

PASCOAG UTILITY DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Year Ended December 31, 2011

PASCOAG UTILITY DISTRICT
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Year Ended December 31, 2011

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REPORT OF INDEPENDENT AUDITORS

To The Board of Utility Commissioners
Pascoag Utility District
Pascoag, Rhode Island

We have audited the accompanying financial statements of the Pascoag Utility District as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of Pascoag Utility District management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pascoag Utility District as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 8 and 22 through 23 are not a required part of the basic financial statements but is supplementary information required by 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Pascoag Utility District's basic financial statements. The individual fund financial statements and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.



Providence, Rhode Island
March 20, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Pascoag Utility District is a quasi-municipal entity established by an act of the Rhode Island General Assembly in 2001.

The governing body of the District is the Board of Utility Commissioners, consisting of five members who are elected by the voters of the District. The powers of the Utility District, as set forth in the Charter, are vested in and exercised by a majority of the Board. The Board of Utility Commissioners, in its discretion, may delegate Executive functions to its General Manager, by resolution or rule, or otherwise.

The District provides, on a not-for-profit basis, electric and water services to its customers through two separate and distinct Divisions. The Electric Division is the only public power utility in the state of Rhode Island. It purchases electricity and distributes it to approximately 4,500 customers in the villages of Pascoag and Harrisville, both in the Town of Burrillville, Rhode Island. The Water Division serves approximately 1,100 residential and commercial/industrial customers in the village of Pascoag.

The Electric Division is regulated by the Rhode Island Public Utilities Commission (RIPUC). Regulated activities include review of rates charged to customers and approval of conservation programs. The Water Division's oversight, on policy and rates, is provided by the Board of Utility Commissioners.

In a recent RIPUC Report and Order, the Commission commends Pascoag "for its efficient operation and superb management. Its ratepayers clearly receive high quality and committed service from Pascoag's manager and staff. Based on the strength of Pascoag's financial management, the Commission finds it unnecessary to continue the requirement that Pascoag file mid-year status reports with the Commission. Pascoag shall file monthly status reports with the Division reflecting over and/or under collections." This greatly reduces the time and expense District staff dedicates to the preparation of a complete filing. In addition, it validates Pascoag's fiscal practices and policies.

Within this section of the District's annual financial report, management provides discussion and analysis of the financial activities of the District for the year ended December 31, 2011. The District's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements:

The basic financial statements include (1) the combined statement of net assets, (2) the combined statement of activities and changes in net assets, (3) the combined cash flow statements, and (4) notes to the financial statements. Supplementary information is presented for clarification and expansion of basic financial information and is not a required part of the financial statements. Supplementary information consists of separate financial statements for the Electric and the Water Divisions.

The statement of net assets is designed to indicate our financial position as of a specific point in time. Our net assets went down in the current period by \$138,147.

The statement of activities and changes in net assets summarizes our operating results and reveals how much, if any, income was earned for the period. As discussed in more detail below, our net loss for the year was \$99,611.

The statement of cash flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financing activities for the same period. A review of our cash flows indicates that the cash receipts from operating activities (sales of electricity) adequately covered electric operating expenses, capital additions and debt service, but was inadequate in completely covering water operating expenses, capital additions and debt service. In 2011, the District completed an upgrade to its water meters for all customers, as discussed in more detail below, and early indication is that significant additional water revenue will be brought in as a result of this project.

In 2012, the District is undertaking a full Cost of Service and Rate Design Study for both water and electric departments. A Request for Proposals ("RFP") was issued in October 2011. Based on four responses submitted, the District awarded the project to B & E Consulting of Providence, R I.

Financial Highlights:

Electric sales represent approximately 92% of the gross revenues of the District while water sales make up the remaining 8%.

For the fiscal year ending December 31, 2011, the Electric Department generated a loss in assets of approximately \$139,884.

For the fiscal year ending December 31, 2011, the Water Department generated a gain in assets of approximately \$1,737.

Summary of Net Assets

	2011			2010
	<u>Electric</u>	<u>Water</u>	<u>Total</u>	<u>Total</u>
Current assets	\$ 2,165,843	\$ 214,668	\$ 2,380,511	\$ 2,110,860
Noncurrent assets	<u>3,027,021</u>	<u>2,029,788</u>	<u>5,056,809</u>	<u>5,478,138</u>
Total Assets	<u>\$ 5,192,864</u>	<u>\$ 2,244,456</u>	<u>\$ 7,437,320</u>	<u>\$ 7,588,998</u>
Current liabilities	\$ 866,403	\$ 83,356	\$ 949,759	\$ 967,539
Long-term debt, net of current portion	-	277,994	277,994	288,858
Other liabilities	<u>34,935</u>	<u>-</u>	<u>34,935</u>	<u>86,790</u>
Total Liabilities	<u>901,338</u>	<u>361,350</u>	<u>1,262,688</u>	<u>1,343,187</u>
Net assets invested in capital assets	1,788,506	1,727,828	3,516,334	3,755,035
Restricted for capital and power	1,238,515	12,177	1,250,692	1,132,975
Restricted for pension	-	-	-	202,823
Unrestricted net assets	<u>1,264,505</u>	<u>143,101</u>	<u>1,407,606</u>	<u>1,154,978</u>
Total Net Assets	<u>4,291,526</u>	<u>1,883,106</u>	<u>6,174,632</u>	<u>6,245,811</u>
Total Liabilities and Net Assets	<u>\$ 5,192,864</u>	<u>\$ 2,244,456</u>	<u>\$ 7,437,320</u>	<u>\$ 7,588,998</u>

Summary of Changes in Net Assets

	<u>Electric</u>	<u>Water</u>	<u>Total</u>	<u>Total</u>
Operating revenues	\$ 7,660,652	\$ 708,182	\$ 8,368,834	\$ 8,379,203
Operating expenses	<u>7,747,733</u>	<u>794,586</u>	<u>8,542,319</u>	<u>8,514,381</u>
Operating income(loss)	(87,081)	(86,404)	(173,485)	(135,178)
Nonoperating revenues less nonoperating expenses	184,955	88,141	273,096	287,406
Change in pension plan funding status	<u>(237,758)</u>	<u>-</u>	<u>(237,758)</u>	<u>132,384</u>
Increase (decrease) in Net Assets	<u>\$ (139,884)</u>	<u>\$ 1,737</u>	<u>\$ (138,147)</u>	<u>\$ 284,612</u>

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Water

Due to the MTBE contamination in our water supply in 2001, the Water Division has, from January 2002 through January 2008, purchased 100% of its water supply from the neighboring village of Harrisville. In January 2008, a new well, designated as Well #5, became operational, producing approximately 20% to 30% of the District's water needs. The remainder of the water continues to be purchased from the Harrisville Water Department. However, financial savings are mitigated due to an increase in the rates from Harrisville Water Department for purchased water.

Clean up at the site of contamination, an Exxon/Mobil gas station, was completed by the State of Rhode Island. In addition, the State continued clean up at the District's well fields and surrounding aquifer. The Rhode Island Division of Environmental Management (RIDEM) had used a carbon filtration system and other protocols of abatement on-site. Additional abatement efforts included the pumping to waste of approximately 145,000 gallons of water daily from Well #3A. The RIDEM shut down the #3A pumping operation on April 20, 2005. To-date, all clean up at the site and at the well field has been funded with EPA money, and administered by the State of Rhode Island's DEM.

Although the District is encouraged by the clean-up at the well site, there are no immediate plans to bring Well 3 or Well 3A back into production. However, the District is undergoing a water exploration study, funded through a low interest loan approved by the Rhode Island Clean Water Finance Agency. The District is currently anticipating that it will use a portion of this funding to perform testing for clean water in the northern end of the existing well field close to the Clear River aquifer.

On July 26, 2011, Rhode Island Superior Court Judge Judith Colenback Savage tentatively approved a settlement between the District and ExxonMobil regarding the 2001 MTBE contamination of the District's well field. The settlement was reached on December 15, 2010, and the District is awaiting final approval by the court regarding plaintiff's litigation costs in the case before the Judge will allow settlement dollars to be released. The settlement amount for the District will equal \$5,000,000 minus the court-approved attorney fees and litigation costs, and the District is anticipating a final determination during the next court date, scheduled for April 30, 2012. The funding received from this settlement will be used to continue the District's water exploration phase, and hopefully to bring new wells into production, as well as other infrastructure improvements needed by the District's water distribution system.

