are included as part of this agreement.

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District management estimates the District's minimum commitments to BPA for the next five years are as follows:

2010	\$ 50,235,000
2011	37,551,000
2012	5,740,000
2013	3,460,000
2014	120,000

Nine Canyon Wind Power Purchase Agreement

The District participates in a power purchase agreement with Energy Northwest for Phase I of the Nine Canyon Wind Project (the "Project") which consists of 37 wind turbines with an aggregate generating capacity of approximately 48 megawatts ("MW"). Energy Northwest is a municipal corporation and a joint operating agency of the State of Washington (formerly known as the Washington Public Power Supply System). The District does not participate in the two other phases of the Project which comprise additional generation capacity of approximately 48 MW. The phases are operated together as a single project under an amended power purchase agreement.

The District is one of nine public agencies participating in the original project power purchase agreement for Phase I of the Project. The District's purchaser share of Phase I of the project output was 25% of output up to a maximum of 12 MW. Since the District did not participate in either Phase II or Phase III of the Project, its share of the combined Project is 12.54%. In exchange for the output, the District pays its proportionate share of certain Project costs and its 25% share of Phase I debt service.

Scheduled debt service requirements, inclusive of principal and interest, for the District's 25% share of the bonds related to Phase I are as follows:

2010	\$ 1,412,025
2011	1,412,119
2012	1,410,400
2013	1,411,744
2014	1,412,244
2015 - 2019	7,058,132
2020 - 2024	<u>7,058,991</u>
Total	<u>\$ 21,175,655</u>

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Yakama Nation Agreement

In 2007, the District entered into an agreement with the Yakama Nation to settle several issues including previous lawsuits, claims, allegations, filings, and other actions by the Yakama Nation against the District. The agreement expires at the end of the New License term. A primary consideration for settlement is an allocation of the benefit from the Priest Rapids Project to the Yakama Nation. The financial equivalent of 20 aMW for 2007-2009, 15 aMW for 2010-2015 and 10 aMW throughout the term of the agreement less the associated power costs is the benefit paid to the Yakama Nation. After 2015, the Yakama Nation can request to have actual physical power delivered. The Yakama Nation is responsible to pay the costs associated with producing the benefit received (either financial or physical delivery).

Other consideration to be provided by the Yakama Nation throughout the life of the agreement include providing the District with right of first refusal to participate in the development of new generation resources, to cooperatively develop with the District Pacific Lamprey and White Sturgeon Management Plans, and to represent itself on committees, subcommittees and groups involved with implementation of the various agreements associated with the Priest Rapids Project and the new license requirements.

The agreement went into effect on July 1, 2007. The net payments to the Yakama Nation totaled \$3,388,989 and \$8,512,384 during 2009 and 2008, respectively. These costs were charged to license compliance and related agreements expense.

The District's commitment to this agreement extends through the New License term. In 2010 the financial equivalent of 15 aMW at market rates will be paid to the Yakama Nation less power production costs. This is a 5 aMW decrease from prior years. The estimated annual costs during the next five years for this agreement are as follows:

2010	\$	3,550,000
2011		3,550,000
2012		3,550,000
2013		3,550,000
2014		3,550,000

Other Sources

Pursuant to agreements with three irrigation districts, the District constructed and will operate and maintain both the Quincy Chute and Potholes East Canal hydroelectric generation facilities in return for the right to all output from the projects. In accordance with the Quincy Chute agreement, the Quincy Chute Renewal and Replacement Fund was established on October 1, 1995. The Electric System is required to deposit \$150,000 annually into the Quincy Chute Renewal and Replacement Fund for the remaining term of the agreement whenever the total amount of the Quincy Chute Renewal and Replacement Fund is less than \$1,500,000. The construction costs of Quincy Chute and Potholes East Canal are included in

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Net utility plant and are being amortized over the terms of the agreements, which expire October 1, 2025, and September 1, 2030, respectively. The irrigation districts hold title to the project facilities.

7. NONPOWER COMMITMENTS

Capital Projects

The District has contractual commitments relating to several Electric System capital improvement projects including fiber design/build, financial system replacement, electrical system upgrades, multiple transformer purchases, and substation construction projects over the next few years totaling approximately \$18.4 million as of December 31, 2009.

The District has undertaken certain improvement programs at Wanapum funded by second series revenue bonds. The improvement programs include restoration or replacement of generators and turbines, turbine runner blade replacements, and deleading and painting of six turbines. The District intends to, or has committed by contract to, fulfill these programs, which are projected to be substantially complete by early 2018. The contractually committed amount on future Wanapum work to be performed on these major capital programs is approximately \$223.3 million as of December 31, 2009.

Other Commitments

In 2006, the District entered into a Salmon and Steelhead Settlement Agreement with the United States Department of Interior, U.S. Fish and Wildlife Service, the National Marine Fisheries Service of the National Oceanic and Atmospheric Administration, the Washington Department of Fish and Wildlife, the Yakama Nation, and the Confederated Tribes of the Colville Reservation, for the purpose of resolving all issues between the District and the other signatories related to anadromous salmonid fish species. This agreement is intended to constitute a comprehensive and long-term adaptive management program for the protection, mitigation, and enhancement of anadromous fish (both listed and not listed species under the Endangered Species Act; ESA) which pass or may be affected by the Priest Rapids Project.

In order to implement the Salmon and Steelhead Settlement Agreement, the District is obligated to establish a habitat conservation account and a no-net-impact (NNI) fund (referred herein as "Habitat funds") into which the District deposits payments for further distribution in accordance with the requirements of the Salmon and Steelhead Agreement. The purpose of the Habitat funds are two-fold; (1) to establish and shepherd a habitat restoration program that promotes the rebuilding of self-sustaining and harvestable populations of anadromous species and to mitigate for a portion (2%) of unavoidable losses resulting from Project operations and (2) to provide near-term compensation for annual survivals that are less than the survival objectives in the performance standards for the Project for spring Chinook, steelhead, summer Chinook and sockeye. The parties that oversee the distribution of these funds include the signatories to the Priest Rapids Salmon and Steelhead Settlement Agreement (U.S. Fish and

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Wildlife Service, NOAA Fisheries, Washington Department of Fish and Wildlife, Confederated Colville Tribes, and the Yakama Nation).

In addition to the “Habitat Funds” discussed above, the District is obligated to establish a habitat account into which the District deposits payments for further distribution in accordance with the requirements of the NOAA Fisheries 2008 Biological Opinion (“2008 BiOp”) for the Priest Rapids Project. Funds from this account are geared towards habitat actions that directly benefit UCR spring-run Chinook salmon and UCR steelhead. The parties identified above and the Confederated Tribes of the Umatilla Reservation have been identified in the 2008 BiOp as responsible for overseeing distribution of these funds.

The Habitat funds cannot be spent without the unanimous consent of all voting members. All interest earned by the Habitat funds increase the balance of these funds and is not recognized as income by the District. Expenditures of these funds are made in accordance with the Salmon and Steelhead Settlement Agreement and the 2008 NOAA Fisheries BiOp for the protection and restoration of habitats along the mainstem and tributaries within the Upper Columbia River watershed including the Okanogan, Methow, Entiat, and Wenatchee river watersheds. The District anticipates funding these accounts up to and through the term of the Priest Rapids Project license.

In October 2006, the District filed a request for a 401 Water Quality Certification (“WQC”) from the Washington State Department of Ecology (“Ecology”), pursuant to the provisions of section 401 of the Clean Water Act. A 401 WQC for the operation of the Priest Rapids Project was issued by Ecology on April 3, 2007, and amended on March 6, 2008.

