

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

## AUDIT REPORT

Years Ended June 30, 2008, and 2007

**KENNETH KUHNS & CO.**

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CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

June 30, 2008

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***Board of Directors***

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Ron Benfield	714 S.E. Marine Court Newport, Oregon 97365	President
Curt Abbott	760 Range Drive Waldport, Oregon 97394	Vice-President
Thomas Tymchuk	820 View Street Reedsport, Oregon 97467	Treasurer
Judy Matheny	2193 13 <sup>th</sup> Street Florence, Oregon 97439	Secretary
Larkin Kaliher	P.O. Box 188 Toledo, Oregon 97391	Director

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***Administrative Staff***

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Paul Davies	General Manager and Registered Agent
Brian Barth	Accounting, Finance & Customer Services Manager
Michael L. Wilson	Chief Engineer

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***Administrative Office***

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INDEPENDENT AUDITOR'S REPORT

September 26, 2008

Board of Directors  
Central Lincoln People's Utility District  
Newport, Oregon

We have audited the balance sheets of Central Lincoln People's Utility District as of June 30, 2008, and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Lincoln People's Utility District as of June 30, 2008, and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 4 and 5 and the schedule of funding progress on page 21 are not a required part of the financial statements but are 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 management's discussion and analysis and the schedule of funding progress. However, we did not audit management's discussion and analysis or the schedule of funding progress and express no opinion on them.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Central Lincoln People's Utility District. The information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Kenneth Kuhns & Co.*

Kenneth Kuhns & Co.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is designed to provide an overview of the financial activities of Central Lincoln People's Utility District (District) with registered office in Newport, Oregon for the year ended June 30, 2008. This supplementary information is to be read with the District's financial statements.

### Administration

The District is a municipal corporation duly authorized by Section 12, Article XI of the Constitution of the State of Oregon and organized under Chapter 261, Oregon Revised Statutes. The District was formed in 1940 and took over operations of West Coast Power Company in 1943. The District is governed by a five member elected Board of Directors serving staggered four year terms.

### Service Area

The District's service area is located along the Oregon coast and extends through Lincoln, Lane, Douglas and Coos counties providing service to 38,363 customers. The area has a total length of 110 miles, varies in width from one to 25 miles. The District purchases all required energy from the Bonneville Power Administration (BPA). The BPA delivers power at nine points of delivery: Toledo, Florence, Mapleton, Berrydale, Gardiner, Reedsport, Lakeside, Hauser and Glasgow.

### Financial Summary and Analysis

The District operated through September 30, 2006 under the rate schedule adopted in August 2005. Beginning October 1, 2006 the District operated under the rate schedule adopted in August 2006, and beginning October 1, 2007 the District operated under the rate schedule adopted in September 2007.

### Selected Financial Data

	Year Ended	
	6-30-2008	6-30-2007
Operating revenues	\$ 68,866,005	\$67,356,582
Operating expenses	(63,989,979)	(64,568,562)
Nonoperating revenues-(expenses)	612,184	753,245
Net income	<u>\$ 5,488,210</u>	<u>\$ 3,541,265</u>

Net income was up in 2008 primarily because a rate increase and cooler than average temperatures brought about increased sales. Bonneville Power Administration raised their wholesale power costs in October 2006. The increase was anticipated by Central Lincoln and have had and will continue to have future rate increases to offset the costs.

	<u>6-30-2008</u>	<u>6-30-2007</u>
<b>Assets:</b>		
Net electric plant	\$ 91,445,106	\$ 85,966,544
Current assets	29,752,290	29,757,955
Other assets	851,718	896,883
Deferred charges	<u>1,388,559</u>	<u>1,769,502</u>
<b>Total assets</b>	<u>123,437,673</u>	<u>118,390,884</u>
<b>Liabilities:</b>		
Long-term debt	4,270,000	5,400,000
Current liabilities	8,725,621	8,222,010
Deferred credits	<u>1,011,741</u>	<u>826,773</u>
<b>Total liabilities</b>	<u>14,007,362</u>	<u>14,448,783</u>
<b>Net assets:</b>		
Invested in capital assets - net of related debt	86,045,106	79,476,544
Restricted for rate stabilization fund	2,412,728	4,912,728
Restricted for bond debt service	659,167	635,833
Unrestricted	<u>20,313,310</u>	<u>18,916,996</u>
<b>Total net assets</b>	<u>\$ 109,430,311</u>	<u>\$ 103,942,101</u>

Net electric plant increased approximately \$5.5 million as Central Lincoln continues to upgrade and improve its substations and distribution system.