Utility Plant and Debt Administration:

Electric

Pascoag's distribution system is 13.8 KV. The District built a new sub-station with state-of-the-art equipment in June 2000. All street lighting in the District has been converted to High Pressure Sodium lamps. These improvements, along with many others, have combined to provide the newest technology, the highest degree of safety, and significant savings of money and electric energy.

In 2012, the District will conduct a pilot program of LED street lighting. This project will be developed using funds collected through the Demand Side Management Assessment. The project has been reviewed and approved by the RIPUC.

The implementation of new electric metering equipment is continuing to be investigated by Pascoag. Advanced Metering Infrastructure ("AMI") or "smart metering" is the most current technology available. AMI will work with the national "smart grid" to provide customers with real-time metering, demand response programs, outage management, and other vital energy applications. However, the cost in implementing an AMI system will have an impact on Pascoag's rates. In the summer of 2009, Pascoag applied to the Department of Energy for funds, administered under the American Recovery and Reinvestment Act ("ARR"), for a smart metering project with a total budget of \$1,424,500. That project would have provided the entire service territory with the new meters and two-way communication devices that allow customers access to real time energy consumption and energy pricing. The District requested that 45% of that amount come from the DOE grant with Pascoag funding the remaining 55%. Unfortunately in October 2009, Pascoag was informed that our project had not been selected as a recipient of ARRA funds. Due to that, and based on the current economic conditions in the state, Pascoag has decided to put its plans for smart metering on a temporary hold. The Cost of Service Study will review and address the potential for the development of smart metering technology in the future.

The District has approximately 45 square miles in its electric service territory. The distribution system is constantly maintained and upgraded. Since much of Pascoag's service territory is rural, covered wire is used, providing a higher degree of reliability. The District also conducts annual maintenance on circuit breakers and relay equipment. Additionally, Pascoag has an aggressive tree-trimming program that ensures the reliability of service in heavily wooded areas. In prior years, Pascoag's tree-trimming program had been outsourced. In 2009, based on Pascoag's commitment to system reliability, that program was brought in-house. Pascoag hired a two-man, fulltime, crew to maintain vegetation along its service lines.

Pascoag has no Poly Chlorinated Biphenyl ("PCB") equipment. Phase out of the PCB's was completed in the 1990's. Pascoag is in compliance with phase out requirements, as well as with emergency clean-up capabilities.

Pascoag's most recent capital improvement project was completed in 2005, and included a new garage facility and a major remodel to the District's existing business office. The remodeled office includes a public meeting room, several private offices, and an improved customer service facility. The remodel has brought the District office into compliance with all state and federal requirements for handicapped accessibility.

In 2007, Pascoag improved the security at the District headquarters by installing new security fencing and a new monitoring system in the business office.

Pascoag funds a "Restricted Account" dedicated to debt service payments and capital projects, totaling \$376,000 annually. Based on a request by the District in the fall of 2011, RIPUC has allowed Pascoag to provide lower annual funding to this Restricted Account for 2011 and 2012 due to the current economic environment. The District has however been able to maintain the balance in this account at over \$500,000.

In addition to that fund, in December 2007, the RIPUC approved the establishment of a "Purchase Power Restricted Fund" with a maximum funding limit of \$300,000. At Pascoag's request, in December 2009, the RIPUC approved increasing that fund to a level of \$500,000. Pascoag requested this amount as it is equivalent to one month's purchase power expense. The RIPUC approved Pascoag's request as a bench decision at Pascoag's hearing on December 14, 2009. The additional \$200,000 was funded from an over collection in rates at year-end 2009. On January 19, 2010, Pascoag transferred \$200,000 from its operating account to the Purchase Power Restricted Fund account, bringing the balance in that fund to \$497,372.

At its annual rate hearing with the RIPUC on December 22, 2010, Pascoag requested Commission approval to set \$200,000 in abeyance in a newly created "Rate Stabilization Fund." This money, encumbered in an interest bearing account, would be used to offset future rate increases. At Pascoag's hearing before the RIPUC in December 2011, the Commission approved Pascoag's request to retain the \$200,000 until 2013. As of December 31, 2011, the balance in the District's Purchase Power Restricted Fund Account is:

\$500,000	Restricted for power invoices
<u>\$ 7,963</u>	Interest
\$507,963	Restricted for power invoices
\$200,000	Rate Stabilization Fund
<u>\$ 2,095</u>	Interest
\$202,095	Rate Stabilization Fund
<u>\$710,058</u>	Account Total

Water

The owners/ratepayers of Pascoag Water Division overwhelmingly voted in 2002 in favor of Pascoag retaining its autonomy and voted down a merger proposal with Harrisville Water Division.

Taking its direction from that vote, the Board of Utility Commissioners authorized the Water Division to hire a consultant to study the feasibility of developing a new source of water for the District. The results of that study, received by the District in July 2002, indicated several possible sites for exploration, and in October 2002, the voters of the District voted to go forward with a program of well exploration.

That exploration program was centered on property off Reservoir Road. Test pumping results indicate that a well on that property could produce between 75,000 to 125,000 gallons of water per day, equivalent to 20% to 30% of the District's daily requirement. The District brought this well on line in January 2008.

The District received Community Development Block Grants, totaling \$200,000 during 2002 and 2003, through the Town of Burrillville for the well exploration phase. In addition to the CDBG, Pascoag also received approval of an Emergency Community Water Grant from the United States Department of Agriculture. This grant, approved in July 2003, in the amount of \$500,000 was used on a cost reimbursement basis for the development of the new well off Reservoir Road. Pascoag also received a Rhode Island Water Resource Board grant for the chlorination facility of \$29,095 in January 2004, and was also approved for another WRB grant of approximately \$17,000 for security fencing at the District's two water storage tanks.

In 2006, Pascoag qualified for a grant from the Rhode Island Water Resource Board in the amount of \$14,900 for water exploration in the Oakland/Mapleville section of the Town of Burrillville. That program did not identify any favorable areas of water development, so the District continues to focus on the development in the Reservoir Road area of Pascoag.

Additionally, in 2007, Pascoag received notification that it was approved for a federal grant (STAG) totaling \$448,000. In the summer of 2007, Pascoag identified costs associated with the development of its new well (Well #5) at approximately \$187,000. As of December 31, 2007, the District had received reimbursement from STAG grant proceeds to cover those expenses. Additionally, the District identified an additional \$9,207 of expenses associated with well development, and in 2008 received reimbursement from the remaining STAG grant funds for a total of \$196,550.

Beginning in January 2006, the Water Department established a Restricted Account dedicated to debt service and capital projects. That account was funded at an annual level of \$40,000. In April 2008, the water department adjusted its rate structure to increase the annual funding level to \$48,000. The Restricted Fund is collected through a line item on each customer's quarterly billing statement. Due to revenue deficiency vs. expense in 2010, no additional funds were added to the Restricted Fund for the year.

At a special meeting held in August 2009, the voters unanimously approved a meter replacement project for the water department. This project, completed in 2011, replaced all water meters in Pascoag's service territory with new Automatic Meter Reading ("AMR") technology. A project budget was established at \$397,000.

Funding for the project will come from two sources. The first, an EPA grant, will provide 55% of project funding. The remainder of the funds will come from the Rhode Island Clean Water Financing Agency ("RICWFA"). This is in the form of a low-interest loan with a 16% debt forgiveness provision. ARRA funds will provide for the principal forgiveness portion. The replacement of the older meters is expected to help the District account for more accurate water throughput to our customers, and therefore to account for revenue that the District believes is currently being lost due to inaccurate meter readings.

At the annual meeting on December 2011, the voters of the Pascoag Utility District approved a request to fund two major projects at a total cost of \$1,225,000. The two identified projects – Tank Painting (\$1,000,000) and water/well exploration (\$225,000) - will be financed through the Rhode Island Clean Water Finance Agency. Work is anticipated to begin on both projects in early 2012.

Debt Administration

District debt at the end of December 2011 totaled \$288,858 approximately 3.88% of the total District assets. The new debt issue has not yet impacted the District's balance sheet.

The Electric Division has no debt at the end of calendar year 2010. In May 2010, Pascoag's Board of Utility Commissioners voted to retire the outstanding debt for the new garage and office remodel project using money from the Restricted Fund for Debt and Capital Projects. RI Division of Public Utilities agreed that this was a proper use of the Restricted Fund.

