

**CITIZENS' UTILITY BOARD OF OREGON
AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

**YEARS ENDED
DECEMBER 31, 2011 AND 2010**

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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Independent Auditors' Report

To the Board of Directors
Citizens' Utility Board of Oregon
Portland, Oregon

We have audited the accompanying consolidated statements of financial position of Citizens' Utility Board of Oregon (an Oregon non-profit organization) and affiliate as of December 31, 2011 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized consolidated comparative information has been derived from the Citizens' Utility Board of Oregon and affiliate 2010 financial statements and, in our report dated July 15, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens' Utility Board of Oregon and affiliate as of December 31, 2011, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bottaini Gallucci & O'Hanlon P.C.

Bottaini, Gallucci & O'Hanlon, P.C.
Portland, Oregon
August 31, 2012



CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	<u>ASSETS</u>				
	<u>2011</u>			<u>2010</u>	
	<u>Citizens' Utility Board of Oregon</u>	<u>CUB Educational Fund, Inc.</u>	<u>Consolidating Entries</u>	<u>Consolidated Totals</u>	<u>Consolidated Totals</u>
Current assets					
Cash	\$ 3,528	\$ 28,648	\$	\$ 32,176	\$ 296,591
CUB Connects cash		600,044		600,044	
Board designated cash reserves	151,238			151,238	120,811
Endowment cash		629		629	656
Prepaid expenses	6,499	4,321		10,820	9,576
Accounts and grants receivable					613,712
Total current assets	<u>161,265</u>	<u>633,642</u>		<u>794,907</u>	<u>1,041,346</u>
Property and equipment					
Website		53,431		53,431	19,104
Equipment and furniture	7,938	12,784		20,722	19,338
Database software	7,590			7,590	7,590
	<u>15,528</u>	<u>66,215</u>		<u>81,743</u>	<u>46,032</u>
Less accumulated depreciation	<u>10,709</u>	<u>16,469</u>		<u>27,178</u>	<u>14,609</u>
Net property and equipment	<u>4,819</u>	<u>49,746</u>		<u>54,565</u>	<u>31,423</u>
Other assets					
Endowment investments		49,718		49,718	53,030
Rental security deposit	1,100			1,100	1,100
Total other assets	<u>1,100</u>	<u>49,718</u>		<u>50,818</u>	<u>54,130</u>
Total assets	<u>\$ 167,184</u>	<u>\$ 733,106</u>	<u>\$</u>	<u>\$ 900,290</u>	<u>\$ 1,126,899</u>

See Accompanying Notes and Independent Auditors' Report.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(continued)

DECEMBER 31, 2011 AND 2010

LIABILITIES AND NET ASSETS

	2011			2010	
	Citizens' Utility Board of Oregon	CUB Educational Fund, Inc.	Consolidating Entries	Consolidated Totals	Consolidated Totals
Current liabilities					
Accounts payable	\$ 9,839	\$ 5,947	\$	\$ 15,786	\$ 1,396
Accrued vacation pay	11,573	957		12,530	16,938
Pension plan payable	1,200	1,301		2,501	2,301
Payroll liabilities					2,692
Prepaid dues					1,000
Total current liabilities	<u>22,612</u>	<u>8,205</u>		<u>30,817</u>	<u>24,327</u>
Net assets					
Unrestricted net assets					
Board designated	151,238			151,238	120,811
Unrestricted	(6,666)	(63,852)		(70,518)	(2,686)
Prior-period adjustment					1,100
Total unrestricted net assets	<u>144,572</u>	<u>(63,852)</u>		<u>80,720</u>	<u>119,225</u>
Temporarily restricted net assets		749,347		749,347	943,941
Permanently restricted net assets		39,406		39,406	39,406
Total net assets	<u>144,572</u>	<u>724,901</u>		<u>869,473</u>	<u>1,102,572</u>
Total liabilities and net assets	<u>\$ 167,184</u>	<u>\$ 733,106</u>	<u>\$</u>	<u>\$ 900,290</u>	<u>\$ 1,126,899</u>