In order to fulfill requirements of the 401 WQC related to native resident fish, the District is required to provide funds to track native resident fish species diversity and provide mitigation for impacts to and loss of resident fish and harvest opportunities by compliance with Parts A and B as described below.

To remain in compliance under Part A (“Hatchery Renovation”), the District is required to provide funds (not to exceed \$1,500,000) to renovate the existing Columbia Basin Hatchery facility to ensure stable operations at current capacity for the term of license. Current capacity is 60,000-70,000 pounds of trout annually, which shall be credited to the District as mitigation for reduced recreational fishing opportunities occurring on native resident fish species. Under Part B (“Resident Fish Monitoring and Trout Purchase”), the District is obligated to establish and administer a fund for resident fish monitoring and fish purchase. Funds from Part B are specifically directed toward the monitoring of native resident fish species within the Priest Rapids Project area. The District is required to make contributions to the fund annually on or before February 15 of each year in the amount of \$100,000 per year, based upon 2003 dollars and annually adjusted for inflation.

The District’s total contributions to the Habitat funds for the years ended December 31, 2009 and December 31, 2008 equaled \$2,689,092 and \$2,485,770, respectively. Contributions to the Habitat funds prior to the Priest Rapids Project April 2008 license issuance were included

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in License compliance and related agreements expense. Contributions subsequent to the license issuance are a reduction to the Licensing obligations liability as discussed in Note 4. The following table shows the District's projected remaining fixed contributions to the Habitat funds as of December 31, 2009 representing required contributions through the New License term.

Projected Fixed Habitat Funding Commitments

2010	\$	3,429,000
2011		2,234,000
2012		1,532,000
2013		1,581,000
2014		1,631,000
2015 and thereafter		121,516,000
Total	\$	<u>131,923,000</u>

Participation In Northwest Open Access Network, Inc. D.B.A. NoaNet - The District, along with 11 other Washington State Public Utility Districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000, to provide a broadband communications backbone, over Public Benefit Fibers leased from BPA, throughout the State of Washington to assist 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 mature through December 2016, with interest due semi-annually at rates ranging from 6.39% to 7.09%. Each member of NoaNet has entered into a Repayment Agreement to guarantee the bonds of NoaNet. The District's guarantee is limited to a maximum of 17.57% of the bonds. Additionally, NoaNet has obtained financing for other capital costs through lines of credit of which have a total outstanding balance of approximately \$4.2 million at December 31, 2009. NoaNet pledged future assessments, if necessary, to repay the lines of credit, of which the District will pay its ownership share.

The management of NoaNet anticipates meeting its cost of operations through revenues but it has been necessary for NoaNet to assess members a fee to cover its debt obligations during the initial years of operation. The obligation paid in 2009 and 2008 by the District was \$220,855 and \$361,583, respectively.

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8. PENSION / RETIREMENT PLAN

Substantially all the District's 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. The CAFR is the responsibility of the State of Washington and is not a component of the District's financial statements. PricewaterhouseCoopers LLP (PwC), independent accountant for the District, has not audited or examined any information in the CAFR, and accordingly, does not express an opinion or any other form of assurance with respect thereto. 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.

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PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced 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 three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, 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 to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice 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.

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

There are 1,192 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Entitled to but not yet Receiving Benefits	27,267
Active Plan Members Vested	105,212
Active Plan Members Non-vested	56,456
	<hr/>
Total	262,057
	<hr/> <hr/>

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent 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 Employee Retirement Benefits Board 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.

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The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2009, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
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%.
- ** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3.
- *** Plan 3 defined benefit portion only.
- **** The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2.
- ***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2009	\$ 217,640	\$ 2,921,338	\$ 777,763
2008	252,651	2,932,294	764,153
2007	225,320	2,108,927	538,053

Deferred Compensation Plan – The District has an Internal Revenue Code Section 457 (b) deferred compensation program covering eligible employees as defined in the plan document. Participants may contribute and defer, up to defined limits, a portion of their current year's salary. The deferred compensation is held in trust and is not available to employees until termination, retirement, death, or unforeseeable emergency. In October 2008, the District established a loan provision in accordance with IRS guidelines. All plan assets are held in trust for the exclusive benefit of participants and their beneficiaries and therefore are not included in the District's financial statements.

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Additionally, the District administers the Public Utility District No. 2 of Grant County's 401(a) Governmental Money Purchase Plan and Trust (fixed and variable plan). Eligible employees either contribute to the Section 457 deferred compensation plan (variable) or the 401(a) defined contribution plan (fixed). The District's matching employer contributions (50 cents per one dollar of employee contributions) are deposited into the 401(a) plan. The District's match is capped at 2% of straight-time employee wages for the pay period. The District made matching contributions of \$808,741 in 2009, and \$781,908 in 2008.

9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")

Plan Description

The District administers a single-employer defined benefit premium program ("the retiree subsidy plan"). The plan provides a subsidy that covers a portion of healthcare insurance for retirees ages 60 to 65 and their spouses. The retiree subsidy plan may be amended through collective bargaining (for bargaining unit employees) and ratified by the District's Commission, or changed without bargaining for nonunit employees. The retiree subsidy plan does not issue a publicly available financial report.

Funding Policy

The District pays a percentage of the medical premiums based upon years of service of the retirees. Starting on their 60th year, the retiree is eligible for a subsidy of 3% of their premium cost for each year of service (including any partial year during the year of retirement) up to 30 years (years x 3% x retiree premium). The subsidy cannot be more than the premium amount paid for active employees and is effective until the retiree turns 65. For the years ended December 31, 2009 and 2008, the District paid \$198,000 and \$257,000 in retiree subsidies, respectively.

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Annual OPEB Cost and Net Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution ("ARC") of the employer. The District's ARC and related information is based upon an actuarial valuation as required by GASB Statement No. 45. As of year end, the ARC represents the normal cost for the year and the total unfunded accrued liability. The following table shows the components of the District's annual OPEB cost for the years ending December 31, 2009 and 2008:

	2009	2008
Normal cost with interest	\$ 150,000	\$ 116,000
Amortization amount with interest	336,000	285,000
	<u> </u>	<u> </u>
Annual required contribution	\$ 486,000	\$ 401,000
	<u> </u>	<u> </u>
Annual OPEB cost	\$ 486,000	\$ 401,000
Less: benefit payments	(198,000)	(257,000)
	<u> </u>	<u> </u>
Increase in net OPEB obligation	288,000	144,000
Temporary actuarial difference	(190,000)	(2,000)
Net OPEB obligation at beginning of year	343,000	199,000
	<u> </u>	<u> </u>
Net OPEB obligation at end of year	\$ 441,000	\$ 341,000
	<u> </u>	<u> </u>

Funded Status and Funding Progress

As of December 31, 2009 and 2008, the District's AAL was \$5,182,000 and \$4,381,803, respectively, all of which was unfunded. The District has no plans at this time to fund the obligation using an irrevocable trust. The AAL will be amortized over a 30-year period and the increase in net OPEB obligation will be accrued each year and will be split between the District systems, based on current labor allocations. For 2009 and 2008, the covered payroll (annual payroll of active employees covered by the plan) was \$51,770,042 and \$47,621,867, respectively, and the ratio of the unfunded obligation to the covered payroll was 10.0% and 9.2%, respectively.

The projection of future benefit payments for an ongoing plan involves 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 annual required

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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.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the valuation and the sharing of benefit costs between the employer and plan members in effect at the time of the valuation which was December 31, 2009. The actuarial results were calculated based on the Projected Unit Credit actuarial funding method. The methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following are the significant assumptions related to the plan's actuarial liability:

Retirement age for active employees – Based on assumptions used by Washington Public Employees' Retirement System ("PERS") but adjusted to reflect expected future rates of retirement based on current experience of the District.