Capital construction is funded through rates as no new debt has been issued since 1995.

Currently there is a total of \$5,400,000 in revenue bonds outstanding. This past year the District's debt service coverage ratio was 11.40. The minimum bond covenant requirement is 1.25.

### **Power Supply**

The District is a statutory preference customer of the Bonneville Power Administration (BPA) and historically purchased all of its power from the BPA. The District executed a Partial Service Power Sales Agreement with the BPA through September 30, 2011. Wholesale power rates under this agreement for the period October 1, 2006 through September 30, 2009 are fixed, and rates from October 1, 2009 to September 30, 2011 are not fixed.

## **FINANCIAL STATEMENTS**

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Assets</u>	June 30,	
	2008	2007
Electric plant: (Notes 1 and 2)		
In service - at cost	\$ 166,273,277	\$ 157,699,592
Construction in progress	6,887,879	5,298,723
Total electric plant	173,161,156	162,998,315
Less:		
Accumulated provision for depreciation	(81,716,050)	(77,031,771)
Net electric plant	91,445,106	85,966,544
Current assets:		
Cash and investments (Notes 1 and 3):		
Current cash	19,418,254	17,456,740
Restricted for rate stabilization fund	2,412,728	4,912,728
Restricted for bond debt service	677,250	657,093
Customer accounts receivable (net of allowance for doubtful accounts of \$149,920 in 2008 and \$164,903 in 2007)	3,471,251	2,987,699
Other receivables	284,702	483,434
Materials and supplies (Note 1)	3,179,210	3,004,718
Prepayments	274,105	220,671
Other	34,790	34,872
Total current assets	29,752,290	29,757,955
Other assets:		
Net pension obligation (Note 7)	851,718	896,883
Deferred charges:		
Unamortized debt expense (Notes 1 and 5)	347,001	444,688
Unamortized transmission agreement expense (Note 4)	1,042,625	1,099,467
Other deferred charges	-	223,526
Clearing accounts	(1,067)	1,821
Total deferred charges	1,388,559	1,769,502
Total assets	\$ 123,437,673	\$ 118,390,884

The accompanying notes are an integral part of this statement.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Net Assets and Liabilities</u>	June 30,	
	2008	2007
Net assets:		
Invested in capital assets - net of related debt	\$ 86,045,106	\$ 79,476,544
Restricted for rate stabilization fund	2,412,728	4,912,728
Restricted for bond debt service	659,167	635,833
Unrestricted	20,313,310	18,916,996
 Total net assets	 109,430,311	 103,942,101
Long-term debt:		
Bonds payable, less current maturities (Note 5)	4,270,000	5,400,000
Current liabilities:		
Current maturities of long-term debt (Note 5)	1,130,000	1,090,000
Accounts payable	3,988,067	3,298,420
Accrued compensated absences (Note 1)	2,875,293	3,204,059
Customer deposits	702,124	595,639
Accrued interest - long term debt	18,083	21,260
Accrued interest - customer deposits	12,054	12,632
 Total current liabilities	 8,725,621	 8,222,010
Deferred credits:		
Liability reserves (Note 6)	319,294	307,867
Other deferred credits	692,447	518,906
 Total deferred credits	 1,011,741	 826,773
 Total net assets and liabilities	 \$ 123,437,673	 \$ 118,390,884