See Accompanying Notes and Independent Auditors' Report.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011
(With Summarized Information for the Year Ended December 31, 2010)

	2011				2010
	Citizens' Utility Board of Oregon	CUB Educational Fund, Inc.	Consolidating Entries	Consolidated Totals	Consolidated Totals
Unrestricted support and revenues					
Grants, contributions and memberships	\$ 87,606	\$ 12,597	\$ (200)	\$ 100,003	\$ 109,573
Conference		39,210		39,210	
Interest income	646	366		1,012	695
Other revenues	191	78		269	742
Net assets released from restrictions	404,829	194,930		599,759	471,233
Total unrestricted support and revenues	493,272	247,181	(200)	740,253	582,243
Expenses					
Program expenses	351,343	248,858	(200)	600,001	460,290
Fundraising	91,944	14,561		106,505	91,758
General and administrative	45,614	26,638		72,252	65,746
Total expenses	488,901	290,057	(200)	778,758	617,794
Change in unrestricted net assets	4,371	(42,876)		(38,505)	(35,551)
Temporarily restricted net assets					
Contributions and grants	404,829			404,829	407,391
Interest and dividend income		1,118		1,118	1,649
CUB Connects Income		71		71	1,000,000
Realized gain (loss) on sale of investments		(20)		(20)	(1,631)
Unrealized gain (loss) on investments		(833)		(833)	2,849
Net assets released from restrictions	(404,829)	(194,930)		(599,759)	(471,233)
Change in temporarily restricted net assets		(194,594)		(194,594)	939,025
Change in net assets	4,371	(237,470)		(233,099)	903,474
Net assets at beginning of year	140,201	962,371		1,102,572	197,998
Prior period adjustment					1,100
Net assets at end of year	\$ 144,572	\$ 724,901	\$	\$ 869,473	\$ 1,102,572

See Accompanying Notes and Independent Auditors' Report.

**CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011**
(With Summarized Information for the Year Ended December 31, 2010)

	Citizens' Utility Board of Oregon				CUB Educational Fund, Inc.				2011				2010			
	Program	General and Administration	Fundraising	Subtotal	Program	General and Administration	Fundraising	Subtotal	Consolidating Subtotal	Consolidating Entries	Program	General and Administration	Fundraising	Total	Consolidated Totals	
Gross payroll	\$ 221,437	\$ 26,745	\$ 29,510	\$ 277,692	\$ 130,546	\$ 15,116	\$ 11,563	\$ 157,225	\$ 434,917		\$ 351,983	\$ 41,861	\$ 41,073	\$ 434,917	\$ 353,256	
Employee benefits	21,683	8,262	5,271	35,216	30,734	230	288	31,252	66,468		52,417	8,492	5,559	66,468	45,763	
Professional/other fundraising	4,328		45,172	49,500	1,588		1,161	2,749	52,249		5,916		46,333	38,491		
Payroll taxes	23,060	2,860	3,118	29,038	14,822	1,798	1,384	18,004	47,042		37,882	4,502	4,502	52,249		
Occupancy	12,662	1,033	1,606	15,301	17,099			17,099	32,400		29,761	1,033	1,606	47,042		
Consulting	21,728			21,728					21,728		21,728			32,400		
Pension expense	14,400			14,400	4,800			4,800	21,728		19,200			21,728		
Advertising					4,800			4,800	21,728		19,200			21,728		
Computer expense	5,351	250	326	5,927	15,043	14	165	15,043	15,043		15,043	264	491	15,043		
Depreciation	904	3,399		3,399	6,485	9,170		6,664	12,591		10,370	12,569	491	12,591		
Special projects expense	4,118	427		4,545	9,466			9,170	12,569		8,399	427	279	12,569		
Professional fees	1,049	1,133	6,278	8,460	4,281	105		4,386	10,797		1,049	1,238	6,278	10,648		
Postage	5,123			5,123	1,797			1,797	7,327		6,920		184	7,327		
Travel	1,049			1,049	2,535			2,535	6,039		4,871	889	279	6,039		
Office supplies	2,336	889	279	3,504	1,994			1,994	5,358		4,837	337	184	5,358		
Telephone	2,843	337	184	3,364	4,728			4,728	4,728		4,728			4,728		
Hiring expense	1,894			1,894	1,614			1,614	3,508		3,508			3,508		
Insurance	2,844	70		2,914	125	50		175	3,089		2,969	120	200	3,089		
Dues and subscriptions	1,681	75		1,756	415			415	1,648		1,681	75		1,756		
Repairs and maintenance	1,233			1,233					1,648		1,648			1,648		
Conferences	1,055			1,055					1,055		1,055			1,055		
Board expense	874			874					874		874			874		
Printing	522		200	722					859		659		200	859		
Continuing education	218	134		352					797		508	289		797		
License and fees					60			60	(200)		99			99		
Grants											60			60		
Investment fees																
Bank fee																
Interest expenses																
Meeting expense																
Total expenses	\$ 351,343	\$ 45,614	\$ 91,944	\$ 488,901	\$ 248,858	\$ 26,638	\$ 14,561	\$ 290,057	\$ 778,958	\$ (200)	\$ 600,001	\$ 72,252	\$ 106,505	\$ 778,758	\$ 618,686	