Water Division debt at the end of calendar year 2010 is \$288,858. The water department's debt is for the following:

Well #3 (now shut down due to MTBE contamination)	\$117,858
AMR Meter Project	<u>\$171,000</u>
Total	<u>\$288,858</u>

Financing for Well #3 is provided by the United States Department of Agriculture. The financing for the AMR Meter Project is with General Obligation Drinking Water Bonds, thru the RICWFA. Based on ARRA principal forgiveness, net cost to the District will be \$137,480.

Significant Balances, Transactions and Notes of Interest:

Demand Side Management

DSM promotes energy conservation within Pascoag's customer base. The District offers several innovative programs to its residential customers such as financial incentives for conversion from electric heat, appliance rebates for ENERGY STAR equipment, and free home energy audits. Commercial and industrial customers have benefited from zero interest loans. Pascoag has partnered with the Burrillville High School on development of a conservation video by the high school students, on speaker programs at the school, and on the installation of solar equipment at the school. The DSM program is funded by the Electric Division based on kilowatt-hour sales. The District has a dedicated funding vehicle for all DSM revenues and expenses.

Restricted Fund Account

As a result of the District's Cost of Service Study hearing in February 2004, the Electric Department created a Restricted Fund account for the specific purposes of funding capital projects and debt service.

In December 2007, the RIPUC approved Pascoag's request to establish a "Purchase Power Restricted Fund" account, not to exceed \$300,000. This account is to be used only for power expenses during periods of slow cash flow, typically during the winter moratorium. In December 2009, the RIPUC approved Pascoag's request to increase the funding level of this account to \$500,000. In December 2010, the RIPUC approved Pascoag's request to add \$200,000 to this account to provide a Rate Stabilization Fund. The total in the Purchase Power Restricted Fund, included the newly created Rate Stabilization Fund, is now \$710,058.

In January 2006, the Water Department established a similar Restricted Fund account dedicated to debt service and capital improvements. The balance in that account is currently \$12,177.

Customer Service

The District strives to continue to provide improved service to all its customers through training and education of staff. The District staff was recognized by Atlantic States Rural Water & Wastewater Association for their outstanding response during the MTBE crisis. In fact, two of our staff has been recognized for excellence in customer service. Judith Allaire, Assistant General Manager, was recognized in 2005 by the Northeast Public Power Association with the Carol A. Tracey Award, given for excellence in customer service, and in 2009 Harle Round, Senior Customer Service Representative was presented with this award at the annual Northeast Public Power Customer Service Conference.

Credit Rating

In 2008, Standard and Poor's issued Pascoag Utility District a credit rating of A- and stable outlook. This rating reflects the following factors:

- RIPUC timeliness in providing Pascoag with rate relief as required;
- A diverse supply of purchased power under contracts of varying length;
- Competitive rates; and
- Adequate coverage of fixed obligations and manageable capital needs.
- In 2011, a review by Standard and Poor's maintained that rating.

Reliability and Federal Mandates

Pascoag Electric was registered with Northeast Power Coordinating Council ("NPCC") as a Distribution Provider ("DP") and a Load Serving Entity ("LSE"). As such, Pascoag was subject to NPCC's Compliance Reporting Requirements and North America Reliability Corporation's ("NERC") reliability standards.

Although Pascoag had complied with all NPCC/NERC requirements and created documented procedures, in July 2010, the District requested an exemption from Directory #12 UFLS Program requirements. ISO-NE agreed, based on the UFLS Program data received from Pascoag that the District qualifies for exclusion from ISO-NE's UFLS Program and can be considered as no longer material to the reliable operation of the bulk power system for purposes of the UFLS. In December 2010, Pascoag received a letter from NPCC stating that after reviewing pertinent and individual UFLS program data, it is satisfied that Pascoag qualifies for exclusion from ISO-NE's UFLS Program. As participation in the UFLS program was the sole reason for the original registration of Pascoag, Pascoag is now delisted from the NERC/NPCC Compliance Registry as a DP and LSE.

PASCOAG UTILITY DISTRICT
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
December 31, 2011

		ASSETS			LIABILITIES AND NET ASSETS		
		Electric Division	Water Division	Total	Electric Division	Water Division	Total
<u>Utility Plant:</u>							
Utility Plant in Service:							
Land, at cost		\$ 140,053	\$ 178,736	\$ 318,789	\$ 1,788,506	\$ 1,727,828	\$ 3,516,334
Buildings and equipment, at cost		8,449,520	2,875,640	11,325,160	1,238,515	12,177	1,250,692
		8,589,573	3,054,376	11,643,949	-	-	-
Less: accumulated depreciation		6,811,090	1,037,690	7,848,780	1,264,505	143,101	1,407,606
Net Utility Plant in Service		1,778,483	2,016,686	3,795,169	4,291,526	1,883,106	6,174,632
Construction in Progress		10,023	-	10,023	-	277,994	277,994
Net Utility Plant		1,788,506	2,016,686	3,805,192	-	277,994	277,994
<u>Current and Accrued Assets:</u>							
Cash on hand and in bank		535,973	57,320	593,293	-	10,864	10,864
Cash, customer deposits		221,285	-	221,285	509,941	4,977	514,918
Accounts receivable, customers (net)		439,380	16,935	456,315	55,439	3,269	58,708
Unbilled revenues		517,621	129,225	646,846	-	60,811	60,811
Accounts receivable - other		14,929	13,845	28,774	-	-	-
Interdivisional receivable (payable)		33,838	(33,838)	-	40,893	-	40,893
Materials and supplies inventory		150,907	30,179	181,086	221,285	-	221,285
Prepayments		251,910	1,002	252,912	38,845	-	38,845
					-	3,435	3,435
Total Current and Accrued Assets		2,165,843	214,668	2,380,511	866,403	83,356	949,759
<u>Other Assets:</u>							
Restricted cash - capital project and debt service		528,457	12,177	540,634	-	-	-
Restricted cash - purchased power		710,058	-	710,058	34,935	-	34,935
Long-term pension asset		-	-	-	-	-	-
Debt issuance costs, net of amortization		-	925	925	34,935	-	34,935
Total Other Assets		1,238,515	13,102	1,251,617	901,338	361,350	1,262,688
Total Assets		\$ 5,192,864	\$ 2,244,456	\$ 7,437,320	\$ 5,192,864	\$ 2,244,456	\$ 7,437,320

See notes to financial statements.

PASCOAG UTILITY DISTRICT
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2011

	<u>Electric Division</u>	<u>Water Division</u>	<u>Total</u>
<u>Operating Revenues</u>	\$ 7,660,652	\$ 708,182	\$ 8,368,834
<u>Operating Expenses:</u>			
Operation and maintenance expenses	6,247,649	436,837	6,684,486
Depreciation expense	301,303	76,452	377,755
General and administrative	1,107,146	276,419	1,383,565
Taxes on property and payroll	91,635	4,878	96,513
<u>Total Operating Expenses</u>	<u>7,747,733</u>	<u>794,586</u>	<u>8,542,319</u>
<u>Operating Income (Loss)</u>	<u>(87,081)</u>	<u>(86,404)</u>	<u>(173,485)</u>
<u>Non-operating Revenue (Expense):</u>			
Interest income	20,613	3,726	24,339
Penalty interest	29,505	-	29,505
Miscellaneous service revenues	57,030	49,548	106,578
Grants	53,400	17,230	70,630
Rent from antenna sites	31,932	32,700	64,632
Interest on long-term debt	-	(9,601)	(9,601)
Interest on customer deposits	(7,525)	-	(7,525)
Loss on disposal of assets	-	(5,410)	(5,410)
Amortization of debt issuance cost	-	(52)	(52)
<u>Total Non-operating Income</u>	<u>184,955</u>	<u>88,141</u>	<u>273,096</u>
<u>Net Income</u>	<u>\$ 97,874</u>	<u>\$ 1,737</u>	<u>\$ 99,611</u>
<u>Net assets, beginning of year, as originally reported</u>	<u>\$ 4,364,442</u>	<u>\$ 1,881,369</u>	<u>\$ 6,245,811</u>
Adjustment for understatement in revenue	66,968	-	66,968
<u>Net assets, beginning of year, as adjusted</u>	<u>4,431,410</u>	<u>1,881,369</u>	<u>6,312,779</u>
Balance transferred from income	97,874	1,737	99,611
Change in pension plan funded status	(237,758)	-	(237,758)
<u>Total net assets, end of year</u>	<u>\$ 4,291,526</u>	<u>\$ 1,883,106</u>	<u>\$ 6,174,632</u>

See notes to financial statements.