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30,	
	2008	2007
Operating revenues:		
Sales of electricity:		
Residential	\$ 32,288,245	\$ 29,360,944
Commercial	13,262,691	12,411,769
Industrial	21,477,177	23,509,063
Other	944,653	891,164
Other operating revenues:		
Rent from electric plant	620,408	634,162
Miscellaneous service revenue	272,831	549,480
	68,866,005	67,356,582
Operating expenses:		
Cost of power	40,630,549	41,782,663
Transmission and distribution expense - operations	2,735,244	2,702,799
Transmission and distribution expense - maintenance	2,213,577	2,329,728
Customer accounts expense	1,962,305	1,831,763
Customer service and informational expense	185,358	266,742
Administrative and general expense	6,659,206	6,167,092
Depreciation	6,791,203	6,799,985
Taxes and franchise fees	2,812,537	2,687,790
	63,989,979	64,568,562
Net operating revenues	4,876,026	2,788,020
Nonoperating revenues-(expenses):		
Interest on investments	944,326	1,122,660
Interest expense - long term debt	(232,878)	(269,743)
Interest expense - other	(1,577)	(1,985)
Amortization of debt expense	(97,687)	(97,687)
	612,184	753,245
Net income	5,488,210	3,541,265
Net assets - beginning of year	103,942,101	100,400,836
Net assets - end of year	\$ 109,430,311	\$ 103,942,101

The accompanying notes are an integral part of this statement.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Statement of Cash Flows

	<u>Year Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from customers	\$68,690,908	\$67,526,899
Cash payments for purchased power	(40,505,316)	(41,994,525)
Cash payments to suppliers for goods and services	(9,293,658)	(9,537,191)
Cash payments to employees for services	<u>(7,059,509)</u>	<u>(6,138,851)</u>
Net cash provided by operating activities	<u>11,832,425</u>	<u>9,856,332</u>
Cash flows from capital and related financing activities:		
Construction and acquisition of plant	(12,016,511)	(9,781,889)
Proceeds from sale of equipment	49,641	-
Principal payments on bonds payable	(1,090,000)	(1,055,000)
Interest payments on bonds payable	(236,055)	(272,668)
Other interest payments	<u>(2,155)</u>	<u>(2,539)</u>
Net cash used in capital and related financing activities	<u>(13,295,080)</u>	<u>(11,112,096)</u>
Cash flows from investing activities:		
Interest on investments	<u>944,326</u>	<u>1,122,660</u>
Net decrease in cash and cash equivalents	(518,329)	(133,104)
Cash and cash equivalents - beginning of year	<u>23,026,561</u>	<u>23,159,665</u>
Cash and cash equivalents - end of year	<u><u>\$22,508,232</u></u>	<u><u>\$23,026,561</u></u>
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenues	<u>\$ 4,876,026</u>	<u>\$ 2,788,020</u>
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation	6,791,203	6,799,985
Decrease-(increase) in:		
Customer accounts receivable	(483,552)	248,491
Other receivables	198,732	(121,421)
Materials and supplies	(174,492)	(209,406)
Prepayments	(53,434)	34,630
Other current assets	82	(5,611)
Net pension obligation	45,165	48,792
Unamortized transmission agreement expense	56,842	56,842
Other deferred charges	223,526	(28,270)
Clearing accounts	2,888	(1,461)
Increase-(decrease) in:		
Accounts payable	386,752	(293,474)
Accrued compensated absences	(328,766)	188,415
Customer deposits	106,485	42,955
Liability reserves	11,427	68,267
Other deferred credits	<u>173,541</u>	<u>239,578</u>
Total adjustments	<u>6,956,399</u>	<u>7,068,312</u>
Net cash provided by operating activities	<u><u>\$11,832,425</u></u>	<u><u>\$ 9,856,332</u></u>
Noncash capital and related financing activities:		
Deferred charges - unamortized debt expense	\$ 97,687	\$ 97,687
Amortization of debt expense	<u>(97,687)</u>	<u>(97,687)</u>
Total noncash capital and related financing activities	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2008, and 2007

## 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### General

Central Lincoln People's Utility District is a municipal corporation organized under Oregon Revised Statutes (ORS) Chapter 261. The District has provided electric services to residential, commercial and industrial customers along a one hundred twenty mile section of the central Oregon coast since 1943. The District is governed by a five member elected Board of Directors serving staggered four-year terms. The Board has the authority to set rates and charges for commodities and services furnished. Substantially all revenues are derived from the sale of electric power to residential, industrial and commercial customers.

The District is empowered and required by law to establish, maintain and collect rates and charges for electric power which are fair and nondiscriminatory. It has received from the Oregon Public Utilities Commission the exclusive rights to approximately 95% of its voter-authorized territory. This represents approximately 99% of the District's load excluding the District's largest customer, Georgia-Pacific Corporation. Georgia-Pacific Corporation is in a nonexclusive portion of the District's service area.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, and all applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. Additionally, although the District is not subject to the regulations of the Federal Energy Regulatory Commission (FERC), its accounting policies generally conform to the accounting requirements of the FERC.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant policies are described below.