Mortality – Life expectancies were based on the RP 2000 combined active/retiree healthy mortality table for males and females.

Medical Trends – Premium increases of 10.0% in 2010 and declining percentages in future years. It is assumed that the monthly premium and maximum employer subsidy amounts will increase at a slower rate than future claims in the immediate future.

Discount Rate – The discount rate of 5.0% that was used in the valuation represents the expected long-term return on short-term U.S. Treasury securities and similar investments as of January 1, 2009. This rate is used because the Plan is "unfunded" and the District's assets would be used to pay benefits.

10. CONTINGENCIES

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 impact on its financial position, results of operations or cash flows.

11. SUPPLEMENTAL DISCLOSURE OF TELECOMMUNICATION ACTIVITIES

As described in Note 7, the District, along with 11 other Washington public utility districts and Energy Northwest, is a member of Northwest Open Access Network ("NoaNet"), a Washington nonprofit mutual corporation established in 2000. The network began commercial operation in January 2001. NoaNet leases a fiber optic network from Bonneville Power Administration and was created to assist in the development of a communications

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network to facilitate the utilities in the management of load, conservation, and acquisition of electrical energy. The network assists utilities in adapting high speed information technology systems to meet future customer needs.

The District is installing a fiber optic distribution system in its service area. This fiber optic distribution system is connected to NoaNet's fiber optic communication system. The District has made capacity on this system available to providers of high speed Internet services, and telephone services, among others.

A summary of the financial position and results of operations of the Telecommunication activities as of and for the year ended December 31 are as follows:

	2009	2008
Operating revenues		
Wholesale fiber services	\$ 2,579,389	\$ 1,924,139
Dark fiber revenue	<u>79,572</u>	<u>71,160</u>
	<u>\$ 2,658,961</u>	<u>\$ 1,995,299</u>
Operating expenses		
Administrative and general	\$ 748,246	\$ 748,548
Repair and maintenance	808,609	796,445
Depreciation	<u>5,283,987</u>	<u>5,072,002</u>
	<u>\$ 6,840,842</u>	<u>\$ 6,616,995</u>
Nonoperating revenues		
Contribution in aid of construction	<u>\$ 8,676</u>	<u>\$ 214,799</u>
Utility plant		
Additions to construction in progress	\$ 14,985,644	\$ 11,091,061
Utility plant, net of accumulated depreciation	\$ 70,384,779	\$ 60,683,099

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

12. SUBSEQUENT EVENT

April 2010, the District issued bonds to finance capital improvements for the Priest Rapids Project. The total par value is over \$349 million of which \$35 million will be used to refund prior bond issues. The bond issue consisted of tax-exempt, tax-exempt subject to AMT, Build America Bonds, Clean Renewable Energy Bonds, and taxable bonds. Interest rates ranged from 1.55% to 5.83% with maturities between 2011 and 2040. Clean Renewable Energy Bonds and Build America Bonds each provide for a refund of interest expense by the Federal Government of 70% and 35%, respectively.

13. SEGMENTS

The District has outstanding revenue bonds used to finance the Electric System, as well as the Priest Rapids and Wanapum hydroelectric production facilities. As described in Note 5, all the outstanding bond issues, which are on parity with each other, are secured by a pledge of the gross revenues only of the individual project or system that issued the bonds.

Each project has an external requirement to be accounted for separately. The following financial schedules of the operating segments of the District include these three segments, Electric System, Priest Rapids and Wanapum, along with the Service System. The Service System is presented in order to reconcile to the combined District's results as it is not considered a segment of the District.

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS DECEMBER 31, 2009

SCHEDULE OF ASSETS

ASSETS	Electric System	Priest Rapids	Wanapum	Service System	Internal Transactions	Total
CURRENT ASSETS						
Cash	\$ 15,916,034	\$ 1,196,377	\$ 1,513,635	\$ (16,168,460)	\$ -	\$ 2,457,586
Investments and other	143,490,818	19,274,130	11,728,064	(25,872,514)	-	148,620,498
Restricted funds						
Cash	5,392,569	2,042,867	7,356,526	-	-	14,791,962
Investments and other	10,762,718	55,675,763	57,533,146	-	35,752,647	159,724,274
Advances to Service System	987,059	1,193,528	1,193,528	-	(3,374,115)	-
Customer accounts receivable, net of allowance for uncollectible accounts	37,256,102	-	-	126,379	(14,223,080)	23,159,401
Materials and supplies	16,473,850	-	-	2,271,774	-	18,745,624
Due from special funds and bond funds	91,029	3,509,863	10,820,476	83,375,219	(97,796,587)	-
Other current assets	1,443,051	470,304	1,522,779	-	-	3,436,134
Total current assets	231,813,230	83,362,832	91,668,154	43,732,398	(79,641,135)	370,935,479
NONCURRENT ASSETS						
Long-term noncash special funds	2,597,656	-	-	-	-	2,597,656
Unamortized debt expense	669,826	2,041,607	3,754,808	-	-	6,466,241
Conservation loans	410,872	-	-	-	-	410,872
Long-term receivables, net of allowance for uncollectible accounts	637,956	-	-	-	-	637,956
Demand-side management	6,408,874	-	-	-	-	6,408,874
Deposits	2,336,400	-	-	-	-	2,336,400
Deferred preliminary expenses	-	323,253	613,196	-	-	936,449
Total other noncurrent assets	13,061,584	2,364,860	4,368,004	-	-	19,794,448
Utility plant, net of accumulated depreciation and amortization	468,335,944	260,713,789	479,116,880	-	-	1,208,166,613
Total noncurrent assets	481,397,528	263,078,649	483,484,884	-	-	1,227,961,061
TOTAL ASSETS	\$ 713,210,758	\$ 346,441,481	\$ 575,153,038	\$ 43,732,398	\$ (79,641,135)	\$ 1,598,896,540