**PASCOAG UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
Year Ended December 31, 2011**

	<u>Electric Division</u>	<u>Water Division</u>	<u>Total</u>
<u>Cash Flows from Operating Activities</u>			
Cash received from customers	\$ 7,735,695	\$ 672,903	\$ 8,408,598
Cash payments to suppliers and employees	(7,515,759)	(718,966)	(8,234,725)
Other revenues	164,379	89,150	253,529
<u>Net Cash Provided by (Used in) Operating Activities</u>	<u>384,315</u>	<u>43,087</u>	<u>427,402</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Capital acquisitions	(29,009)	(17,985)	(46,994)
Reimbursement from grants	53,400	17,230	70,630
Net return of advances for construction	(19,822)	-	(19,822)
Payments of loan principal	-	(10,680)	(10,680)
Net transfer from (to) restricted cash	(117,692)	(25)	(117,717)
Interest paid	(7,525)	(9,601)	(17,126)
<u>Net Cash Provided by (Used in) Capital and Related Financing Activities</u>	<u>(120,648)</u>	<u>(21,061)</u>	<u>(141,709)</u>
<u>Cash Flows from Investing Activities:</u>			
Interest income	20,613	3,726	24,339
<u>Net Cash Provided by Investing Activities</u>	<u>20,613</u>	<u>3,726</u>	<u>24,339</u>
<u>Net Increase in Cash</u>	<u>284,280</u>	<u>25,752</u>	<u>310,032</u>
<u>Cash Balance, January 1</u>	<u>251,693</u>	<u>31,568</u>	<u>283,261</u>
<u>Cash Balance, December 31</u>	<u>\$ 535,973</u>	<u>\$ 57,320</u>	<u>\$ 593,293</u>
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating income (loss)	\$ (87,081)	\$ (86,404)	\$ (173,485)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Miscellaneous income	61,437	-	61,437
Miscellaneous service revenue	57,030	82,248	139,278
Depreciation	301,303	76,452	377,755
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable and unbilled revenue	71,095	3,788	74,883
(Increase) decrease in inventory	(20,533)	(1,451)	(21,984)
(Increase) decrease in prepaid expenses	8,390	167	8,557
Increase (decrease) in accounts payable and accrued liabilities	(57,186)	4,903	(52,283)
Increase (decrease) in interdivisional accounts	36,616	(36,616)	-
Increase (decrease) in deferred credits	(3,968)	-	(3,968)
Increase (decrease) in demand side management program	17,212	-	17,212
<u>Total adjustments</u>	<u>471,396</u>	<u>129,491</u>	<u>600,887</u>
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 384,315</u>	<u>\$ 43,087</u>	<u>\$ 427,402</u>

See notes to financial statements.

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Pascoag Utility District (the "District") was established in 2001 by an act of the Rhode Island General Assembly as a special district within the village of Pascoag. Major functions include water utility services within the village of Pascoag and electric utility services within the villages of Pascoag and Harrisville, Rhode Island.

A seven member Board of Utility Commission has full management authority over the water and electric departments and control of all real estate of the District. The electric utility is also subject to regulations of the Rhode Island Public Utilities Commission ("RIPUC").

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles ("GAAP") and follow the uniform system of accounts prescribed by regulatory bodies having jurisdiction over its activities.

The more significant of the District's accounting policies are described below.

Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has applied the entity definition criteria of GAAP in considering all potential component units. The basic, but not the only, criteria for including or excluding an operating unit in the reporting entity are the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Based upon the application of the criteria, it was determined that there were no component units to be reported separately.

Basis of Accounting

The District presents its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Federal Energy Regulatory Commission ("FERC") uniform system of accounts has been adopted for the electric division and the National Association of Regulatory Utility Commissioners uniform system of accounts has been adopted for the water division.

Cash and Investments

The District maintains separate cash and investment accounts for each of its two functions (water utility and electric utility) due to Board of Utility Commission and RIPUC restrictions on uses of the funds and requirements for separate accounting and financial reporting. The District conducts all its banking and investment transactions with a number of federally insured financial institutions.

Investments are recorded at cost with adjustments to market value recorded in a valuation allowance. For the Statement of Cash Flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Receivables and Unbilled Revenue

Accounts receivable customers are shown net of a reserve for uncollectible accounts of \$30,000 in the Electric division and \$6,000 in the Water division. Accounts receivable are considered uncollectible and written off when all legal means for collection have been exhausted.

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated unbilled revenues from electric and water sales are recognized at the end of each calendar year. The estimated amount is based on billings during the period following the close of the calendar year.

Materials and Supplies Inventory

Materials and supplies consist of water and electrical utility parts and supplies valued at cost. Cost is determined using a weighted average method on a first-in-first-out basis. The cost of materials and supplies is capitalized and recorded as capital additions or expenses when installed or consumed, rather than when purchased.

Property, Plant and Equipment

Additions to property, plant and equipment are valued at cost. The cost of additions to utility plants includes contracted work, direct labor, materials, and other indirect charges. Donated assets are valued at their estimated fair value on the date donated. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized.

Depreciation of exhaustible fixed assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets. Depreciation has been provided over the estimated useful lives of 5 to 50 years using the straight-line method of depreciation. No depreciation is taken on land or land rights. In the year of acquisition, no depreciation is taken in the electric division and the water division. The cost of property sold, retired or otherwise disposed of is removed from the asset account, and the related depreciation is removed from the accumulated depreciation account.

Pensions

The provision for pension cost is recorded on an accrual basis, and the District's policy is to fund pension costs as they accrue.

Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Compensated absences vest and accumulate and are accrued when earned.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The District was chartered by the state legislature as a quasi-municipal corporation, district and political subdivision of the State of Rhode Island and has been granted exemption from federal and state income taxes under Internal Revenue Code section 501(c)(12) which requires the District to report its activities to the federal government on a tax Form 990.

The District evaluates all significant tax positions as required by generally accepted accounting principles in the United States. As of December 31, 2011 and 2010, the District does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The District's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of December 31, 2011, the District's income tax returns generally remain open for examination for three years from the date filed with each taxing jurisdiction.

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant Revenues

The District was awarded an EPA STAG Grant in the amount of \$218,229 for the water meter replacement project. The project consists of the purchase and installation of approximately 1,200 residential water meters with radio based meter interface units and leak detection capabilities. As of December 31, 2011, the District has expensed and been reimbursed \$125,028 pertaining to this project, with \$93,201 of Grant funds available for future expenditures.

Subsequent Events

The District has evaluated all subsequent events through March 20, 2012, the date the financial statements were available to be issued.

Note B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deposits with Financial Institutions

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. It is the District's policy to follow the requirements contained in Section 35-10.1-7 of the General Laws of the State of Rhode Island, dealing with the collateralization of public deposits, which requires that all time deposits with maturities of greater than 60 days and all deposits in institutions that do not meet the minimum capital requirements of its Federal regulator must be collateralized.

Note C. CASH

Deposits

Deposits are in various financial institutions and are carried at cost. The carrying amount of deposits is separately displayed on the statement of assets, liabilities and net assets in various line items labeled "Cash".

At December 31, 2011, the carrying amount of the District's deposits was \$2,065,270 and the bank balances were aggregated to \$2,188,212 of which \$957,704 was fully insured under FDIC and NCSIF limitations. The uninsured balance of \$1,230,508 consists of Repurchase Agreements which are supported by U.S. Government securities.

Reserved Cash

At December 31, 2011, the Electric Division had designated certain of its operating cash to be held for the following purposes:

Contingency funds	\$ 10,000
Storm fund	2,371
Working cash reserve	66,661
	<hr/>
	\$ 79,032
	<hr/>

Additionally, at December 31, 2011, the Electric Division had certain cash reserves with external restrictions for the following purposes:

Restricted cash - capital project and debt service	\$ 532,627
Restricted cash - purchased power	710,058
	<hr/>
	\$ 1,242,685
	<hr/>

The Water Division has designated a savings account balance for debt to capital expenditures of \$12,177.