See Accompanying Notes and Independent Auditors' Report.

**CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011				2010	
	Citizens' Utility Board of Oregon	CUB Educational Fund, Inc.	Consolidating Entries	Consolidated Totals	Consolidated Totals	Consolidated Totals
Cash flows from operating activities						
Change in net assets	\$ 4,371	\$ (237,470)	\$	\$ (233,099)	\$	\$ 903,474
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents provided by operating activities						
Depreciation and amortization	3,399	9,170	833	12,569	5,391	(2,849)
Unrealized (gain) loss on securities		833	20	853	1,631	1,100
Realized (gain) loss on sale of securities		20		20		
Prior period adjustment						
(Increase) decrease in operating assets						
Accounts and grants receivable	13,712	600,000		613,712	(589,358)	(8,444)
Prepaid expenses	(264)	(980)		(1,244)	(1,100)	
Rental security deposit						
Increase (decrease) in operating liabilities						
Accounts payable	9,839	4,551		14,390	(2,619)	
Pension plan payable		200		200	2,150	
Prepaid dues		(1,000)		(1,000)	1,000	
Payroll liabilities	(1,330)	(1,362)		(2,692)	2,692	
Accrued vacation pay	(5,365)	957		(4,408)	2,494	
Net cash provided (used) by operating activities	24,362	374,919		399,281	315,562	
Cash flows from investing activities						
Sale of investments		2,993		2,993	15,762	
Purchase of investments	(1,384)	(534)		(1,918)	(32,236)	
Purchase of fixed assets	(1,384)	(34,327)		(35,711)	(35,097)	
Net cash provided (used) by investing activities	(1,384)	(31,868)		(33,252)	(51,571)	
Increase (decrease) in cash and cash equivalents	22,978	343,051		366,029	263,991	
Cash and cash equivalents at beginning of year	131,788	286,270		418,058	138,424	
Endowment cash reclassification						
Cash and cash equivalents at end of year	\$ 154,766	\$ 629,321	\$	\$ 784,087	\$	\$ 418,058
Supplemental disclosures of cash flow information						
Cash paid during the year for interest	\$	\$	\$	\$	\$	\$ 17
Cash paid during the year for taxes	\$	\$	\$	\$	\$	\$

See Accompanying Notes and Independent Auditors' Report

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 1 – Summary of Significant Accounting Policies and Nature of the Organization

Nature of the Organization

The consolidated financial statements include the accounts of Citizens' Utility Board of Oregon (CUB) and its affiliate, CUB Educational Fund, Inc., dba CUB Policy Center (CPC). All significant inter-organization accounts and transactions have been eliminated in consolidation. The consolidated entity is hereafter referred to as the "Organization".