### Description of Reporting Entity

The financial statements of the District include all accounts of the District, and the Board of Directors is not financially accountable for any other governmental entity. Financial accountability is determined in accordance with criteria set forth in generally accepted accounting principles, primarily on the basis of authority to appoint voting majority of an organization's governing board, ability to impose its will on that organization, the potential for that organization to provide specific financial benefits or impose specific financial burdens and that organization's fiscal dependency.

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2008, and 2007

## 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

### Basis of Accounting

The District uses the accrual basis of accounting for financial reporting purposes. Revenues are recognized when earned and expenses are recognized when incurred.

### Electric Plant

Electric plant is stated substantially at cost. Cost includes materials, labor, payments to contractors and indirect costs, such as transportation and construction equipment use and employee benefits.

The costs of additions, renewals and betterments are capitalized. Repairs and minor replacements are charged to operating expenses. The cost of property retired, together with removal cost less salvage, is charged to accumulated depreciation when property is removed.

### Depreciation

Provision for depreciation of electric plant is computed using composite rates over the following estimated useful lives:

Structures and improvements	40 years
Station equipment, line transformers, meters and street lighting equipment	various
Overhead conductor and devices	28½ years
Underground conductor and devices	30 years
Poles, towers and fixtures	23 years
Office and communications equipment	4 years
Transportation equipment	5 - 10 years

### Investments

Investments included in cash and investments are reported at fair value.

### Cash and Cash Equivalents

For purposes of the cash flows statement, the District considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

### Materials and Supplies

Materials and supplies are carried at average cost.

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

## Notes to Financial Statements June 30, 2008, and 2007

### 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

#### Unamortized Debt Expense

Debt issuance expenses and loss on reacquired debt are being amortized over the lives of the 2001 and 2002 bond issues using the straight-line method.

#### Compensated Absences

Accumulated unpaid vested personal leave is accrued as earned by employees.

#### Operating Revenues

Georgia-Pacific Corporation currently accounts for over 39% of the District's total kilowatt-hour sales. The next largest customer of the District accounted for less than 1% of the District's total kilowatt-hour sales and less than 1% of the District's revenues from the sale of electricity in the current year.

### 2 - ELECTRIC PLANT:

Electric plant activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Electric plant not being depreciated:				
Intangible	\$ 147,817	\$ -	\$ -	\$ 147,817
Land	4,487,030	-	-	4,487,030
Construction in progress	5,298,723	11,221,930	9,632,774	6,887,879
Total electric plant not being depreciated	<u>9,933,570</u>	<u>11,221,930</u>	<u>9,632,774</u>	<u>11,522,726</u>
Electric plant being depreciated:				
Transmission	12,097,324	2,088,433	116,200	14,069,557
Distribution	106,871,732	7,369,996	1,828,173	112,413,555
General	34,095,689	1,521,851	462,222	35,155,318
Total electric plant being depreciated	<u>153,064,745</u>	<u>10,980,280</u>	<u>2,406,595</u>	<u>161,638,430</u>
Less accumulated depreciation	<u>77,031,771</u>	<u>6,791,203</u>	<u>2,106,924</u>	<u>81,716,050</u>
Total electric plant being depreciated, net	<u>76,032,974</u>	<u>4,189,077</u>	<u>299,671</u>	<u>79,922,380</u>
Electric plant, net	<u>\$ 85,966,544</u>	<u>\$15,411,007</u>	<u>\$ 9,932,445</u>	<u>\$ 91,445,106</u>

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2008, and 2007

3 - CASH AND INVESTMENTS:

Cash and investments are comprised of the following as of June 30, 2008, and 2007:

	<u>2008</u>	<u>2007</u>
Working funds	\$ 62,669	\$ 45,621
Deposits with financial institutions	910,210	535,865
Investments	<u>21,535,353</u>	<u>22,445,075</u>
Total cash and investments	<u>\$ 22,508,232</u>	<u>\$ 23,026,561</u>