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS DECEMBER 31, 2009

SCHEDULE OF LIABILITIES AND NET ASSETS

LIABILITIES AND NET ASSETS	Electric System	Priest Rapids	Wanapum	Service System	Internal Transactions	Total
CURRENT LIABILITIES						
Accounts payable						
Trade	\$ 13,916,134	\$ 908,135	\$ 877,176	\$ 28,442,538	\$ (429,760)	\$ 43,714,223
Wages payable	-	-	-	11,834,395	-	11,834,395
Power purchasers	-	11,765,221	15,499,353	-	(14,223,080)	13,041,494
Due to other district systems and funds, net	44,894,038	9,079,034	8,059,424	3,385,559	(65,418,055)	-
Accrued taxes	2,719,510	891,813	842,532	69,906	-	4,523,761
Customer deposits	3,120,541	-	-	-	-	3,120,541
Accrued bond interest	3,646,244	5,917,686	10,293,678	-	-	19,857,608
Unearned revenue	1,300,386	-	-	-	-	1,300,386
Habitat liability	-	3,111,672	3,111,672	-	429,760	6,653,104
Other current liabilities	-	-	20,096	-	-	20,096
Current portion of licensing obligations	-	1,714,502	1,714,502	-	-	3,429,004
Current portion of long-term debt	10,885,000	10,335,000	11,885,000	-	-	33,105,000
	<u>80,481,853</u>	<u>43,723,063</u>	<u>52,303,433</u>	<u>43,732,398</u>	<u>(79,641,135)</u>	<u>140,599,612</u>
Total current liabilities						
NONCURRENT LIABILITIES						
Accrued other postemployment benefits	182,329	105,987	152,684	-	-	441,000
Long-term unearned revenue	1,714,304	-	-	-	-	1,714,304
Licensing obligations, less current portion	-	20,129,296	20,129,296	-	-	40,258,592
Revenue bonds, less current portion	127,225,000	227,675,000	398,825,000	-	-	753,725,000
Unamortized premium	3,405,056	2,961,819	5,968,963	-	-	12,335,838
Unamortized discount	-	(228,054)	(609,161)	-	-	(837,215)
Unamortized refunding loss	(615,650)	(5,335,821)	(3,483,855)	-	-	(9,435,326)
	<u>131,911,039</u>	<u>245,308,227</u>	<u>420,982,927</u>	<u>-</u>	<u>-</u>	<u>798,202,193</u>
Total noncurrent liabilities						
Total liabilities	<u>212,392,892</u>	<u>289,031,290</u>	<u>473,286,360</u>	<u>43,732,398</u>	<u>(79,641,135)</u>	<u>938,801,805</u>
NET ASSETS						
Invested in capital assets, net of related debt	328,106,364	40,855,623	83,743,415	-	-	452,705,402
Restricted	12,590,516	10,335,000	11,905,096	-	-	34,830,612
Unrestricted	160,120,986	6,219,568	6,218,167	-	-	172,558,721
	<u>500,817,866</u>	<u>57,410,191</u>	<u>101,866,678</u>	<u>-</u>	<u>-</u>	<u>660,094,735</u>
Total net assets						
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 713,210,758</u>	<u>\$ 346,441,481</u>	<u>\$ 575,153,038</u>	<u>\$ 43,732,398</u>	<u>\$ (79,641,135)</u>	<u>\$ 1,598,896,540</u>

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Electric System	Priest Rapids	Wanapum	Service System	Internal Transactions	Total
OPERATING REVENUES						
Sales to power purchasers at cost	\$ -	\$ 52,313,043	\$ 58,063,148	\$ -	\$ (61,198,686)	\$ 49,177,505
Retail energy sales						
Residential	33,211,379	-	-	-	-	33,211,379
Irrigation	16,422,107	-	-	-	-	16,422,107
Commercial and industrial	64,260,218	-	-	-	-	64,260,218
Governmental and others	971,009	-	-	-	-	971,009
Sales to other utilities	87,908,037	-	-	-	-	87,908,037
Fiber optic network sales	2,659,832	-	-	-	-	2,659,832
Other	1,519,045	-	-	-	-	1,519,045
Total operating revenues	206,951,627	52,313,043	58,063,148	-	(61,198,686)	256,129,132
OPERATING EXPENSES						
Purchased power	118,539,331	-	-	-	(61,198,686)	57,340,645
Generation	286,137	12,566,152	14,232,986	-	-	27,085,275
Transmission	8,189,373	970,631	1,088,863	-	-	10,248,867
Distribution	11,741,454	-	-	-	-	11,741,454
Customer and information services	5,127,564	-	-	-	-	5,127,564
Fiber optic network operations	1,138,701	-	-	-	-	1,138,701
Administrative and general	11,449,405	7,505,689	8,801,730	-	-	27,756,824
License compliance and related agreements	-	7,836,430	7,836,431	-	-	15,672,861
Depreciation and amortization	23,896,932	4,772,301	8,711,342	-	-	37,380,575
Taxes	8,799,719	891,813	842,532	-	-	10,534,064
Total operating expenses	189,168,616	34,543,016	41,513,884	-	(61,198,686)	204,026,830
NET OPERATING INCOME	17,783,011	17,770,027	16,549,264	-	-	52,102,302
OTHER REVENUES (EXPENSES)						
Interest and other income	1,644,495	962,683	2,530,221	-	-	5,137,399
Interest on revenue bonds and other, net of capitalized interest of \$1,704,256	(7,322,311)	(11,975,954)	(20,999,212)	-	-	(40,297,477)
Amortization of debt expense, discount, and premium	484,764	(757,673)	(457,917)	-	-	(730,826)
Total other revenues (expenses)	(5,193,052)	(11,770,944)	(18,926,908)	-	-	(35,890,904)
CONTRIBUTION IN AID OF CONSTRUCTION	993,576	-	-	-	-	993,576
CHANGE IN NET ASSETS	13,583,535	5,999,083	(2,377,644)	-	-	17,204,974
NET ASSETS						
Beginning of year	487,234,331	51,411,108	104,244,322	-	-	642,889,761
End of year	<u>\$ 500,817,866</u>	<u>\$ 57,410,191</u>	<u>\$ 101,866,678</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 660,094,735</u>

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

SCHEDULE OF CASH FLOWS

	Electric System	Priest Rapids	Wanapum	Service System	Internal Transactions	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from retail energy sales	\$ 115,250,035	\$ -	\$ -	\$ -	\$ -	\$ 115,250,035
Cash received from sales to power purchasers at cost	-	58,298,875	72,302,846	-	(75,816,415)	54,785,306
Cash received from sales to other utilities	92,479,650	-	-	-	-	92,479,650
Other cash receipts	3,767,529	-	-	-	-	3,767,529
Cash paid from customer deposits	(314,288)	-	-	-	-	(314,288)
Cash paid for demand-side management	(701,611)	-	-	-	-	(701,611)
Cash paid for purchase of power	(126,507,344)	-	-	-	75,816,415	(50,690,929)
Cash paid to contractors, suppliers, and employees	(18,881,805)	(27,064,340)	(18,103,864)	(36,160,558)	-	(100,210,567)
Cash paid for deposits	(2,336,400)	-	-	-	-	(2,336,400)
Cash received from long-term contracts	(107,136)	-	-	-	-	(107,136)
Taxes paid	(9,097,100)	(918,235)	(861,074)	-	-	(10,876,409)
	<u>53,551,530</u>	<u>30,316,300</u>	<u>53,337,908</u>	<u>(36,160,558)</u>	<u>-</u>	<u>101,045,180</u>
Net cash provided by (used in) operating activities						
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal paid on revenue bonds	(10,375,000)	(9,870,000)	(11,320,000)	-	-	(31,565,000)
Interest paid on revenue bonds	(7,546,895)	(12,048,617)	(20,843,004)	-	-	(40,438,516)
Cash received from contribution in aid of construction	2,004,326	-	-	-	-	2,004,326
Licensing obligation payments	-	(1,270,531)	(1,270,533)	-	-	(2,541,064)
Acquisition and construction of plant assets	(61,570,463)	(17,197,767)	(48,389,147)	2,817,523	-	(124,339,854)
Proceeds on sale of plant assets	354,378	41,645	41,645	-	-	437,668
	<u>(77,133,654)</u>	<u>(40,345,270)</u>	<u>(81,781,039)</u>	<u>2,817,523</u>	<u>-</u>	<u>(196,442,440)</u>
Net cash used in capital and related financing activities						
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investment securities	(207,998,154)	(101,959,245)	(124,706,831)	(8,200,000)	-	(442,864,230)
Sale proceeds of investment securities	247,748,156	116,551,805	166,401,822	8,200,000	-	538,901,783
Investment income proceeds	3,312,915	1,096,511	3,048,194	-	-	7,457,620
Net repurchase agreement	(14,043,319)	(4,858,977)	(12,334,108)	26,836,404	-	(4,400,000)
Cash received from conservation loans	10,200	-	-	-	-	10,200
	<u>29,029,798</u>	<u>10,830,094</u>	<u>32,409,077</u>	<u>26,836,404</u>	<u>-</u>	<u>99,105,373</u>
Net cash provided by investing activities						
NET INCREASE (DECREASE) IN CASH	<u>\$ 5,447,674</u>	<u>\$ 801,124</u>	<u>\$ 3,965,946</u>	<u>\$ (6,506,631)</u>	<u>\$ -</u>	<u>\$ 3,708,113</u>

