



**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

DECEMBER 31, 2005 AND 2004

CONTENTS

	PAGE
INTRODUCTORY SECTION	
Principal officials	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 7
FINANCIAL STATEMENTS	
Statement of net assets	8 - 9
Statement of revenues, expenses and changes in net assets	10
Statement of cash flows	11
Notes to financial statements	12 - 23
SUPPLEMENTAL INFORMATION	
Report of independent certified public accountants on Clatskanie People's Utility District's compliance and certain items based on an audit of financial statements performed in accordance with Oregon Auditing Standards	24 - 25

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
PRINCIPAL OFFICIALS
DECEMBER 31, 2005**

<u><i>Name</i></u>	<u><i>Address</i></u>	<u><i>Title</i></u>
Warren Nakkela	10474 Highway 30 Clatskanie, Oregon	President
Merle Gillespie	940 N.E. Fifth Clatskanie, Oregon	Vice-President
Lori Piercy	29993 Maple Wood Dr. Rainier, OR 97048	Secretary
Keith Sutfin	80183 Kallunki Road Clatskanie, Oregon	Treasurer
Ray Cowan	24516 Warren Road Rainier, Oregon	Director
Gregory Booth	23971 Blunk Drive Clatskanie, Oregon	Manager and Register Agent

Registered Office

Clatskanie People's Utility District	P.O. Box 216 Clatskanie, Oregon 97016
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Clatskanie People's Utility District

We have audited the accompanying statements of net assets of Clatskanie People's Utility District as of December 31, 2005 and 2004 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 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 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 Clatskanie People's Utility District as of December 31, 2005 and 2004 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.

The Management's Discussion and Analysis preceding the financial statements is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). 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 basic financial statements taken as a whole. The financial information included as supplemental information following the financial statements and notes to the financial statements as provided for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

Moss Adams LLP

Vancouver, Washington
March 31, 2006



Lewis H. Orsi, CPA
A Partner of Moss Adams LLP
Certified Public Accountants

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005**

This discussion and analysis is designed to provide an overview of the financial activities of the Clatskanie People's Utility District (the District) for the year ended December 31, 2005. This supplementary information should be read in conjunction with the District's audited financial statements.

The District is a political subdivision of the State of Oregon and is overseen by a five member Board of Directors (the Board). District customers elect the Board, who represent the five subdivisions in the District's territory. The Board appoints a General Manager to be the Chief Executive Officer for the District. The District was formed by a majority vote of the people in 1940 in order to obtain the benefits of reliable low cost power for this area.

Financial Policies and Controls

The District's financial management system consists of financial policies, financial management strategies, and the internal control structure including the annual budgets and external audit of its financial statements. The Board has the exclusive right and responsibility to determine rates and charges for services provided. The Board has established standards for financial performance and rate competitiveness that place its financial performance above the average of publicly owned electric utilities. This objective is reflected in evaluations of creditworthiness performed by the major rating agencies. The current District rating is:

Standard & Poor's BBB

Power Supply Risk Management Policies

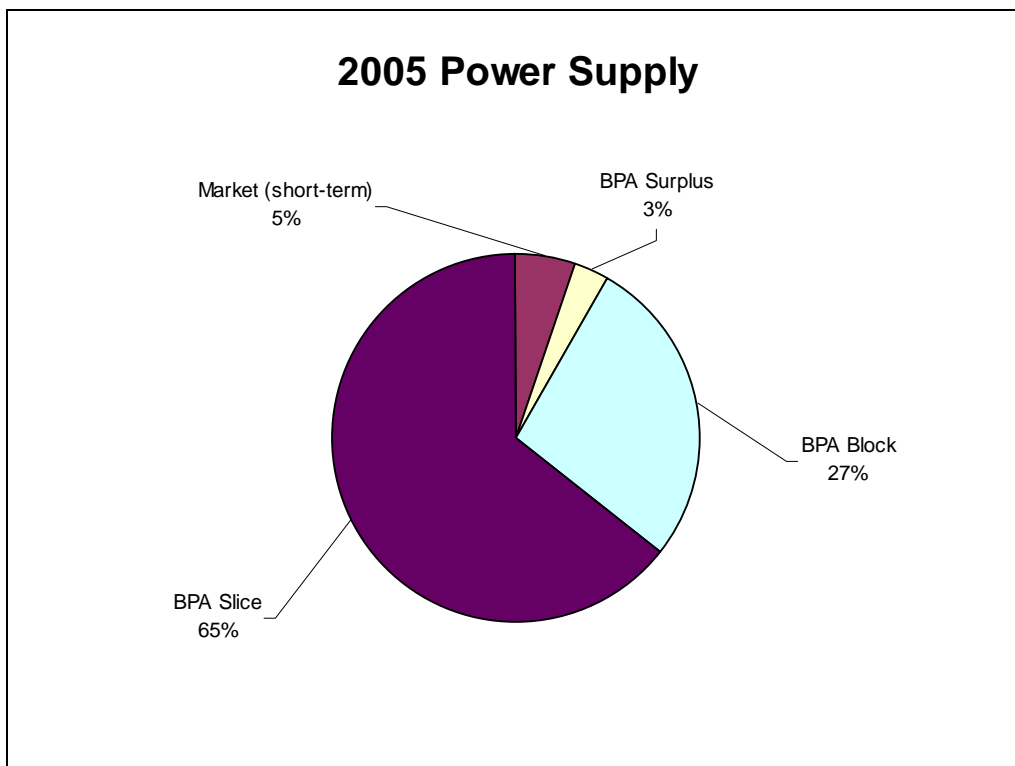
The District must comply with State of Oregon Statutes that authorize and control its activities and scope of its purchases and investments. Accordingly, the District's activities in the power markets are associated with the provisions of electricity to meet anticipated sales of the District and forecasts of generation output. Exposure to wholesale market risks are managed by limiting the term of forward contracts with the Power Manager empowered to trade up to one month forward, with trades longer than one month forward requiring concurrence by the General Manager with Board approval necessary for long term trades. This policy is meant to guard against the District being required to deliver power which it cannot produce.

Distribution System

The District's distribution system serves 275-square miles in Clatsop and Columbia County, Oregon, including the Cities of Clatskanie and Rainier and adjacent rural areas. Power supply requirements are met primarily from hydroelectric sources purchased from Bonneville Power Administration (BPA), gas turbine steam generator and wholesale power trading. Heating load and general economic conditions are the primary influences on residential and commercial sales, while industrial sales are influenced by economic conditions and industry management controls. Distribution system rates are influenced to a large degree by the availability of water for generation that is in excess of historically minimum regional conditions.

Power Supply

During 2005 the District purchased 95% of its power from BPA, 65% provided under a “Slice of System” contract and 30% under fixed power purchase (Block) contracts. Under the Slice agreement the District has the rights to .9755% of the output of the BPA Federal Columbia River Power System (FCRPS). At historically minimum water conditions this portion of output, together with local generation is sufficient to serve retail load within the District. The price of Slice power is set at .9755% of the cost incurred by BPA to operate the FCRPS. To the extent water conditions are above historical minimum flows, the cost per megawatt of Slice power decreases. The chart below depicts 2005 power supplies.