The Citizens' Utility Board of Oregon is an Oregon private nonprofit organization founded in 1984, dedicated to representing the concerns and interests of residential and small business utility consumers of the State of Oregon and to act on their behalf concerning all matters of regulation, legislation and public policy affecting their health, welfare and economic well-being. The CUB Policy Center (CUB Educational Fund, Inc.) was formed to promote public education, research and policy development on issues related to energy, the environment and telecommunications for the State of Oregon and more broadly the Pacific Northwest. The Organization is funded primarily by earned income, contributions and grants.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets depending on the existence and/or nature of any donor restrictions. These net asset classifications are described as follows:

Unrestricted Net Assets – not subject to donor-imposed restrictions or stipulations as to purpose or use. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Directors.

Temporarily Restricted Net Assets – subject to donor-imposed restrictions or stipulations that may be fulfilled by actions of the Organization to meet the stipulations or become unrestricted at the date specified by the donor or by the passage of time.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 1 – Summary of Significant Accounting Policies and Nature of the Organization
(continued)

Basis of Presentation (continued)

Permanently Restricted Net Assets – subject to donor-imposed restrictions or stipulations that they be retained and invested permanently by the Organization.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

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 and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

Property and Equipment

Property, equipment and leasehold improvements are capitalized at cost when purchased or at the estimated fair market value at the date of the donation. It is the Organization's policy to capitalize assets in excess of \$400. Repairs and maintenance and lesser amounts are expensed as incurred.

See Independent Auditors' Report.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 1 – Summary of Significant Accounting Policies and Nature of the Organization
(continued)

Property and Equipment (continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives for property and equipment are 3 years. Depreciation expense for the years ended December 31, 2011 and 2010 was \$12,569 and \$5,391, respectively.

Part of the website cost totaling \$34,327 was incurred to create the CPC's new website. That website has not been placed in service. The Organization begins depreciating items in the month they are placed in service. The website became functional in January of 2012.

Reclassifications

Certain prior year amounts have been reclassified for comparative purposes to conform to the current year presentation.

Donated Goods and Services

Contributed services are reported as contributions at their fair value if such services create or enhance non-financial assets, or would have been purchased if not provided by contribution, and which require specialized skills provided by individuals possessing such skills. There were no material contributed services meeting the criteria during the years ended December 31, 2011 or 2010. Material donations of in-kind items received by the organization are recorded as income along with a corresponding charge to expense or capitalized cost. There were no material in-kind donations during the years ended December 31, 2011 or 2010.

Receivables

Accounts and grants receivable are stated at amounts management expects to collect. Accounts receivable for CUB are stated as unpaid balances the organization will collect through agreements with utility companies and authorization through the Oregon Public Utility Commission following submission and approval for Intervener Funding on a given docket. Invoices are developed over the life of the docket and are submitted following the conclusion of the docket.

On a quarterly basis, the Organization evaluates the balances in the various aging categories as well as the status of any significant past due accounts to determine if any balances are uncollectible. The Organization does not assess finance charges on past due receivables.

See Independent Auditors' Report.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 1 – Summary of Significant Accounting Policies and Nature of the Organization
(continued)

Receivables (continued)

The Organization considers accounts receivable to be fully collectible; therefore, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be expensed when that determination is made.

There was no balance in accounts and grants receivable at December 31, 2011. At December 31, 2010, accounts receivable of \$13,712 and grants receivable of \$600,000 consisted of amounts for Intervener Funding and amounts pledged under the Qwest Framework Grant.

Revenue Recognition

Contributions, including unconditional grants, are recognized in the period the commitment is made. Accordingly, grants are reported at fair value at the date the Organization is notified of receipt of the grant. Conditional grants are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support which increases those net asset classes. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the Consolidated Statements of Activities as net assets released from restrictions.