Deposits

Deposits with financial institutions include bank demand deposits. The total bank balance, as shown on the banks' records, was \$1,412,554 at June 30, 2008, and \$1,366,339 at June 30, 2007. Of these deposits, the total covered by federal depository insurance was \$270,468 at June 30, 2008, and \$243,970 at June 30, 2007. The total not covered by federal depository insurance was collateralized to the extent required by State law. Oregon laws require municipal corporations to obtain certificates of participation issued by a pool manager for amounts on deposit in excess of federal depository insurance, and the District held certificates totaling \$12,400,000 at June 30, 2008, and 2007. Oregon Revised Statutes require the depository institution to maintain on deposit with a custodian bank collateral pool securities having a value of not less than 25% of the outstanding certificates of participation issued by the pool manager. Although deposits are collateralized to the extent required by State law, such deposits are considered uncollateralized by GASB Statement No. 40.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for deposits custodial credit risk. As of June 30, 2008, \$1,142,086 of the District's bank balance of \$1,412,554 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 856,565
Uninsured and collateral held by pledging banks' collateral custodians but not in the District's name	<u>285,521</u>
Total	<u>\$ 1,142,086</u>

## CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2008, and 2007

### 3 - CASH AND INVESTMENTS: (Contd)

#### Investments

State statutes authorize the District to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the Oregon Local Government Investment Pool, among others. The District has no investment policy that would further limit its investment choices.

At June 30, 2008, the District's investments of \$21,535,353 were in the Oregon Local Government Investment Pool, an open-ended, no-load diversified portfolio pool. The fair value of the District's position in the pool is substantially the same as the value of the District's participant balance.

The Oregon Local Government Investment Pool is an external investment pool which is part of the Oregon Short-Term Fund. Investment policies are governed by the Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council. Investments are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board. The Oregon Short-Term Fund does not receive credit quality ratings from nationally recognized statistical rating organizations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Oregon Short-Term Fund manages this risk by limiting the maturity of the investments held by the fund. Weighted average maturities of investments in the Oregon Short-Term Fund at June 30, 2008 were: 77% mature within 93 days, 3% mature from 94 days to one year, and 20% mature from one to three years.

The District has restricted cash and investments for a rate stabilization fund of \$2,412,728 at June 30, 2008, and \$4,912,728 at June 30, 2007. The District has restricted cash and investments for bond debt service totaling \$677,250 at June 30, 2008, and \$657,093 at June 30, 2007.

### 4 – UNAMORTIZED TRANSMISSION AGREEMENT EXPENSE:

The District entered into a transmission agreement with Consumers Power, Inc. for the use of transmission facilities for emergency and backup service for District transmission facilities south of the Yaquina River. Under the agreement the District paid Consumers Power, Inc. \$1,640,035 during 1995. The District is amortizing this cost over the thirty year term of the agreement.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2008, and 2007

5 - LONG-TERM DEBT:

During July 2001, the District issued Series 2001 Electric System Revenue Refunding Bonds totaling \$5,385,000. Proceeds of the Series 2001 Revenue Refunding Bonds were primarily used for refunding of outstanding Series 1991 Electric Revenue Bonds and advance refunding of outstanding Series 1995 Electric Revenue Bonds of the District. Series 2001 Revenue Refunding Bonds are special limited obligations of the District payable solely from and secured by a pledge of the net operating revenues of the electric system and amounts on deposit in the debt service account.

During November 2002, the District issued Series 2002 Electric System Revenue Refunding Bonds totaling \$5,785,000. Proceeds of the Series 2002 Revenue Refunding Bonds were primarily used for refunding of \$5,565,000 of outstanding Series 1993 Electric Revenue Bonds of the District subject to redemption on January 1, 2003. Series 2002 Revenue Refunding Bonds are special limited obligations of the District payable solely from and secured by a pledge of the net operating revenues of the electric system and amounts on deposit in the debt service account.