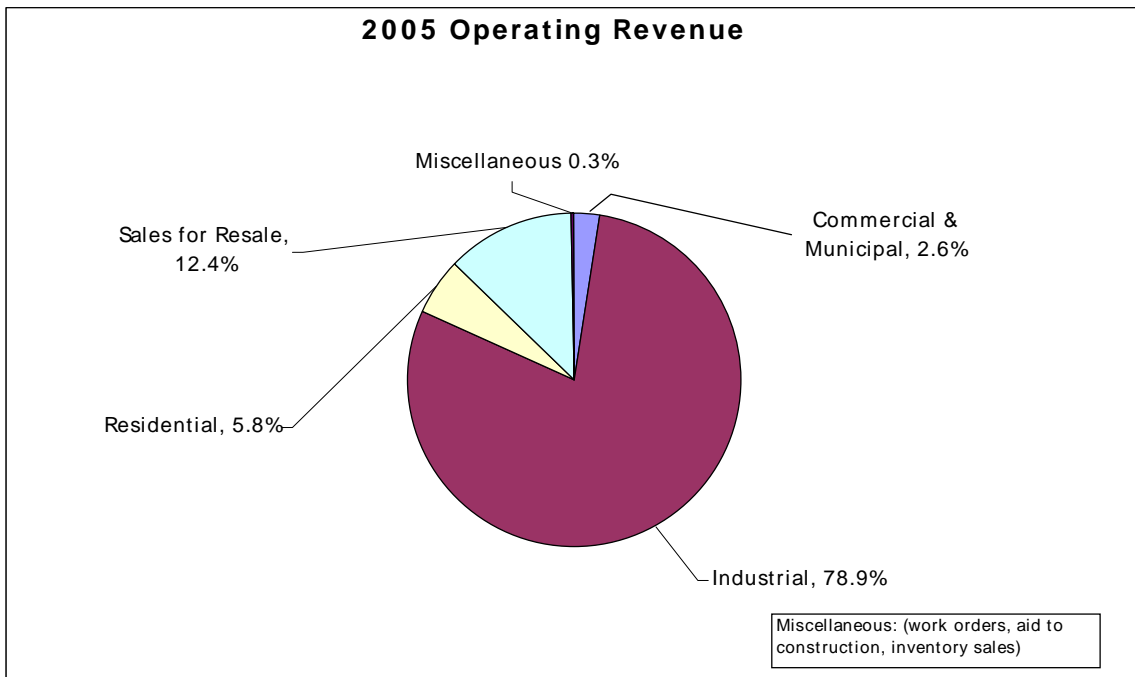


In its budgeting and planning, the District assumes various water conditions based on short and long term hydrological forecasts and revenue from wholesale sales of secondary power that is surplus to its retail needs equivalent to revenue resulting from District industrial power sales. Sales revenues are supported largely by retail sales to industrial customers located outside the District and to a lesser degree by wholesale markets.

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005**

Financial Summary and Analysis

During 2005 the gross operating revenues increased by approximately \$1.3 million (or 3%). Retail revenues, which consist of industrial, residential, commercial and municipal, decreased by \$290,000 (-.7%). The primary factors in the decrease in retail revenues were weather related for residential and commercial and economic for industrial. Wholesale revenue increased approximately \$1.8 million primarily due to amortization of the Rate Stabilization and initiation of the Delivery Path Reservation and Transfer Agreement No. 04-W-01 which will end May 31, 2016. The chart below indicates 2005 operating revenues.



**CLATSKANIE PEOPLE'S UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005**

Selected Financial Data (thousands of dollars)		
	2005	2004
Operating Revenues	\$45,754	\$44,462
Operating Expenses	45,749	43,220
Operating Income	5	1,242
Operating Income before Depreciation and Amortization	1,369	2,533
Depreciation and Amortization	1,364	1,292
Change in Net Assets	136	1,354
Total Assets	27,900	29,180
Total Liabilities	9,968	11,383
Total Net Assets		
Invested in Capital Assets, net of related debt	14,521	12,204
Unrestricted	3,412	5,593

Capital Assets and Long-Term Debt Activities

Total utility plant in service as of December 31, 2005 and 2004 consisted of the following:

In thousands of dollars		
	2005	2004
Generation	\$6,745	\$6,745
Transmission and Distribution	16,482	15,530
General Plant	<u>3,846</u>	<u>3,685</u>
Total Plant in Service	<u>\$27,073</u>	<u>\$25,960</u>

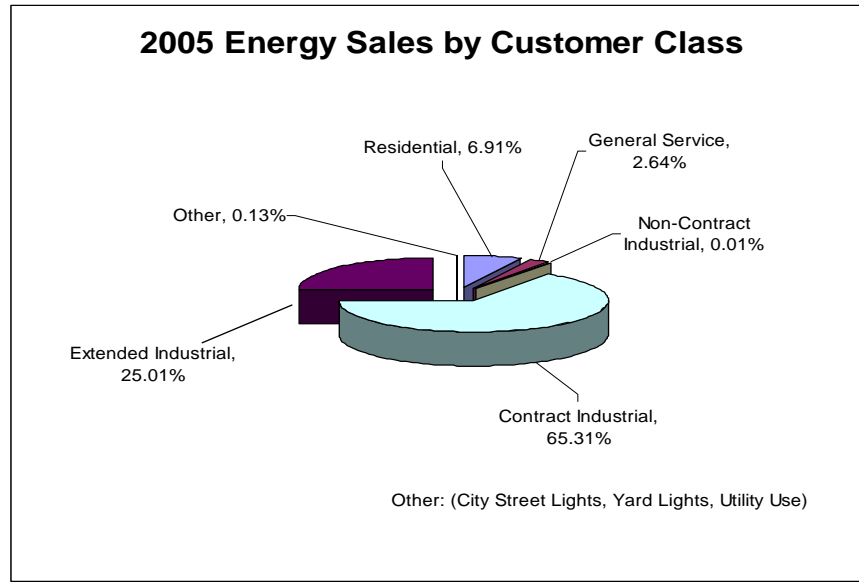
As of year-end, the District had approximately \$27 million of plant-in-service. Additions to utility plant consisted primarily of additions to the distribution system of approximately \$1 million and electronic equipment of nearly \$100,000. Utility plant net of accumulated depreciation was \$17.9 million. This represented a decrease in net plant of approximately \$308,000 under 2004. Capital construction was provided for through cash flows from revenues.