Gifts of property and equipment are reported as unrestricted support unless donor stipulations specify how the assets are to be used. Gifts of long-lived assets with restrictions specifying how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted revenue. The Organization reports expirations of donor restrictions when the donated or acquired long-lived asset is acquired.

Fair Value of Financial Instruments

The carrying amounts of financial instruments included in current assets and current liabilities approximate fair value due to the short maturity of these investments. The fair value of investments is estimated based on quoted market prices for those investments.

See Independent Auditors' Report.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 1 – Summary of Significant Accounting Policies and Nature of the Organization
(continued)

Investment Income

Investments are reported at their fair values. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the Consolidated Statements of Activities as increases and decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

Earnings on contributions received from the Eric Shaich Endowment Fund are restricted for use for funding interns to work on telecommunications and energy policy projects.

Tax Status

CUB and the CPC are not-for-profit organizations that are exempt from federal income taxes under Section 501(c)(4) and 501(c)(3), respectively of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2011 and 2010 was \$15,043 and \$0, respectively.

Note 2 – Pension Plan

All full time employees of CUB were eligible to participate in a Simplified Employee Pension Individual Retirement Account (SEP IRA) Plan. Employer contributions to the plan are discretionary. Payments to the pension plan are generally \$200 a month for each employee. If an employee starts mid-month, CUB will make a contribution of \$100 for the first month. Full time employees of CPC were eligible to participate in an Individual Retirement Account (IRA) Plan. This plan is the same as CUB's plan except the employer contributes to two different employee retirement accounts. Pension expense for the years ended December 31, 2011 and 2010 was \$19,200 and \$15,500, respectively.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 3 – Concentrations of Credit Risk

The Organization has its cash and cash equivalents deposited in accounts with a bank in Portland, Oregon. Cash balances in non-interest bearing transaction accounts have unlimited insurance by agreement with the Federal Deposit Insurance Corporation (FDIC).

Balances in interest bearing accounts are insured by the FDIC up to \$250,000 which is in addition to, and separate from, the unlimited insurance. The Organization's uninsured cash balance, as of December 31, 2011 and 2010 was \$0 and \$7,246, respectively. Certain receivables may also subject the Organization to concentrations of credit risk.

Note 4 – Operating Leases

The Organization leases its office facilities under a 36-month operating lease that will expire on July 31, 2013. Base monthly payments are \$2,700 per month. Rent paid for the years ended December 31, 2011 and 2010 was \$32,400 and \$22,505, respectively.

Future minimum rental lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 32,400
2013	<u>18,900</u>
Total minimum lease payments	<u>\$ 51,300</u>

Note 5 – Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses by natural classification are presented in the Consolidated Statements of Functional Expenses.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 6 – Restrictions and Limitations of Net Asset Balances

Temporary restricted net assets as of December 31, 2011 and 2010 totaled \$749,347 and \$943,941, respectively. These amounts consisted of earnings from the Eric Shaich Endowment Fund that have not been appropriated for use in operations as of December 31, 2011 and 2010 totaling \$4,283 and \$7,622, respectively, and a grant to be used for CUB Connects in the amount of \$745,064 and \$936,319 at December 31, 2011 and 2010, respectively. The CUB Connects agreement requires the Organization to have two separate interest bearing bank accounts.

Permanently restricted net assets as of December 31, 2011 and 2010 totaled \$39,406 and \$39,406, respectively and consisted of the contributions received by CPC for the Eric Shaich Endowment Fund.

Note 7 – Endowment Funds

The Organization's endowment consists of one individual fund, the Eric Shaich Endowment Fund. The endowment is comprised of donor-restricted funds. Earnings on contributions received for this endowment fund are restricted for use in funding interns to work on telecommunications and energy policy projects. As required by generally accepted accounting principles, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds. The remaining portion of the donor-restricted endowment fund that is not classified in permanent restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

See Independent Auditors' Report.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 7 – Endowment Funds (continued)

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies – The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested in a diversified asset mix, which includes cash equivalents, equity and debt securities. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk using the “prudent person” standard.