At June 30, 2008, and 2007, bonds payable consist of the following:

	<u>2008</u>	<u>2007</u>
Series 2001 Revenue Refunding Bonds, principal payable annually on December 1 beginning in 2001. Interest at 4.5% to 4.7% per annum payable semi-annually on June 1 and December 1 each year.	\$3,075,000	\$3,435,000
Series 2002 Revenue Refunding Bonds, principal payable annually on December 1 beginning in 2003. Interest at 3.25% to 3.5% per annum payable semi-annually on June 1 and December 1 each year.	<u>2,325,000</u>	<u>3,055,000</u>
	5,400,000	6,490,000
Less current maturities	<u>1,130,000</u>	<u>1,090,000</u>
Long-term debt	<u>\$ 4,270,000</u>	<u>\$5,400,000</u>

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2008, and 2007

5 - LONG-TERM DEBT: (Contd)

Bond principal and interest transactions for 2007-08 are as follows:

	Balance July 1, 2007	Issued	Retired	Balance June 30, 2008	Interest Matured and Paid
Series 2001	\$ 3,435,000	\$ -	\$ 360,000	\$ 3,075,000	\$ 146,630
Series 2002	3,055,000	-	730,000	2,325,000	89,425
	<u>\$ 6,490,000</u>	<u>\$ -</u>	<u>\$ 1,090,000</u>	<u>\$ 5,400,000</u>	<u>\$ 236,055</u>

As of June 30, 2008, scheduled annual maturities of bond principal and interest are as follows:

Year	Principal	Interest	Total
2008-09	\$ 1,130,000	\$ 196,255	\$ 1,326,255
2009-10	1,175,000	153,924	1,328,924
2010-11	1,220,000	108,880	1,328,880
2011-12	435,000	75,860	510,860
2012-13	455,000	56,052	511,052
2013-14	480,000	34,775	514,775
2014-15	505,000	11,868	516,868
Total	<u>\$ 5,400,000</u>	<u>\$ 637,614</u>	<u>\$ 6,037,614</u>

The unamortized debt expense, which includes unamortized debt issuance expenses and loss on reacquired debt, is being amortized over the lives of the related bond issues using the straight-line method.

6 - LIABILITY RESERVES:

Liability reserves consist of the following at June 30, 2008, and 2007:

	2008	2007
Unemployment claims	\$ 5,248	\$ 5,248
Medical, dental and optical	308,635	298,424
Unclaimed checks	5,411	4,195
Total	<u>\$ 319,294</u>	<u>\$ 307,867</u>

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2008, and 2007

## 7 - RETIREMENT PLAN:

### Plan Description

Central Lincoln People's Utility District Employees' Pension Trust is a single-employer defined benefit pension plan. Assets are held separately and may be used only for the payment of benefits to its members. Actuarial valuations are performed annually.

The Pension Trust covers the District's union and non-union employees. The plan provides retirement, disability and death benefits to plan participants and their beneficiaries. The District's Board of Directors has the power to alter, amend or terminate the Trust. As of July 1, 2008, the plan has the following number of participants:

Terminated plan member vested	16
Active plan members	<u>135</u>
Total	<u><u>151</u></u>

The Pension Trust issues a separate financial report which is available from the Pension Trustees.

### Funding Policy

Active plan participants are required to make monthly contributions of one percent of annual compensation divided by twelve. Active participants may also make voluntary contributions to the plan. The District makes monthly supplemental contributions on behalf of each active participant of two percent of annual compensation divided by twelve. The District is also required to make annual contributions. These contributions are actuarially determined such that they, together with investment proceeds of Trust funds and the required and supplemental member contributions received and expected to be received, will be sufficient to fund member benefits other than those coming from voluntary contributions. Contribution requirements can be changed by plan amendment authorized by the District's Board of Directors. Plan administration costs are paid by the District.

### Annual Pension Cost and Net Pension Obligation

The District's annual pension cost and net pension obligation for the July 1, 2007 to June 30, 2008 fiscal year were as follows:

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2008, and 2007

7 - RETIREMENT PLAN: (Contd)

Annual Pension Cost and Net Pension Obligation (Contd)

Annual required contribution	\$ 1,391,798
Interest on net pension obligation	(71,751)
Adjustment to annual required contribution	<u>116,916</u>
Annual pension cost	1,436,963
Contributions made	<u>1,391,798</u>
Increase in net pension obligation	45,165
Net pension obligation - beginning of year	<u>(896,883)</u>
Net pension obligation - end of year	<u><u>\$ (851,718)</u></u>