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note D. PREPAYMENTS

At the statement of net assets date, prepayments consist of the following advance payments:

	<u>Total</u>	<u>Electric Division</u>	<u>Water Division</u>
Purchased power	\$ 248,853	\$ 248,853	\$ -
Insurance premiums	4,059	3,057	1,002
	<u>\$ 252,912</u>	<u>\$ 251,910</u>	<u>\$ 1,002</u>

Note E. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment is presented below:

	<u>Balances 1/1/2011</u>	<u>Additions</u>	<u>Retirements & Adjustments</u>	<u>Balances 12/31/2011</u>
<u>Electric</u>				
Nondepreciable assets:				
Land and land rights	\$ 140,053	\$ -	\$ -	\$ 140,053
Construction in progress	33,488	-	(23,464)	10,024
Depreciable assets:				
Buildings	1,662,933	-	-	1,662,933
Equipment	6,739,213	52,473	(5,100)	6,786,586
Total cost	<u>8,575,687</u>	<u>52,473</u>	<u>(28,564)</u>	<u>8,599,596</u>
Accumulated Depreciation				
Buildings	(660,587)	(72,207)	-	(732,794)
Equipment	(5,854,300)	(229,096)	5,100	(6,078,296)
Total accumulated depreciation	<u>(6,514,887)</u>	<u>(301,303)</u>	<u>5,100</u>	<u>(6,811,090)</u>
Net utility plant in service	<u>\$ 2,060,800</u>	<u>\$ (248,830)</u>	<u>\$ (23,464)</u>	<u>\$ 1,788,506</u>
<u>Water</u>				
Nondepreciable assets:				
Land and land rights	\$ 178,736	\$ -	\$ -	\$ 178,736
Construction in progress	207,015	21,432	(228,447)	-
Depreciable assets:				
Buildings	283,321	-	-	283,321
Equipment	2,450,921	230,214	(88,816)	2,592,319
Total cost	<u>3,119,993</u>	<u>251,646</u>	<u>(317,263)</u>	<u>3,054,376</u>
Accumulated Depreciation				
Buildings	(182,464)	(8,288)	-	(190,752)
Equipment	(856,966)	(68,165)	78,193	(846,938)
Total accumulated depreciation	<u>(1,039,430)</u>	<u>(76,453)</u>	<u>78,193</u>	<u>(1,037,690)</u>
Net utility plant in service	<u>\$ 2,080,563</u>	<u>\$ 175,193</u>	<u>\$ (239,070)</u>	<u>\$ 2,016,686</u>

Construction in progress consists of electric service for several developments and the ongoing water meter upgrade project for electric and water divisions, respectively.

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note F. PENSION COSTS

Defined Benefit Pension Plan

Substantially all employees of the District are covered by the Pascoag Utility District's non-contributory single employer defined benefit pension plan. Employees are eligible to participate after one year of service, 1,000 hours worked and a minimum age of 21. Normal retirement date is the later of attaining age 65 or completion of five years of participation. Normal retirement benefits are payable equal to one and one-half percent of compensation times credited years. Benefits are based on average salary during the highest five consecutive years of employment. Upon termination for any reason other than death, disability or retirement, a participant will be entitled to a portion of the actuarial equivalent of the accrued benefit in accordance with a vesting schedule based on credited years.

The District's contributions to the Plan are based on an annual actuarial valuation using the frozen initial liability method of calculation. The District's funding policy is to contribute an amount sufficient to satisfy the minimum funding requirements of the Internal Revenue Code. The cost to the District for the years ended December 31, 2011, 2010 and 2009, was \$101,950, \$139,677 and \$119,000, respectively, and the annual valuation for the Plan was performed as of January 1, 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>
<u>Funded Status</u>		
Fair value of plan assets at December 31	\$ 1,073,062	\$ 989,875
Projected benefit obligation at December 31	1,107,997	787,052
Funded status	<u>\$ (34,935)</u>	<u>\$ 202,823</u>
 <u>Accumulated benefit obligation</u>	 <u>\$ 864,493</u>	 <u>\$ 613,079</u>
 <u>Amounts recognized on the balance sheet</u>		
Prepaid benefit cost	<u>\$ (34,935)</u>	<u>\$ 202,823</u>
 <u>Weighted-average assumptions</u>		
Discount rate	6.0%	6.0%
Expected return on plan assets	8.0%	8.0%
Rate of compensation increase	3.0%	3.0%

The expected employer contribution to the plan for next year is \$144,000.

The overall expected rate of return on assets is consistent with the expectation for a mixed portfolio of equity and debt securities invested over an extended period.

	<u>2011</u>	<u>2010</u>
<u>Additional pension data</u>		
Net periodic pension cost	\$ 63,253	\$ 65,509
Employer contribution	\$ 101,950	\$ 139,677
Benefits paid	\$ 18,208	\$ 5,029
 <u>Weighted-average asset allocations</u>		
Equity securities	52.21%	53.86%
Debt securities	44.99%	44.42%
Real estate	0.00%	0.00%
Other	2.80%	1.72%

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note F. PENSION COSTS (Continued)

Investment policies and strategies

The District's management, together with an investment advisor and an employee committee, meet regularly to determine investment alternatives. The goal is to maximize the plan assets while minimizing the associated risks.

Estimated future benefits expected to be paid from the plan

Year ended December 31,	2012	\$	30,074
	2013	\$	29,588
	2014	\$	29,052
	2015	\$	36,672
	2016	\$	55,489
	2017-2022	\$	457,006

401k Plan

In addition, the District maintains a contributory 401(k) plan. A participant must have completed one year of service, 1,000 hours worked, and a minimum age of 21. Salary reduction contributions are permitted up to the maximum allowed which would not cause the plan to exceed statutory limits as imposed by the Internal Revenue Service code. The District is not making contributions to this plan.

Note G. COMPENSATED ABSENCES

Sick days are granted to all employees at the rate of one working day for each full calendar month for a total of twelve days per year. Employees may bank up to fifteen sick days for which they will be paid upon termination. Employees are not permitted to carry over personal or vacation days. Unused vacation pay, up to a one week maximum, is paid to employees at the end of the calendar year.

As of December 31, 2011, the liability for accrued sick leave for electric and water divisions was \$55,439 and \$3,269, respectively.

Note H. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past four years.

Note I. INTERDIVISIONAL TRANSFERS AND CHARGES

The Electric and Water divisions share certain facilities and personnel. Costs are allocated to the appropriate division and are paid from resources of that division throughout the year. The effect of interdivisional transactions has been eliminated from the total columns of the financial statements.

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note J. LONG-TERM DEBT

The following is a summary of the District's long-term debt transactions for the year ended December 31, 2011.

	<u>Total</u>	<u>Electric Division</u>	<u>Water Division</u>
Debt outstanding January 1	\$ 299,538	\$ -	\$ 299,538
Retirements and repayments	(10,680)	-	(10,680)
Debt outstanding December 31	<u>\$ 288,858</u>	<u>\$ -</u>	<u>\$ 288,858</u>

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amounts Issued</u>	<u>Amounts Outstanding</u>
Notes payable:				
Term note	5.00%	12/27/2030	\$ 150,000	\$ 117,858
Term note	5.34%	09/01/2030	\$ 179,000	171,000
				<u>\$ 288,858</u>

Presented below is a summary of debt service requirements to maturity by years:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 20,266	\$ 10,864	\$ 9,402
2013	20,122	11,057	9,065
2014	19,979	11,260	8,719
2015	19,815	11,473	8,342
2016	20,691	12,696	7,995
2017-2021	102,974	69,246	33,728
2022-2026	105,363	83,776	21,587
2027-2030	85,158	78,486	6,672
Total	<u>\$ 394,368</u>	<u>\$ 288,858</u>	<u>\$ 105,510</u>

Note K. LEASE OBLIGATIONS

The District leases certain equipment under monthly operating leases. Rental expense was \$9,153 for the year ending December 31, 2011. As of December 31, 2011, the remaining operating lease obligations are as follows:

2012	\$ 8,386
2013	5,280
2014	<u>1,662</u>
Total	<u>\$ 15,328</u>

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note L. PRIOR PERIOD ADJUSTMENT

Net assets reported on the Pascoag Utility districts statements at December 31, 2010 have been adjusted to reflect a correction of an error for the reporting of construction in process and deferred revenue. As a result, net assets at December 31, 2010 have been increased by \$66,968.