The District's long-term liabilities consist of a line of credit of approximately \$2.2 million and a five year note of \$1.2 million (a decrease of \$2.6 million compared to 2004). The line of credit matures in June 2006 and will either be paid or incorporated with a revenue bond, a five year note or extended line of credit until it is more economical to incorporate into the a revenue bond.

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005**

Retail Sales

Retail sales totaled nearly 1,000,000 megawatt-hours in 2005. The majority of retail sales were provided to serve industrial loads. The chart below indicates energy sales by rate class.



Rates and Economic Outlook

During 2005 retail electric rates did not change and based on preliminary information we do not expect a rate increase at least until the end of 2007.

Since 1998 the District customers have received a direct benefit from the local co-generation project hosted at Georgia Pacific, Wauna Paper Mill, owned by the District and Eugene Water and Electric Board (EWEB) as Western Generation Agency (WGA). Effective May 1, 2004 the Board suspended the Co-Generation benefit due to lack of funds. Effective May 1, 2005 the Board reinstated the Co-Generation benefit to \$2.00 per 1,000 kWh and another \$3.00 per 1,000 kWh effective October 1, 2005 totaling \$5.00 per 1,000 kWh. However, the 2.00 per 1,000 kWh benefit will expire on April 30, 2006 and the \$3.00 per 1,000 kWh will expire on September 30, 2006. We expect the cogeneration project revenues will allow for another 12-month rate credit to be established in the fall of 2006, resulting in the continuation of the cogeneration benefit in 2007 but not to the \$5.00 per 1,000 kWh level.

The Co-Generation benefit is the net revenues from the WGA co-generation project, which generates electricity from steam that is used in the manufacturing of paper products. The District entered into the WGA partnership agreement with EWEB to finance, build and sell the electricity generated from a 27,000 kilowatt project. The power is sold to the Bonneville Power Administration (BPA). The net revenues, after operations and retirement of debt, from the sale of electricity are shared between the WGA partners. WGA pays Georgia-Pacific for steam production as well as basic operation and maintenance costs. The District Board of Directors decides how the earnings are distributed to the customers. On October 1, 1998, the first Co-Generation benefit of \$6.00 per 1,000 kWh was credited to all customers of Clatskanie PUD.

CLATSKANIE PEOPLE'S UTILITY DISTRICT
STATEMENT OF NET ASSETS

ASSETS

	DECEMBER 31,	
	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,098,244	\$ 8,513,500
Accounts and other receivables, less allowance for doubtful accounts of approximately \$5,000 at December 31, 2005 and 2004	3,856,714	3,955,974
Materials and supplies inventory	451,920	362,122
Prepaid expenses and other current assets	<u>181,855</u>	<u>183,079</u>
Total current assets	<u>12,588,733</u>	<u>13,014,675</u>
UTILITY PLANT		
Utility plant in service	27,073,309	25,959,704
Less accumulated depreciation	<u>9,974,263</u>	<u>8,798,691</u>
Net utility plant in service	17,099,046	17,161,013
Construction in progress	106,849	283,884
Electric plant acquisition adjustment, net of accumulated amortization of \$329,781 and \$260,782 at December 31, 2005 and 2004, respectively	<u>707,240</u>	<u>776,239</u>
Net utility plant	<u>17,913,135</u>	<u>18,221,136</u>
OTHER ASSETS		
Investment in Western Generation Agency	<u>(2,601,383)</u>	<u>(2,056,247)</u>
Total assets	<u>\$ 27,900,485</u>	<u>\$ 29,179,564</u>