The annual required contribution for the year was determined as part of the July 1, 2007 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 5.5%. An explicit inflation component was not identified but was assumed consistent for both (a) and (b). The actuarial value of assets equaled the market value of assets. Because the valuation was based on the aggregate actuarial cost method, which does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

Three-Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-08	\$ 1,436,963	97%	\$ (851,718)
6-30-07	1,362,774	96%	(896,883)
6-30-06	1,157,699	96%	(945,675)

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date, the plan was 66 percent funded. The actuarial accrued liability for benefits was \$21,355,895, and the actuarial value of assets was \$14,110,027, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,245,868. The anticipated covered payroll (annual payroll of active employees covered by the plan) was \$9,251,502, and the ratio of the UAAL to the anticipated covered payroll was 78 percent.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2008, and 2007

8 - POST-EMPLOYMENT BENEFITS:

The District provides post-employment benefit options for health care, dental and optical insurance to eligible retirees and their spouses in accordance with state statutes. The criteria to determine eligibility includes employee age and years of service. The District funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay set premiums for a portion of the cost with the District subsidizing the remaining cost. Expenses (net of participant contributions) of \$399,117 in 2008, and \$374,146 in 2007, were recognized for post-employment benefits. There are 25 participants currently. Expenses for post-retirement health care benefits are recognized as eligible employee claims are paid and include a provision for incurred, but not reported claims.

9 - RISK MANAGEMENT:

Health and Unemployment

The District administers risk management programs for employee health and unemployment on a cost-reimbursement basis. Significant losses are covered by commercial insurance. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year. Claims liability for health insurance is adjusted monthly based on actual claims submitted weekly to the District. All known liabilities have been disclosed.

		Liability July 1	Claims Paid	Claims Estimates and Adjustments	Liability June 30
2007-08	Health insurance	\$ 298,424	\$ (1,494,526)	\$ 1,504,737	\$ 308,635
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 303,672</u>	<u>\$ (1,494,526)</u>	<u>\$ 1,504,737</u>	<u>\$ 313,883</u>
2006-07	Health insurance	\$ 231,100	\$ (1,533,436)	\$ 1,600,760	\$ 298,424
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 236,348</u>	<u>\$ (1,533,436)</u>	<u>\$ 1,600,760</u>	<u>\$ 303,672</u>
2005-06	Health insurance	\$ 210,090	\$ (1,456,598)	\$ 1,477,608	\$ 231,100
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 215,338</u>	<u>\$ (1,456,598)</u>	<u>\$ 1,477,608</u>	<u>\$ 236,348</u>
2004-05	Health insurance	\$ 151,423	\$ (1,296,880)	\$ 1,355,547	\$ 210,090
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 156,671</u>	<u>\$ (1,296,880)</u>	<u>\$ 1,355,547</u>	<u>\$ 215,338</u>
2003-04	Health insurance	\$ 83,753	\$ (1,323,840)	\$ 1,391,510	\$ 151,423
	Unemployment	10,061	(5,813)	1,000	5,248
	Total	<u>\$ 93,814</u>	<u>\$ (1,329,653)</u>	<u>\$ 1,392,510</u>	<u>\$ 156,671</u>

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2008, and 2007

## 9 - RISK MANAGEMENT: (Contd)

### Liability

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. The District is a member of Special Districts Insurance Services (SDIS) and pays an annual premium to SDIS for risks of loss including general liability, automobile liability, public official liability, property coverage and workers' compensation coverage. Under the membership agreement with SDIS, SDIS is to be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. The District also carries commercial insurance for other risks of loss including boiler and machinery coverage. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

## 10 - INCOME TAX STATUS:

The District is a people's utility district organized under Oregon Revised Statutes Chapter 261. As a political subdivision of the State of Oregon, the District is exempt from taxation under the provisions of Section 115 of the Internal Revenue Code.

## 11 - POWER PURCHASE AGREEMENT:

The District is a statutory preference customer of the Bonneville Power Administration (BPA) and historically purchased all of its power from the BPA. The District executed a Partial Service Power Sales Agreement with the BPA through September 30, 2011. Wholesale power rates under this agreement for the period October 1, 2006 through September 30, 2009 are fixed, and rates from October 1, 2009 to September 30, 2011 are not fixed.