Spending Policy – Annually, the Organization budgets expenditures from the endowment fund, consistent with donor stipulations, not to exceed the previous cumulated earnings of the endowment fund. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets.

Endowment net asset composition by type of fund for the years ended December 31, 2011 and 2010 are as follows:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment fund:				
Eric Shaich Endowment Fund	<u>\$6,658</u>	<u>\$4,283</u>	<u>\$39,406</u>	<u>\$50,347</u>
	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment fund:				
Eric Shaich Endowment Fund	<u>\$6,658</u>	<u>\$7,622</u>	<u>\$39,406</u>	<u>\$53,686</u>

See Independent Auditors' Report.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 7 – Endowment Funds (continued)

Changes in endowment fund net assets for the years ended December 31, 2011 and 2010 are as follows:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 6,658	\$ 7,622	\$ 39,406	\$ 53,686
Amounts appropriated for expenditure		(3,500)		(3,500)
Investment income (loss)		161		161
Endowment net assets, end of year	<u>\$ 6,658</u>	<u>\$ 4,283</u>	<u>\$ 39,406</u>	<u>\$ 50,347</u>

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 6,659	\$ 4,916	\$ 39,406	\$ 50,981
Investment income (loss)		2,706		2,706
Prior period rounding adjustment	(1)			(1)
Endowment net assets, end of year	<u>\$ 6,658</u>	<u>\$ 7,622</u>	<u>\$ 39,406</u>	<u>\$ 53,686</u>

Note 8 – Fair Value Measurement

Accounting principles generally accepted in the United States of America establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The Organization applies fair value measurements to certain assets, including the Organization's investments.

The Organization maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

See Independent Auditors' Report.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 – Fair Value Measurement (continued)

The hierarchy consists of three levels and is required to be evaluated and adjusted according to the following valuation techniques:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability.

Level 3 – Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability.

Investments consist of Level 1 only as of December 31, 2011 and 2010 as follows:

<u>Description of Securities</u>	<u>2011</u>		<u>2010</u>	
	<u>Total Fair Value</u>	<u>Level 1</u>	<u>Total Fair Value</u>	<u>Level 1</u>
Money market funds	\$ 600,673	\$ 600,673	\$ 53,030	\$ 53,030
Mutual funds	49,718	49,718	656	656
Total investments	<u>\$ 650,391</u>	<u>\$ 650,391</u>	<u>\$ 53,686</u>	<u>\$ 53,686</u>

Note 9 – Investments

Investments stated at fair value as of December 31, 2011 and 2010 consist of the following:

<u>Description of Securities</u>	<u>2011</u>		<u>2010</u>	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
Money market funds	\$ 600,673	\$ 600,673	\$ 53,030	\$ 42,534
Mutual funds	49,718	40,055	656	656
Total investments	<u>\$ 650,391</u>	<u>\$ 640,728</u>	<u>\$ 53,686</u>	<u>\$ 43,190</u>

Investment gain during the years ended December 31, 2011 and 2010 include the following:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 2,130	\$ 2,344
Realized gain (loss)	(20)	(1,631)
Investment fees	(60)	(80)
Unrealized gain (loss)	(833)	2,849
Net investment gain (loss)	<u>\$ 1,217</u>	<u>\$ 3,482</u>

See Independent Auditors' Report.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
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Note 10– Net Assets Released from Restrictions

During the years ended December 31, 2011 and 2010, net assets amounting to \$599,759 and \$471,233, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors.