Note M. CREDIT RISK CONCENTRATION

The Electric Division operates within an industry which has undergone state and federal restructuring. The restructuring process has affected issues which may have significant financial impact on Pascoag, but at this time it is not possible to determine the nature of or extent of that impact.

The District provides water and electrical power service to customers within a small geographic area. The Division grants credit to all of its customers.

Approximately 12% of the Electric division and 10% of the Water division revenues were derived from sales with one particular customer.

Note N. COMMITMENTS AND CONTINGENCIES

Contingent Liability - MMWEC

Pascoag Utility District is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company ("MMWEC").

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC), and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note N. COMMITMENTS AND CONTINGENCIES (Continued)

Contingent Liability - MMWEC (Continued)

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) (formerly FPL Energy Seabrook LLC), the majority owner and an indirect subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC). The operating license for Seabrook Station extends to March, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

Pascoag Utility District has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

Seven municipal light departments that are Participants under PSAs with MMWEC have submitted a demand for arbitration of a dispute relating to charges under the PSAs. MMWEC cannot predict the outcome of the arbitration demand, but in the opinion of MMWEC management, it will not have a material adverse effect on the financial position of MMWEC.

Total capital expenditures for MMWEC's Projects amounted to \$1,581,599,000, of which \$11,370,000 represents the amount associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$358,420,000, of which \$3,107,000 is associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. As of December 31, 2011, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$380,165,000, of which \$3,402,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of Pascoag Utility District's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2011 and estimated for future years is shown below.

	<u>ANNUAL COSTS</u>
For years ended December 31, 2012	\$ 602,000
2013	597,000
2014	603,000
2015	594,000
2016	577,000
2017 to 2020	<u>429,000</u>
Total	<u>\$ 3,402,000</u>

**PASCOAG UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note N. COMMITMENTS AND CONTINGENCIES (Continued)

Contingent Liability - MMWEC (Continued)

In addition, under the PSAs the District is required to pay its share of the operation and maintenance ("O&M") costs of the projects in which it participates. The District's total O&M costs including debt service under the PSAs were \$1,144,000 and \$1,171,000 for the years ended December 31, 2011 and 2010, respectively.

In addition to its agreements through MMWEC, the District has entered into agreements to purchase power from various suppliers. These wholesale contracts are generally for fixed periods and require payment of demand and energy charges. The total estimated minimum costs under these contracts are included in purchased power in the statements of revenues, expenses and changes in net assets and are normally recoverable in revenues under cost recovery mechanisms mandated by the State of Rhode Island. The estimated status of these contracts is as follows:

For years ended December 31,	Spruce <u>Mountain Wind</u>	Miller <u>Hydro Group</u>	Dominion <u>Energy Marketing</u>	Constellation Energy <u>Commodities Group</u>
2012	\$ 171,703	\$ 97,219	\$ 168,480	\$ 1,577,646
2013	171,703	97,219	168,480	1,577,646
2014	171,703	97,219	168,480	1,577,646
2015	171,703	97,219	168,480	-
2016	171,703	68,863	-	-
Thereafter	<u>1,631,174</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,489,689</u>	<u>\$ 457,739</u>	<u>\$ 673,920</u>	<u>\$ 4,732,938</u>

Purchase power expenses under these agreements were approximately \$4,188,510 in 2011. The District has entered into an agreement with the New York Power Authority to purchase power under on demand basis. The District has no formal commitment to purchase power under this agreement, however if the District does purchase power from the New York Power Authority, the rate charged is \$3.57 per kilowatt hour.

Note O. TRAINING FACILITY

The District, working with Northeast Public Power Association ("NEPPA"), constructed a new training facility in a cost sharing arrangement in Pascoag in 2006. The facility is used by NEPPA instructors to conduct linemen training classes at the Pascoag facility.

REQUIRED SUPPLEMENTARY INFORMATION

PASCOAG UTILITY DISTRICT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - ELECTRIC DIVISION
Year Ended December 31, 2011

	Actual on Budgetary Basis	Budget	Variance
<u>Revenues:</u>			
<u>Operating income</u>	\$ 7,660,652	\$ 7,810,510	\$ (149,858)
<u>Other Income</u>			
Interest	20,613	20,000	613
Penalty interest	29,505	35,000	(5,495)
Rents	31,932	31,935	(3)
Grant revenue	53,400	-	53,400
Miscellaneous service revenue	57,030	35,000	22,030
<u>Total Other Income</u>	192,480	121,935	70,545
<u>Total Revenues</u>	7,853,132	7,932,445	(79,313)
<u>Expenditures:</u>			
<u>Operating Expenses</u>			
Purchased power	4,188,510	4,301,819	(113,309)
Power supply	464	550	(86)
Transmission	1,174,104	1,291,341	(117,237)
Operation and maintenance	573,237	619,350	(46,113)
Customer account expense	311,334	257,205	54,129
Administrative and general	1,107,146	1,111,145	(3,999)
Taxes on payroll and property	91,635	79,335	12,300
<u>Total Operating Expenses</u>	7,446,430	7,660,745	(214,315)
<u>Miscellaneous Income Deductions</u>			
Interest on customer deposits	7,525	2,200	5,325
<u>Total Miscellaneous Income Deductions</u>	7,525	2,200	5,325
<u>Capital Expenditures, less advances for construction and new debt</u>	29,009	269,500	(240,491)
<u>Total Expenditures</u>	7,482,964	7,932,445	(449,481)
<u>Excess of Revenues over Expenditures</u>	370,168	\$ -	\$ 370,168
<u>Reconciliation to net income:</u>			
Depreciation expense	(301,303)		
Capital Expenditures, less advances for construction and new debt	29,009		
<u>Net Income</u>	\$ 97,874		

**PASCOAG UTILITY DISTRICT
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - WATER DIVISION
Year Ended December 31, 2011**

	Actual on Budgetary <u>Basis</u>	<u>Budget</u>	<u>Variance</u>
<u>Revenues:</u>			
<u>Operating income</u>	\$ 708,182	\$ 749,800	\$ (41,618)
<u>Other Income</u>			
Interest	3,726	2,000	1,726
Grants	17,230	-	17,230
Rent	32,700	31,800	900
Miscellaneous service revenue	49,548	-	49,548
<u>Total Other Income</u>	103,204	33,800	69,404
<u>Total Revenues</u>	811,386	783,600	27,786
<u>Expenditures:</u>			
<u>Operating Expenses</u>			
Operation and maintenance	436,837	417,830	19,007
Administrative and general	276,419	324,280	(47,861)
Taxes on payroll	4,878	5,090	(212)
<u>Total Operating Expenses</u>	718,134	747,200	(29,066)
<u>Miscellaneous Income Deductions</u>			
Interest on long-term debt	9,601	7,800	1,801
<u>Capital Expenses</u>	17,985	23,100	(5,115)
<u>Debt Service:</u>			
Principal	10,680	5,500	5,180
<u>Total Expenditures</u>	756,400	783,600	(27,200)
<u>Excess of Expenditures over Revenues</u>	54,986	\$ -	\$ 54,986
<u>Reconciliation to net income:</u>			
Depreciation and amortization expense	(76,504)		
Capital Expense	17,985		
Loss on disposal of assets	(5,410)		
Loan principal	10,680		
<u>Net Income</u>	\$ 1,737		

SUPPORTING SCHEDULES AND STATISTICAL INFORMATION

ELECTRIC DIVISION - FINANCIAL STATEMENTS

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS
December 31, 2011

ASSETS		LIABILITIES AND NET ASSETS	
<u>Electric Utility Plant:</u>		<u>Net Assets:</u>	
Utility plant in service:		Invested in capital assets, net of	
Distribution plant	\$ 6,091,547	related debt and contributions	\$ 1,788,506
General plant	2,498,026	Restricted for capital and power	1,238,515
Total utility plant, in service, at cost	8,589,573	Restricted for pension	-
Less accumulated depreciation	6,811,090	Unreserved net assets	1,264,505
Net electric utility plant in service	1,778,483	Total Net Assets	4,291,526
Construction in progress	10,023		
<u>Net Electric Utility Plant</u>	<u>1,788,506</u>		
<u>Current and Accrued Assets:</u>		<u>Current and Accrued Liabilities:</u>	
Cash	535,973	Accounts payable	509,941
Customer deposit cash	221,285	Customer deposits	221,285
Accounts receivable (net)	439,380	Accrued compensated absences	55,439
Unbilled revenue	517,621	Deferred power credits	38,845
Due from Water Division	33,838	Demand side management program	40,893
Accounts receivables - other	14,929	Total Current and Accrued Liabilities	866,403
Materials and supplies	150,907		
Prepayments	251,910		
Total Current and Accrued Assets	2,165,843	<u>Other Liabilities:</u>	
		Long-term pension liability	34,935
		Total Other Liabilities	34,935
<u>Other Assets:</u>		Total Liabilities	901,338
Restricted investments - capital project and debt	528,457		
Restricted investments - purchased power	710,058		
Total Other Assets	1,238,515		
<u>Total Assets</u>	<u>\$ 5,192,864</u>	<u>Total Liabilities and Net Assets</u>	<u>\$ 5,192,864</u>