## 12 - COMMITMENTS:

The District is participating in the Bonneville Power Administration (BPA) Flexible PF Rate Program. Participation in the program required the District to provide BPA with an irrevocable standby letter of credit issued by a bank or other financial institution with the Bonneville Power Administration named as the sole beneficiary. The District entered into an agreement with a bank which issued a letter of credit to BPA in the amount of \$7,500,000. This letter of credit is available for draws by BPA for payment of any unpaid Flexible PF Charge which may be included in the District's monthly power bills if the District chooses not to use its own reserves. The District is responsible for the repayment of amounts drawn by BPA plus interest.

**CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT**

**Notes to Financial Statements**  
**June 30, 2008, and 2007**

**12 - COMMITMENTS: (Contd)**

On May 16, 2008 the District entered into a contract for \$1,735,000 for the renovation of the District Office Building in Newport. The project is expected to be completed in the fall of 2008.

**REQUIRED SUPPLEMENTARY INFORMATION**

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Schedule of Funding Progress for Central Lincoln People's Utility District  
Employees Pension Trust

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Entry Age)*	Unfunded Actuarial Accrued Liability	Funded Ratio	Anticipated Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Anticipated Covered Payroll
7/1/2008	\$14,110,027	\$21,355,895	\$7,245,868	66%	\$9,251,502	78%
7/1/2007	15,463,590	20,138,343	4,674,753	77%	8,921,784	52%

\*The annual required contribution is calculated using the aggregate actuarial cost method. Information in this schedule is calculated using the entry age actuarial cost method as a surrogate for the funding progress of the plan.

**OTHER SUPPLEMENTARY INFORMATION**

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Schedule of Future Bond Principal and Interest Requirements  
June 30, 2008

Year	Series 2001 Bonds			Series 2002 Bonds			Total Future Requirements		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008-09	\$ 380,000	\$ 130,880	\$ 510,880	\$ 750,000	\$ 65,375	\$ 815,375	\$ 1,130,000	\$ 196,255	\$ 1,326,255
2009-10	400,000	113,330	513,330	775,000	40,594	815,594	1,175,000	153,924	1,328,924
2010-11	420,000	94,880	514,880	800,000	14,000	814,000	1,220,000	108,880	1,328,880
2011-12	435,000	75,860	510,860	-	-	-	435,000	75,860	510,860
2012-13	455,000	56,052	511,052	-	-	-	455,000	56,052	511,052
2013-14	480,000	34,775	514,775	-	-	-	480,000	34,775	514,775
2014-15	505,000	11,868	516,868	-	-	-	505,000	11,868	516,868
<b>Totals</b>	<b>\$3,075,000</b>	<b>\$ 517,645</b>	<b>\$3,592,645</b>	<b>\$2,325,000</b>	<b>\$119,969</b>	<b>\$2,444,969</b>	<b>\$ 5,400,000</b>	<b>\$ 637,614</b>	<b>\$ 6,037,614</b>

**INDEPENDENT AUDITOR'S COMMENTS**

## INDEPENDENT AUDITOR'S COMMENTS

### Internal Control

We have audited the financial statements of Central Lincoln People's Utility District as of and for the year ended June 30, 2008, and have issued our report thereon dated September 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit, we considered Central Lincoln People's Utility District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Central Lincoln People's Utility District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of the District's Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

### Other Comments and Disclosures

In connection with our audit, nothing came to our attention that caused us to believe the District was not substantially in compliance with:

- ORS Chapter 295 regarding collateral securing depository balances,
- ORS 294.035 regarding the investment of surplus public funds,
- the legal requirements relating to debt,
- ORS Chapter 279 in the awarding of public contracts and the construction of public improvements, and
- the appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.

However, it should be noted that our audit was not directed primarily toward obtaining knowledge of noncompliance with such requirements.

Additionally, we make the following comments:

- Central Lincoln People's Utility District uses an automated double entry system of accounts. This system and related accounting records are adequate for the needs of the District.
- We have reviewed the District's insurance and fidelity bond coverage for compliance with legal requirements. Since we are not experts in insurance matters, we make no representation as to the adequacy of such coverage.

#### COMMENDATION

The courteous assistance and cooperation extended to us by employees and officials of the District during the course of the audit are sincerely appreciated.