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

SCHEDULE OF CASH FLOWS, CONTINUED

	Electric System	Priest Rapids	Wanapum	Service System	Total
CASH AT END OF YEAR	\$ 21,308,603	\$ 3,239,244	\$ 8,870,161	\$ (16,168,460)	\$ 17,249,548
CASH AT BEGINNING OF YEAR	<u>15,860,929</u>	<u>2,438,120</u>	<u>4,904,215</u>	<u>(9,661,829)</u>	<u>13,541,435</u>
NET INCREASE (DECREASE) IN CASH	<u>\$ 5,447,674</u>	<u>\$ 801,124</u>	<u>\$ 3,965,946</u>	<u>\$ (6,506,631)</u>	<u>\$ 3,708,113</u>
OPERATING ACTIVITIES					
Net operating income	\$ 17,783,011	\$ 17,770,027	\$ 16,549,264	\$ -	\$ 52,102,302
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:					
Depreciation and amortization	23,896,932	4,772,301	8,711,342	-	37,380,575
Provision for uncollectible accounts	(9,871)	-	-	-	(9,871)
Cash provided by (used in) changes in operating assets and liabilities:					
Advances to Service System	5,216	2,608	2,608	(10,432)	-
Change in Habitat funds held in trust	-	(6,184)	(6,184)	-	(12,368)
Customer accounts receivable	4,128,267	-	-	(42,283)	4,085,984
Materials and supplies	(444,088)	-	-	(105,756)	(549,844)
Other current assets	(148,336)	68,131	(845,083)	-	(925,288)
Other noncurrent assets	(2,336,400)	-	-	-	(2,336,400)
Unearned revenue	(107,136)	-	-	-	(107,136)
Demand-side management	(701,611)	-	-	-	(701,611)
Trade and wages payables	1,118,830	(290,352)	(290,353)	987,394	1,525,519
(Receivable from) payable to power purchasers	(9,083,549)	5,985,832	14,239,698	-	11,141,981
Payable to (receivable from) other District systems, net	20,019,621	2,016,474	14,976,028	(37,012,123)	-
Accrued taxes	(297,381)	(26,422)	(18,542)	22,642	(319,703)
Customer deposits	(314,288)	-	-	-	(314,288)
Other current liabilities	-	-	(15,000)	-	(15,000)
Accrued other postemployment benefits	<u>42,313</u>	<u>23,885</u>	<u>34,130</u>	<u>-</u>	<u>100,328</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 53,551,530</u>	<u>\$ 30,316,300</u>	<u>\$ 53,337,908</u>	<u>\$ (36,160,558)</u>	<u>\$ 101,045,180</u>

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS DECEMBER 31, 2008

SCHEDULE OF ASSETS

ASSETS	Electric System	Priest Rapids	Wanapum	Service System	Internal Transactions	Total
CURRENT ASSETS						
Cash	\$ 10,050,641	\$ 839,510	\$ 2,119,769	\$ (9,661,829)	\$ -	\$ 3,348,091
Investments and other	165,726,056	14,558,935	5,723,996	963,889	903	186,973,779
Restricted funds						
Cash	5,810,288	1,598,610	2,784,446	-	-	10,193,344
Investments and other	10,085,490	73,026,252	116,563,253	-	10,529,239	210,204,234
Advances to Service System	992,275	1,196,136	1,196,136	-	(3,384,547)	-
Customer accounts receivable, net of allowance for uncollectible accounts	27,151,419	-	-	84,096	-	27,235,515
Materials and supplies	16,029,762	-	-	2,166,018	-	18,195,780
Due from special funds and bond funds	148,471	1,736,317	2,308,974	46,370,874	(50,564,636)	-
Other current assets	1,739,617	631,350	680,578	-	-	3,051,545
Total current assets	<u>237,734,019</u>	<u>93,587,110</u>	<u>131,377,152</u>	<u>39,923,048</u>	<u>(43,419,041)</u>	<u>459,202,288</u>
NONCURRENT ASSETS						
Long-term noncash special funds	7,912,406	-	-	-	-	7,912,406
Unamortized debt expense	828,386	2,323,976	4,116,384	-	-	7,268,746
Conservation loans	421,072	-	-	-	-	421,072
Long-term receivables, net of allowance for uncollectible accounts	644,180	-	-	-	-	644,180
Demand-side management	6,615,592	-	-	-	-	6,615,592
Deferred preliminary expenses	-	266,310	301,172	-	-	567,482
Total other noncurrent assets	<u>16,421,636</u>	<u>2,590,286</u>	<u>4,417,556</u>	<u>-</u>	<u>-</u>	<u>23,429,478</u>
Utility plant, net of accumulated depreciation and amortization	<u>429,703,257</u>	<u>247,315,471</u>	<u>438,595,489</u>	<u>-</u>	<u>-</u>	<u>1,115,614,217</u>
Total noncurrent assets	<u>446,124,893</u>	<u>249,905,757</u>	<u>443,013,045</u>	<u>-</u>	<u>-</u>	<u>1,139,043,695</u>
TOTAL ASSETS	<u>\$ 683,858,912</u>	<u>\$ 343,492,867</u>	<u>\$ 574,390,197</u>	<u>\$ 39,923,048</u>	<u>\$ (43,419,041)</u>	<u>\$ 1,598,245,983</u>

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS DECEMBER 31, 2008

SCHEDULE OF LIABILITIES AND NET ASSETS

LIABILITIES & NET ASSETS	Electric System	Priest Rapids	Wanapum	Service System	Internal Transactions	Total
CURRENT LIABILITIES						
Accounts payable						
Trade	\$ 7,257,672	\$ 1,114,815	\$ 686,764	\$ 25,347,767	\$ 5,139,530	\$ 39,546,548
Wages payable	-	-	-	11,124,249	-	11,124,249
Power purchasers	-	5,779,389	1,259,655	-	(5,139,530)	1,899,514
Due to other district systems and funds, net	24,874,417	7,817,039	7,323,817	3,403,768	(43,419,041)	-
Accrued taxes	3,016,891	918,235	861,074	47,264	-	4,843,464
Customer deposits	3,406,247	-	-	-	-	3,406,247
Accrued bond interest	3,900,531	6,130,929	10,549,327	-	-	20,580,787
Unearned revenue	289,636	-	-	-	-	289,636
Habitat liability	-	3,043,841	3,043,840	-	-	6,087,681
Other current liabilities	-	-	35,096	-	-	35,096
Current portion of licensing obligations	-	1,344,546	1,344,546	-	-	2,689,092
Current portion of long-term debt	10,375,000	9,870,000	11,320,000	-	-	31,565,000
	<u>53,120,394</u>	<u>36,018,794</u>	<u>36,424,119</u>	<u>39,923,048</u>	<u>(43,419,041)</u>	<u>122,067,314</u>
Total current liabilities						
NONCURRENT LIABILITIES						
Accrued other postemployment benefits	140,016	82,102	118,554	-	-	340,672
Federal arbitrage tax liability	-	332,771	398,143	-	-	730,914
Long-term unearned revenue	1,821,440	-	-	-	-	1,821,440
Licensing obligations, less current portion	-	20,715,452	20,715,452	-	-	41,430,904
Revenue bonds, less current portion	138,110,000	238,010,000	410,710,000	-	-	786,830,000
Unamortized premium	4,200,384	3,323,681	6,522,489	-	-	14,046,554
Unamortized discount	-	(256,011)	(647,270)	-	-	(903,281)
Unamortized refunding loss	(767,653)	(6,145,030)	(4,095,612)	-	-	(11,008,295)
	<u>143,504,187</u>	<u>256,062,965</u>	<u>433,721,756</u>	<u>-</u>	<u>-</u>	<u>833,288,908</u>
Total noncurrent liabilities						
Total liabilities	<u>196,624,581</u>	<u>292,081,759</u>	<u>470,145,875</u>	<u>39,923,048</u>	<u>(43,419,041)</u>	<u>955,356,222</u>
NET ASSETS						
Invested in capital assets, net of related debt	278,613,912	34,970,661	86,246,839	-	-	399,831,412
Net restricted assets	10,375,000	9,870,000	11,355,096	-	-	31,600,096
Unrestricted	198,245,419	6,570,447	6,642,387	-	-	211,458,253
	<u>487,234,331</u>	<u>51,411,108</u>	<u>104,244,322</u>	<u>-</u>	<u>-</u>	<u>642,889,761</u>
Total net assets						
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 683,858,912</u>	<u>\$ 343,492,867</u>	<u>\$ 574,390,197</u>	<u>\$ 39,923,048</u>	<u>\$ (43,419,041)</u>	<u>\$ 1,598,245,983</u>