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2011

<u>Operating Income:</u>		
Operating revenue	\$ 7,660,652	100.00%
<u>Operating Expenses:</u>		
Operation expenses	6,959,021	90.84%
Maintenance expenses	395,774	5.17%
Depreciation expense	301,303	3.93%
Taxes on property and payroll	91,635	1.20%
<u>Total Operating Expense</u>	<u>7,747,733</u>	<u>101.14%</u>
<u>Operating Income</u>	<u>(87,081)</u>	<u>-1.14%</u>
<u>Other Income:</u>		
Interest	20,613	
Penalty interest	29,505	
Rents	31,932	
Grant revenue	53,400	
Miscellaneous service revenue	57,030	
<u>Total Other Income</u>	<u>192,480</u>	
<u>Income Before Other Deductions</u>	<u>105,399</u>	
<u>Miscellaneous Income Deductions:</u>		
Interest on customer deposits	7,525	
<u>Total Miscellaneous Income Deductions</u>	<u>7,525</u>	
<u>Net Income</u>	<u>\$ 97,874</u>	
<u>Net assets, beginning of year, as originally reported</u>		
	\$ 4,364,442	
Adjustment for understatement in revenue	66,968	
<u>Net assets, beginning of year, as adjusted</u>	<u>4,431,410</u>	
Balance transferred from income	97,874	
Change in pension plan funded status	(237,758)	
<u>Total net assets, end of year</u>	<u>\$ 4,291,526</u>	

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
SCHEDULE OF ELECTRIC OPERATING REVENUE AND STATISTICAL DATA
Year Ended December 31, 2011

	<u>Revenue</u>	<u>Kilowatt Hours Sold (Unaudited)</u>	<u>Revenue Per Kilowatt Hour Sold (Unaudited)</u>
<u>Private Consumer Sales:</u>			
Residential	\$ 4,401,212	29,983,772	\$ 0.1468
Industrial	2,654,270	20,143,876	\$ 0.1318
Commercial	530,475	3,227,223	\$ 0.1644
Private Lighting	<u>40,825</u>	<u>268,143</u>	\$ 0.1523
<u>Total Private Consumer Sales</u>	7,626,782	53,623,014	\$ 0.1422
<u>Municipal Sales:</u>			
Public street and highway lights	<u>33,870</u>	<u>237,068</u>	\$ 0.1429
<u>Total Electric Operating Revenue</u>	<u>\$ 7,660,652</u>	<u>53,860,082</u>	\$ 0.1422

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
SCHEDULE OF OPERATION AND MAINTENANCE EXPENSE
Year Ended December 31, 2011

	<u>Total</u>	<u>Operation</u>	<u>Maintenance</u>
<u>Purchased Power Expenses:</u>			
Purchased power	\$ 4,188,510	\$ 4,188,510	\$ -
Other expenses	464	464	-
Transmission by others	1,174,104	1,174,104	-
<u>Total Purchased Power Expenses</u>	<u>5,363,078</u>	<u>5,363,078</u>	<u>-</u>
<u>Distribution Expenses:</u>			
Operation supervision	59,131	59,131	-
Operation supplies and expense	87,082	87,082	-
Street lighting and signal systems	27,995	27,995	-
Meter expenses	45,941	45,941	-
Maintenance of structures and equipment	26,820	-	26,820
Maintenance of overhead lines	326,268	-	326,268
<u>Total Distribution Expenses</u>	<u>573,237</u>	<u>220,149</u>	<u>353,088</u>
<u>Customer Accounts Expenses:</u>			
Meter reading expenses	45,010	45,010	-
Customer records and collections	237,628	237,628	-
Uncollectible accounts	28,696	28,696	-
<u>Total Customer Accounts Expenses</u>	<u>311,334</u>	<u>311,334</u>	<u>-</u>
<u>Total operation and maintenance expense</u>	<u>\$ 6,247,649</u>	<u>\$ 5,894,561</u>	<u>\$ 353,088</u>
<u>General and Administrative Expenses</u>			
Administrative and general salaries	\$ 358,445	\$ 358,445	\$ -
Office supplies and expenses	69,914	69,914	-
Outside services employed	138,883	138,883	-
Property insurance	43,275	43,275	-
Injuries and damages	15,090	15,090	-
Employee pensions and benefits	406,557	406,557	-
Miscellaneous general expenses	154,795	154,795	-
Maintenance of general plant	42,686	-	42,686
Administrative expenses - transferred	(127,502)	(127,502)	-
Maintenance transportation	5,003	5,003	-
<u>Total General and Administrative Expenses</u>	<u>\$ 1,107,146</u>	<u>\$ 1,064,460</u>	<u>\$ 42,686</u>
<u>Total Operation and Maintenance Expenses</u>	<u>\$ 7,354,795</u>	<u>\$ 6,959,021</u>	<u>\$ 395,774</u>

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
COST OF UTILITY PLANT AND ACCUMULATED DEPRECIATION
December 31, 2011

	Cost 01/01/11	Net Cost Property Added	Net Cost Property Disposed of	Cost 12/31/11	Accumulated Depreciation 01/01/11	Depreciation Expense	Reversed Depreciation	Accumulated Depreciation 12/31/11	Book Value 12/31/11
<u>Electric Utility Plant in Service:</u>									
<u>Electric Distribution Plant:</u>									
Land and land rights	\$ 140,053	-	\$ -	\$ 140,053	\$ -	-	\$ -	\$ -	\$ 140,053
Structures and improvements	1,006,442	-	-	1,006,442	479,558	50,322	-	529,880	476,562
Station equipment	388,251	-	-	388,251	388,251	-	-	388,251	-
Poles, towers and fixtures	1,026,202	7,229	-	1,033,431	1,017,050	9,153	-	1,026,203	7,228
Overhead conductors and devices	1,205,314	-	-	1,205,314	1,137,341	40,177	-	1,177,518	27,796
Underground conductors and devices	206,999	-	-	206,999	99,147	10,350	-	109,497	97,502
Line transformers	1,246,611	3,768	-	1,250,379	1,054,340	62,331	-	1,116,671	133,708
Services	271,206	-	-	271,206	271,206	-	-	271,206	-
Meters	350,252	5,902	5,100	351,054	179,879	17,513	5,100	192,292	158,762
Installation on customers' premises	44,305	-	-	44,305	44,305	-	-	44,305	-
Street lighting and signal systems	179,781	352	-	180,133	168,005	8,080	-	176,085	4,048
Other tangible property	13,980	-	-	13,980	13,980	-	-	13,980	-
<u>Total Electric Distribution Plant</u>	<u>6,079,396</u>	<u>17,251</u>	<u>5,100</u>	<u>6,091,547</u>	<u>4,853,062</u>	<u>197,926</u>	<u>5,100</u>	<u>5,045,888</u>	<u>1,045,659</u>
<u>Electric General Plant:</u>									
Structures and improvements	656,493	-	-	656,493	181,029	21,883	-	202,912	453,581
Office furniture and fixtures	548,789	3,973	-	552,762	530,639	18,149	-	548,788	3,974
Information systems	187,142	-	-	187,142	187,142	-	-	187,142	-
Transportation equipment	851,100	31,250	-	882,350	567,528	51,732	-	619,260	263,090
Tools, shop and garage equipment	155,292	-	-	155,292	144,971	7,765	-	152,736	2,556
Laboratory and test equipment	43,545	-	-	43,545	32,251	2,177	-	34,428	9,117
Communications equipment	20,442	-	-	20,442	18,265	1,671	-	19,936	506
<u>Total Electric General Plant</u>	<u>2,462,803</u>	<u>35,223</u>	<u>-</u>	<u>2,498,026</u>	<u>1,661,825</u>	<u>103,377</u>	<u>-</u>	<u>1,765,202</u>	<u>732,824</u>
<u>Total Electric Utility Plant in Service</u>	<u>\$ 8,542,199</u>	<u>\$ 52,474</u>	<u>\$ 5,100</u>	<u>\$ 8,589,573</u>	<u>\$ 6,514,887</u>	<u>\$ 301,303</u>	<u>\$ 5,100</u>	<u>\$ 6,811,090</u>	<u>\$ 1,778,483</u>