Note 11– Contingency and Cash Reserves

In an agreement dated August 22, 2000 between the Citizens' Utility Board of Oregon and PGE, CUB was awarded \$227,019 in a dispute involving PGE's investment in the Trojan Nuclear Plant. The settlement agreement provides for termination of the agreement under certain circumstances, including the subsequent issue of an order by the Oregon Public Utility Commission (OPUC) or by a court that denies, withdraws, reverses or modifies approval for the settlement or that prohibits its implementation. In the event the settlement agreement is terminated, CUB would be required to return \$227,019 to PGE. In October 2007, the Oregon Court of Appeals remanded the case back to the OPUC, which issued a new order on September 30, 2008. On October 22, 2008, the OPUC remand order was appealed to the Oregon Court of Appeals.

A decision from the Court of Appeals in the case could affect the disposition of CUB's settlement award. Management believes it is reasonably possible the settlement agreement will ultimately be terminated. Management has designated a portion of unrestricted net assets amounting to \$151,238 and \$120,811 as of December 31, 2011 and 2010, respectively as a partial reserve for a loss in this matter.

Note 12– Reserve Line of Credit

The Organization has two reserve lines of credit of \$2,500 each with a local bank that do not have a maturity date. There was no balance on the line of credit at December 31, 2011 or 2010. The interest rates for both are 21.90% and total interest expense for the years ended December 31, 2011 and 2010 was \$0 and \$18 respectively.

CITIZENS' UTILITY BOARD OF OREGON AND AFFILIATE
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YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 13– Subsequent Events

Management has evaluated subsequent events through August 31, 2012, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

Note 14– Uncertain Tax Positions

On January 1, 2010 the Organizations adopted newly issued accounting rules that prescribe a new threshold for determining when an income tax benefit can be recognized, which is a higher threshold than the one imposed for claiming deductions on income tax returns.

The adoption of the newly issued accounting rule did not have any impact on the Organization's financial statements. The Organization's federal and state information returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those information returns. In general, the federal and state information returns has a three year statute of limitations. Should that status be challenged in the future, the Organization's 2011, 2010 and 2009 tax years are open for examination by the Internal Revenue Service. The Organization would recognize accrued interest and penalties associated with uncertain tax provisions, if any, as part of the income tax provision.



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August 31, 2012

CenturyLink (Qwest)
Ron Trullinger
310 SW Park, 11th Floor
Portland, OR 97205

RE: Citizens' Utility Board of Oregon Qwest Funding Agreement Compliance

We have completed the audit of the financial statements of the Citizens' Utility Board of Oregon and its affiliate organization, the CUB Educational Fund, Inc., (hereinafter referred to as a single organizational entity, CUB) as of and for the year ended December 31, 2011. We understand that a substantial amount of money has been provided and pledged to CUB by an agreement from Qwest Corporation that grew out of a stipulated settlement in OPUC Docket UM 1354 where amounts will be provided to fund the establishment and operation of an Oregon Telecommunications Consumer Information Center.

As part of our audit procedures for the year ended December 31, 2011, we have (a) read the Framework Agreement (the Agreement); (b) determined the Restrictions of Purpose outlined in the Agreement; (c) determined that CUB has appropriate systems in place to account for the use of the monies; (d) determined that CUB has appropriate controls in place to safeguard against misuse of the monies; and (e) determined that such controls were operating effectively. The only exception is that during the year ended December 31, 2011, CUB had one non-interest bearing operating expense account when the agreement between CUB and Qwest requires CUB to establish two separate interest bearing accounts. The majority of funds were held in interest bearing accounts. The Organization's bank would not allow an interest bearing checking account. Rather than change their banking relationship at that time, CUB made every effort to keep a minimal amount in the non-interest bearing account, to maximize interest as required under the Agreement. In 2012, CUB switched to a new banking institution and currently all funds are held in interest bearing accounts.

If you have any questions regarding these findings, please feel free to contact us.

Very truly yours,

Bottaini, Gallucci, & O'Hanlon, P.C.



CenturyLink (Qwest)
August 31, 2012
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Unless expressly stated otherwise, any federal tax advice contained in this communication (including enclosures) is not intended to be used, and cannot be used, for the purpose of avoiding federal tax penalties.

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EOH/mj:pd

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