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Electric System	Priest Rapids	Wanapum	Service System	Internal Transactions	Total
OPERATING REVENUES						
Sales to power purchasers at cost	\$ -	\$ 54,150,258	\$ 65,664,345	\$ -	\$ (66,216,045)	\$ 53,598,558
Retail energy sales						
Residential	31,926,286	-	-	-	-	31,926,286
Irrigation	16,555,562	-	-	-	-	16,555,562
Commercial and industrial	61,773,063	-	-	-	-	61,773,063
Governmental and others	931,072	-	-	-	-	931,072
Sales to other utilities	118,497,247	-	-	-	-	118,497,247
Fiber optic network sales	2,025,299	-	-	-	-	2,025,299
Other	1,653,456	-	-	-	-	1,653,456
Total operating revenues	233,361,985	54,150,258	65,664,345	-	(66,216,045)	286,960,543
OPERATING EXPENSES						
Purchased power	101,436,812	-	-	-	(66,216,045)	35,220,767
Generation	378,920	11,857,195	13,356,208	-	-	25,592,323
Transmission	7,166,830	932,069	1,047,955	-	-	9,146,854
Distribution	9,461,035	-	-	-	-	9,461,035
Customer and information services	4,385,547	-	-	-	-	4,385,547
Fiber optic network operations	1,132,614	-	-	-	-	1,132,614
Administrative and general	11,635,258	7,816,752	9,150,216	-	-	28,602,226
License compliance and related agreements	-	12,903,609	12,903,614	-	-	25,807,223
Depreciation and amortization	23,459,726	5,081,327	8,206,028	-	-	36,747,081
Taxes	8,395,355	918,235	861,074	-	-	10,174,664
Total operating expenses	167,452,097	39,509,187	45,525,095	-	(66,216,045)	186,270,334
NET OPERATING INCOME	65,909,888	14,641,071	20,139,250	-	-	100,690,209
OTHER REVENUES (EXPENSES)						
Interest and other income	5,435,576	2,264,701	3,802,839	-	-	11,503,116
Interest on revenue bonds and other, net of capitalized interest of \$5,141,635	(7,895,769)	(12,192,982)	(17,744,711)	-	-	(37,833,462)
Amortization of debt expense, discount, and premium	482,950	(916,190)	(575,999)	-	-	(1,009,239)
Total other revenues (expenses)	(1,977,243)	(10,844,471)	(14,517,871)	-	-	(27,339,585)
CONTRIBUTION IN AID OF CONSTRUCTION	9,058,551	-	44,905	-	-	9,103,456
EXTRAORDINARY LOSS						
Loss related to powerhouse fire	-	-	(176,482)	-	-	(176,482)
Loss on insurance settlements	-	-	(79,916)	-	-	(79,916)
Net extraordinary loss	-	-	(256,398)	-	-	(256,398)
CHANGE IN NET ASSETS	72,991,196	3,796,600	5,409,886	-	-	82,197,682
NET ASSETS						
Beginning of year	414,243,135	47,614,508	98,834,436	-	-	560,692,079
End of year	<u>\$ 487,234,331</u>	<u>\$ 51,411,108</u>	<u>\$ 104,244,322</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 642,889,761</u>

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

SCHEDULE OF CASH FLOWS

	Electric System	Priest Rapids	Wanapum	Service System	Internal Transactions	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from retail energy sales	\$ 109,773,701	\$ -	\$ -	\$ -	\$ -	\$ 109,773,701
Cash received from sales to power purchasers at cost	-	54,389,570	69,700,093	-	(68,686,617)	55,403,046
Cash received from sales to other utilities	107,622,004	-	-	-	-	107,622,004
Other cash receipts	6,188,963	-	-	-	-	6,188,963
Cash received from customer deposits	(245,546)	-	-	-	-	(245,546)
Cash paid for demand-side management	(1,133,311)	-	-	-	-	(1,133,311)
Cash paid for purchase of power	(97,680,857)	-	-	-	68,686,617	(28,994,240)
Cash paid to contractors, suppliers, and employees	(27,445,320)	(31,181,504)	(37,519,601)	(6,055,839)	-	(102,202,264)
Cash received from other noncurrent assets	11,500,000	-	-	-	-	11,500,000
Cash received from long-term contracts	1,821,440	-	-	-	-	1,821,440
Taxes paid	(8,106,709)	(991,863)	(971,704)	-	-	(10,070,276)
	<u>102,294,365</u>	<u>22,216,203</u>	<u>31,208,788</u>	<u>(6,055,839)</u>	<u>-</u>	<u>149,663,517</u>
Net cash provided by (used in) operating activities						
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal paid on revenue bonds	(9,895,000)	(9,325,000)	(10,445,000)	-	-	(29,665,000)
Interest paid on revenue bonds	(8,042,143)	(12,456,436)	(21,315,320)	-	-	(41,813,899)
Relicensing costs	-	(38,035)	(38,035)	-	-	(76,070)
Cash received from contribution in aid of construction	5,578,264	-	44,905	-	-	5,623,169
Insurance proceeds	-	-	3,798,505	-	-	3,798,505
Extraordinary loss - powerhouse fire	-	-	(256,398)	-	-	(256,398)
Acquisition and construction of plant assets	(59,873,729)	(12,072,695)	(30,209,397)	(338,308)	-	(102,494,129)
Proceeds on sale of plant assets	1,071,471	124,343	124,343	-	-	1,320,157
	<u>(71,161,137)</u>	<u>(33,767,823)</u>	<u>(58,296,397)</u>	<u>(338,308)</u>	<u>-</u>	<u>(163,563,665)</u>
Net cash used in capital and related financing activities						
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investment securities	(368,817,512)	(150,878,655)	(201,123,825)	(4,100,000)	-	(724,919,992)
Sale proceeds of investment securities	346,109,748	154,505,213	223,788,371	-	-	724,403,332
Investment income proceeds	3,457,549	2,340,610	3,895,756	-	-	9,693,915
Net repurchase agreement	(6,686,679)	4,074,303	872,523	419,568	-	(1,320,285)
Cash received from conservation loans	173,963	-	-	-	-	173,963
	<u>(25,762,931)</u>	<u>10,041,471</u>	<u>27,432,825</u>	<u>(3,680,432)</u>	<u>-</u>	<u>8,030,933</u>
Net cash provided by (used in) investing activities						
NET INCREASE (DECREASE) IN CASH	<u>\$ 5,370,297</u>	<u>\$ (1,510,149)</u>	<u>\$ 345,216</u>	<u>\$ (10,074,579)</u>	<u>\$ -</u>	<u>\$ (5,869,215)</u>