PASCOAG UTILITY DISTRICT - ELECTRIC DIVISION
SCHEDULE OF ELECTRIC ENERGY
(UNAUDITED)
Year Ended December 31, 2011

	<u>Kilowatt Hours</u>
<u>Kilowatt Hours Sold:</u>	
<u>Private Consumers:</u>	
Residential	29,983,772
Industrial	20,143,876
Commercial	3,227,223
Private lighting	<u>268,143</u>
	53,623,014
<u>Municipal Use:</u>	
Public street and highway lighting	<u>237,068</u>
<u>Total Kilowatt Hours Sold</u>	53,860,082
Kilowatt Hours Purchased	<u>55,934,451</u>
<u>Kilowatt Hours Purchased in Excess of Kilowatt Hours Sold</u>	<u>2,074,369</u>
<u>Percentage of kilowatt hours unaccounted for</u>	<u>3.71%</u>

WATER DIVISION - FINANCIAL STATEMENTS

PASCOAG UTILITY DISTRICT - WATER DIVISION
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS
December 31, 2011

ASSETS

LIABILITIES AND NET ASSETS

<u>Utility Plant:</u>		<u>Net Assets:</u>	
Utility Plant in Service:		Invested in capital assets, net of	
Utility plant at cost	\$ 3,054,376	related debt and contributions	\$ 1,727,828
Less: Accumulated depreciation	<u>1,037,690</u>	Restricted for other	12,177
		Unreserved net assets	<u>143,101</u>
Net Utility Plant in Service	2,016,686	<u>Total Net Assets</u>	<u>1,883,106</u>
Construction in progress	-		
<u>Total Utility Plant</u>	<u>2,016,686</u>	<u>Long-Term Debt:</u>	
<u>Current and Accrued Assets:</u>		Notes payable, net of current portion	<u>277,994</u>
Cash - operating	57,320	<u>Total Long-Term Debt</u>	<u>277,994</u>
Accounts receivable, net	16,935		
Accrued utility revenue	129,225	<u>Current and Accrued Liabilities:</u>	
Accounts receivables - other	13,845	Notes payable - current portion	10,864
Material and supplies	30,179	Accounts payable	4,977
Prepayments	<u>1,002</u>	Accrued compensated absences	3,269
		Other accrued liabilities	60,811
<u>Total Current and Accrued Assets</u>	<u>248,506</u>	Harrisville water surcharge	3,435
		Due to Electric Division	<u>33,838</u>
<u>Other Assets:</u>		<u>Total Current and Accrued Liabilities</u>	<u>117,194</u>
Restricted cash	12,177		
Debt issuance costs, net of amortization			
of \$525	<u>925</u>	<u>Total Liabilities</u>	<u>395,188</u>
<u>Total Other Assets</u>	<u>13,102</u>		
<u>Total Assets</u>	<u>\$ 2,278,294</u>	<u>Total Liabilities and Net Assets</u>	<u>\$ 2,278,294</u>

PASCOAG UTILITY DISTRICT - WATER DIVISION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2011

<u>Operating Revenue</u>	\$ 708,182	100.00%
<u>Operating Expenses:</u>		
<u>Operations and Maintenance:</u>		
Supervision and labor	80,487	11.37%
Water surcharge	305,453	43.13%
Utilities	28,187	3.98%
Licenses and test expenses	4,908	0.69%
Regulatory requirements	1,759	0.25%
Chemicals	6,230	0.88%
Conservation	138	0.02%
Materials and supplies	730	0.10%
Outside services	8,945	1.26%
<u>Total Operations and Maintenance</u>	436,837	61.68%
<u>General and Administrative:</u>		
Salaries	133,464	18.85%
Rent	31,932	4.51%
Office supplies and expense	5,842	0.82%
Outside services	20,125	2.84%
Property/liability insurance	18,996	2.68%
Injuries and damages	3,219	0.45%
Employee pensions and benefits	36,419	5.14%
Road maintenance	1,916	0.27%
Miscellaneous	12,781	1.80%
General plant expense	8,293	1.17%
Transportation expense	3,432	0.48%
<u>Total General and Administrative</u>	276,419	39.03%
<u>Other:</u>		
Depreciation	76,452	10.80%
Taxes on payroll	4,878	0.69%
<u>Total Other</u>	81,330	11.48%
<u>Total Operating Expenses</u>	794,586	112.20%
<u>Net Operating Loss</u>	(86,404)	-12.20%
<u>Other Income (Expense):</u>		
Contract revenue	49,548	
Interest income	3,726	
Grants	17,230	
Rent	32,700	
Interest on long-term debt	(9,601)	
Loss on disposal of assets	(5,410)	
Amortization of debt issuance costs	(52)	
<u>Total Other Income</u>	88,141	
<u>Net Income</u>	\$ 1,737	
<u>Net Assets, beginning</u>	1,881,369	
Balance transferred from income	1,737	
<u>Net Assets - Ending</u>	\$ 1,883,106	

PASCOAG UTILITY DISTRICT - WATER DIVISION
SCHEDULE OF OPERATING REVENUE
Year Ended December 31, 2011

Operating Revenues:

Sales - Water	\$ 321,282
Sales - Harrisville surcharge	309,846
Sales - Labor	1,895
Sales - Equipment	307
Sales - Material	1,365
Sales - Meter fees	9,313
Sales - Connection fees	9,250
Sales - Miscellaneous	1,500
Restricted fund revenue	<u>53,424</u>
 <u>Total Operating Revenue</u>	 <u><u>\$ 708,182</u></u>

PASCOAG UTILITY DISTRICT - WATER DIVISION
COST OF PLANT AND ACCUMULATED DEPRECIATION
December 31, 2011

	<u>Cost</u> <u>01/01/11</u>	<u>Net Cost</u> <u>Property</u> <u>Added</u>	<u>Net Cost</u> <u>Property</u> <u>Disposed of</u>	<u>Cost</u> <u>12/31/11</u>	<u>Accumulated</u> <u>Depreciation</u> <u>01/01/11</u>	<u>Depreciation</u> <u>Expense</u>	<u>Reversed</u> <u>Depreciation</u>	<u>Accumulated</u> <u>Depreciation</u> <u>12/31/11</u>	<u>Book</u> <u>Value</u> <u>12/31/11</u>
<u>Utility Plant in Service:</u>									
Land and land rights	\$ 178,736	\$ -	\$ -	\$ 178,736	\$ -	\$ -	\$ -	\$ -	\$ 178,736
Structures and improvements	283,321	-	-	283,321	182,464	8,288	-	190,752	92,569
Metering Equipment	88,816	228,447	88,816	228,447	69,257	8,935	78,192	-	228,447
Station equipment - wells	1,490,341	-	-	1,490,341	183,758	32,429	-	216,187	1,274,154
Standpipe extension	575,236	-	-	575,236	387,531	11,505	-	399,036	176,200
Furniture and fixtures	28,111	1,767	-	29,878	26,325	446	-	26,771	3,107
Transportation equipment	125,408	-	-	125,408	100,702	5,279	-	105,981	19,427
Shop equipment - tools	53,199	-	-	53,199	25,837	3,347	-	29,184	24,015
Corrosion control equipment	89,810	-	-	89,810	63,556	6,223	-	69,779	20,031
<u>Total Utility Plant in Service</u>	<u>\$ 2,912,978</u>	<u>\$ 230,214</u>	<u>\$ 88,816</u>	<u>\$ 3,054,376</u>	<u>\$ 1,039,430</u>	<u>\$ 76,452</u>	<u>\$ 78,192</u>	<u>\$ 1,037,690</u>	<u>\$ 2,016,686</u>