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

SCHEDULE OF CASH FLOWS, CONTINUED

	Electric System	Priest Rapids	Wanapum	Service System	Total
CASH AT END OF YEAR	\$ 15,860,929	\$ 2,438,120	\$ 4,904,215	\$ (9,661,829)	\$ 13,541,435
CASH AT BEGINNING OF YEAR	10,490,632	3,948,269	4,558,999	412,750	19,410,650
NET INCREASE (DECREASE) IN CASH	\$ 5,370,297	\$ (1,510,149)	\$ 345,216	\$ (10,074,579)	\$ (5,869,215)
OPERATING ACTIVITIES					
Net operating income	\$ 65,909,888	\$ 14,641,071	\$ 20,139,250	\$ -	\$ 100,690,209
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:					
Depreciation and amortization	23,459,726	5,081,327	8,206,028	-	36,747,081
Provision for uncollectible accounts	312,133	-	-	-	312,133
Cash provided by (used in) changes in operating assets and liabilities:					
Advances to Service System	805	403	403	(1,611)	-
Change in Habitat funds held in trust	-	459,861	459,861	-	919,722
Customer accounts receivable	(6,977,177)	-	-	178,520	(6,798,657)
Materials and supplies	826,740	-	-	(372,005)	454,735
Other current assets	(589,703)	211,390	10,376	-	(367,937)
Other noncurrent assets	11,500,000	-	-	-	11,500,000
Unearned revenue	1,821,440	-	-	-	1,821,440
Demand-side management	(1,133,311)	-	-	-	(1,133,311)
Trade and wages payables	2,378,665	(55,822)	(55,823)	973,037	3,240,057
(Receivable from) payable to power purchasers	(1,981,235)	239,312	4,035,748	-	2,293,825
(Receivable from) payable to other District systems, net	6,665,199	1,678,224	(1,505,518)	(6,837,905)	-
Accrued taxes	288,646	(73,628)	(110,630)	4,125	108,513
Customer deposits	(245,546)	-	-	-	(245,546)
Other current liabilities	-	-	(20,097)	-	(20,097)
Accrued other postemployment benefits	58,095	34,065	49,190	-	141,350
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 102,294,365	\$ 22,216,203	\$ 31,208,788	\$ (6,055,839)	\$ 149,663,517

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

Supplementary Information

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON
COLUMBIA RIVER-PRIEST RAPIDS HYDROELECTRIC PRODUCTION SYSTEM

SCHEDULE OF CHANGES IN WORKING CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Revenue Fund	Construction Fund	Supp R&R Fund	Bond Interest Funds	Bond Sinking Funds	Year Ended Dec 31, 2009	Year Ended Dec 31, 2008
Ending Working Capital	\$ 1,285,497	\$ 29,028,716	\$ 6,000,000	\$ 3,325,556	\$ -	\$ 39,639,769	\$ 57,568,316
Beginning Working Capital	1,988,224	46,260,313	6,000,000	3,319,779	-	57,568,316	70,818,448
NET CHANGE IN WORKING CAPITAL	<u>\$ (702,727)</u>	<u>\$ (17,231,597)</u>	<u>\$ -</u>	<u>\$ 5,777</u>	<u>\$ -</u>	<u>\$ (17,928,547)</u>	<u>\$ (13,250,132)</u>
POWER COST PROFORMA DEPOSITS:							
Operations and maintenance	\$ 41,902,114	\$ -	\$ -	\$ -	\$ -	\$ 41,902,114	\$ 38,288,064
Principal					10,335,000	10,335,000	9,870,000
Interest				8,515,594		8,515,594	8,941,142
15% of debt service			3,325,556			3,325,556	3,319,779
Proforma deposits sub-total	41,902,114	-	3,325,556	8,515,594	10,335,000	64,078,264	60,418,985
Year-end power cost adjustment	(11,765,221)					(11,765,221)	(6,268,727)
Total power cost proforma deposit	<u>30,136,893</u>	<u>-</u>	<u>3,325,556</u>	<u>8,515,594</u>	<u>10,335,000</u>	<u>52,313,043</u>	<u>54,150,258</u>
Less							
15% of debt service transferred as an offset to interest expense			(3,325,556)	3,325,556		-	-
Plant/capital additions		(18,170,617)				(18,170,617)	(12,546,391)
Capitalized interest on CWIP		987,766				987,766	928,284
Current portion of long-term obligations	(369,956)					(369,956)	(1,344,546)
Normal operations and maintenance	(29,746,832)					(29,746,832)	(34,393,793)
Habitat PRCC liability funding	(1,344,546)					(1,344,546)	-
Interest/misc income	924,567		29,918			954,485	2,374,455
Excess fund balance transfer	29,918		(29,918)			-	-
Change in federal arbitrage tax liability	(332,771)					(332,771)	115,794
Change in current year sinking fund requirements					(465,000)	(465,000)	(545,000)
Face amount of debt retired					(9,870,000)	(9,870,000)	(9,325,000)
Bond interest expense				(11,835,373)		(11,835,373)	(12,261,858)
Preliminary surveys		(56,943)				(56,943)	(254,546)
Relicensing costs						-	(38,035)
Unrealized (gain)/loss on investments		8,197				8,197	(109,754)
NET CHANGE IN WORKING CAPITAL	<u>\$ (702,727)</u>	<u>\$ (17,231,597)</u>	<u>\$ -</u>	<u>\$ 5,777</u>	<u>\$ -</u>	<u>\$ (17,928,547)</u>	<u>\$ (13,250,132)</u>

**PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON
COLUMBIA RIVER-PRIEST RAPIDS HYDROELECTRIC PRODUCTION SYSTEM**

**SCHEDULES OF POWER COSTS AND ALLOCATION TO POWER PURCHASERS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OPERATING EXPENSES	\$ 34,543,016	\$ 39,509,187
Less:		
Depreciation and amortization	4,772,301	5,081,327
Other noncash expenses	23,885	34,065
	<u>29,746,830</u>	<u>34,393,795</u>
Add:		
Habitat PRCC liability funding	1,344,546	-
Interest on revenue bonds and other district systems, including capitalized interest of \$987,766 and \$928,284	11,835,376	12,261,858
Principal and sinking fund installments on debt	10,335,000	9,870,000
15% of interest and sinking fund installments	3,325,556	3,319,779
	<u>56,587,308</u>	<u>59,845,432</u>
Less:		
Interest and other income, excluding (losses) gains of certain special funds of (\$8,197) and \$109,754	954,486	2,374,458
15% of prior year second series debt service installments	3,319,779	3,320,716
	<u>52,313,043</u>	<u>54,150,258</u>
NET COSTS CHARGEABLE TO POWER PURCHASERS	<u>\$ 52,313,043</u>	<u>\$ 54,150,258</u>
ALLOCATION TO POWER PURCHASERS		
Billed to power purchasers as follows:		
PacifiCorp Electric Operations	\$ 2,949,981	\$ 2,316,072
Portland General Electric	2,949,981	2,316,072
Puget Sound Energy, Inc.	1,699,531	1,333,480
Tacoma Power	1,285,901	1,266,074
City of Seattle, City Light Department	1,267,714	1,244,539
Avista Corporation	1,293,186	1,014,514
Public Utility District No. 1 of Cowlitz County	814,657	818,316
Eugene Water and Electricity Board	362,660	285,195
City of Forest Grove, Oregon	188,272	188,428
City of McMinnville, Oregon	188,272	188,428
City of Milton-Freewater, Oregon	188,272	188,428
Public Utility District No. 1 of Kittitas County	133,441	150,743
Snake River Power Association	301,125	312,134
Clearwater Power Company	58,112	60,237
Idaho County Light and Power Company	21,132	21,905
Kootenai Electric Cooperative, Inc.	100,371	104,040
Northern Lights, Inc.	89,811	93,095
Public Utility District No. 2 of Grant County	38,420,624	42,248,558
	<u>\$ 52,313,043</u>	<u>\$ 54,150,258</u>

**PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON
WANAPUM DEVELOPMENT**

**SCHEDULE OF CHANGES IN WORKING CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>Revenue Fund</u>	<u>Construction Fund</u>	<u>R&C Fund</u>	<u>Supp R&C Fund</u>	<u>Bond Interest Funds</u>	<u>Bond Sinking Funds</u>	<u>Year Ended Dec 31, 2009</u>	<u>Year Ended Dec 31, 2008</u>
Ending Working Capital	\$ (214,503)	\$ 28,708,370	\$ -	\$ 6,000,000	\$ 4,870,854	\$ -	\$ 39,364,721	\$ 94,953,033
Beginning Working Capital	553,597	77,536,638	6,000,000	6,000,000	4,862,798	-	94,953,033	127,023,900
NET CHANGE IN WORKING CAPITAL	<u>\$ (768,100)</u>	<u>\$ (48,828,268)</u>	<u>\$ (6,000,000)</u>	<u>\$ -</u>	<u>\$ 8,056</u>	<u>\$ -</u>	<u>\$ (55,588,312)</u>	<u>\$ (32,070,867)</u>
POWER COST PROFORMA DEPOSITS:								
Operations and maintenance	\$ 41,082,091	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,082,091	\$ 34,511,000
Principal						11,885,000	11,885,000	11,320,000
Interest					15,724,557		15,724,557	16,230,202
15% of debt service				4,870,853			4,870,853	4,862,798
Proforma deposits sub-total	41,082,091	-	-	4,870,853	15,724,557	11,885,000	73,562,501	66,924,000
Year-end power cost adjustment	(15,499,353)						(15,499,353)	(1,259,655)
Total power cost proforma deposit	25,582,738	-	-	4,870,853	15,724,557	11,885,000	58,063,148	65,664,345
Less:								
15% of debt service transferred as an offset to interest expense				(4,870,853)	4,870,853		-	-
Plant/capital additions		(49,232,734)					(49,232,734)	(34,037,190)
Capitalized interest on CWIP		716,490					716,490	4,213,351
Current portion of long-term obligations	(369,956)						(369,956)	(1,344,546)
Normal operations and maintenance	(32,768,414)						(32,768,414)	(37,269,876)
Habitat PRCC liability funding	(1,344,546)						(1,344,546)	-
Extraordinary operations and maintenance							-	(176,424)
Loss on insurance proceeds on extraordinary loss							-	(79,974)
Interest/misc income	2,474,764		21,516	33,941			2,530,221	4,018,531
Excess fund balance transfer	55,457		(21,516)	(33,941)			-	-
Change in federal arbitrage tax liability	(398,143)						(398,143)	(142,200)
Change in current year sinking fund requirements						(565,000)	(565,000)	(875,000)
Face amount of debt retired						(11,320,000)	(11,320,000)	(10,445,000)
Bond interest expense					(20,587,354)		(20,587,354)	(21,098,654)
Preliminary expenses		(312,024)					(312,024)	(289,408)
Relicensing costs							-	(38,035)
Transfer between funds	6,000,000		(6,000,000)				-	-
Unrealized gain on investments							-	(215,692)
CIAC Puget Sound Energy							-	44,905
NET CHANGE IN WORKING CAPITAL	<u>\$ (768,100)</u>	<u>\$ (48,828,268)</u>	<u>\$ (6,000,000)</u>	<u>\$ -</u>	<u>\$ 8,056</u>	<u>\$ -</u>	<u>\$ (55,588,312)</u>	<u>\$ (32,070,867)</u>

**PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON
WANAPUM DEVELOPMENT**

**SCHEDULES OF POWER COSTS AND ALLOCATION TO POWER PURCHASERS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009			2008
	January through October	November and December	Total	Total
OPERATING EXPENSES	\$ 34,624,415	\$ 6,889,469	\$ 41,513,884	\$ 45,525,095
Less:				
Depreciation and amortization	7,460,458	1,250,884	8,711,342	8,206,028
Other noncash expenses	-	34,128	34,128	49,190
	27,163,957	5,604,457	32,768,414	37,269,877
Add:				
Habitat PRCC liability funding	1,344,546	-	1,344,546	-
Interest on revenue bonds, including capitalized interest of \$716,490 and \$3,762,460	17,156,128	3,431,226	20,587,354	21,098,654
Principal and sinking fund installments on debt	9,904,169	1,980,831	11,885,000	11,320,000
15% of interest and sinking fund installments	4,059,044	811,809	4,870,853	4,862,798
	59,627,844	11,828,323	71,456,167	74,551,329
Less:				
Interest and other income, excluding gains of certain special funds of \$0 and \$215,692	2,446,085	84,136	2,530,221	4,018,532
Refund of Wanapum Reserve & Contingency Fund	6,000,000	-	6,000,000	-
15% of prior year second series debt service installments	4,052,332	810,466	4,862,798	4,868,452
NET COSTS CHARGEABLE TO POWER PURCHASERS	\$ 47,129,427	\$ 10,933,721	\$ 58,063,148	\$ 65,664,345
ALLOCATION TO POWER PURCHASERS				
Billed to power purchasers as follows:				
PacifiCorp Electric Operations	\$ 8,813,201	\$ 1,348,337	\$ 10,161,538	\$ 12,279,233
Portland General Electric	8,813,201	1,348,337	10,161,538	12,279,233
Puget Sound Energy, Inc.	5,089,978	777,646	5,867,624	7,091,749
Tacoma Power	-	330,590	330,590	-
City of Seattle, City Light Department	-	329,499	329,499	-
Avista Corporation	3,864,614	591,856	4,456,470	5,384,476
Public Utility District No. 1 of Cowlitz County	1,272,496	195,214	1,467,710	1,772,937
Eugene Water and Electricity Board	1,083,977	165,295	1,249,272	1,510,280
City of Forest Grove, Oregon	329,906	45,805	375,711	459,650
City of McMinnville, Oregon	329,906	45,805	375,711	459,650
City of Milton-Freewater, Oregon	329,906	45,805	375,711	459,650
Public Utility District No. 1 of Kittitas County	-	15,268	15,268	-
Snake River Power Association	-	62,512	62,512	-
Clearwater Power Company	-	12,064	12,064	-
Idaho County Light and Power Company	-	4,387	4,387	-
Kootenai Electric Cooperative, Inc.	-	20,837	20,837	-
Northern Lights, Inc.	-	18,644	18,644	-
Public Utility District No. 2 of Grant County	17,202,242	5,575,820	22,778,062	23,967,487
	\$ 47,129,427	\$ 10,933,721	\$ 58,063,148	\$ 65,664,345