CLATSKANIE PEOPLE'S UTILITY DISTRICT
STATEMENT OF NET ASSETS

LIABILITIES AND NET ASSETS

	DECEMBER 31,	
	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 5,654,126	\$ 3,476,176
Current portion of long-term debt and note payable	<u>2,889,708</u>	<u>4,865,942</u>
Total current liabilities	<u>8,543,834</u>	<u>8,342,118</u>
NON-CURRENT LIABILITIES		
Long-term debt, net of current portion	502,688	1,151,394
Deferred credits	<u>921,394</u>	<u>1,889,585</u>
Total non-current liabilities	<u>1,424,082</u>	<u>3,040,979</u>
Total liabilities	<u>9,967,916</u>	<u>11,383,097</u>
NET ASSETS		
Invested in capital assets, net of related debt	14,520,739	12,203,800
Unrestricted	<u>3,411,830</u>	<u>5,592,667</u>
Total net assets	<u>17,932,569</u>	<u>17,796,467</u>
Total liabilities and net assets	<u><u>\$ 27,900,485</u></u>	<u><u>\$ 29,179,564</u></u>

CLATSKANIE PEOPLE'S UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	YEAR ENDED DECEMBER 31,	
	2005	2004
OPERATING REVENUES		
Industrial	\$ 36,102,609	\$ 36,197,115
Sales for resale	5,672,234	3,867,588
Residential	2,778,562	2,905,930
Commercial and municipal	1,254,959	1,323,258
Conservation programs, net	(16,588)	186,530
Other	146,515	176,887
Billing allowance for Co-Generation funds	(184,185)	(195,041)
Total operating revenues	<u>45,754,106</u>	<u>44,462,267</u>
OPERATING EXPENSES		
Purchased power and transmission	39,689,798	37,584,530
Administrative and general	1,969,925	1,770,561
Depreciation and amortization	1,363,995	1,291,597
Distribution maintenance	1,232,793	960,574
Distribution operations	784,115	732,766
Customer accounting, collection and assistance	432,268	391,572
Generation	77,497	286,376
Property taxes	198,609	202,579
Total operating expenses	<u>45,749,000</u>	<u>43,220,555</u>
INCOME FROM OPERATIONS	<u>5,106</u>	<u>1,241,712</u>
OTHER INCOME (EXPENSE)		
Interest income	210,338	73,869
Interest expense	(173,596)	(189,850)
Total other income (expense), net	<u>36,742</u>	<u>(115,981)</u>
INCOME BEFORE INCOME FROM JOINT VENTURE	41,848	1,125,731
INCOME FROM WESTERN GENERATION AGENCY	<u>94,254</u>	<u>227,795</u>
NET INCREASE IN NET ASSETS	136,102	1,353,526
NET ASSETS, beginning of year	<u>17,796,467</u>	<u>16,442,941</u>
NET ASSETS, end of year	<u>\$ 17,932,569</u>	<u>\$ 17,796,467</u>

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
STATEMENT OF CASH FLOWS**

	YEAR ENDED DECEMBER 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from customers	\$ 44,885,175	\$ 46,933,772
Cash paid to suppliers	(40,361,842)	(38,509,761)
Cash paid to employees	(1,645,380)	(1,634,528)
Taxes paid	(198,609)	(202,579)
Net cash from operating activities	<u>2,679,344</u>	<u>6,586,904</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Utility plant additions, net	(1,055,994)	(887,680)
Change in materials and supplies inventory	(89,798)	(79,391)
Equity distributions from Western Generation Agency	639,390	-
Interest received	210,338	73,869
Net cash from investing activities	<u>(296,064)</u>	<u>(893,202)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(2,624,940)	(602,045)
Interest paid	(173,596)	(189,850)
Net cash from financing activities	<u>(2,798,536)</u>	<u>(791,895)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(415,256)	4,901,807
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,513,500</u>	<u>3,611,693</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 8,098,244</u>	<u>\$ 8,513,500</u>
Reconciliation of operating income to net cash from operating activities:		
Income from operations	\$ 5,106	\$ 1,241,712
Adjustments to reconcile income from operations to net cash from operating activities		
Depreciation and amortization	1,363,995	1,291,597
Changes in assets and liabilities		
Accounts and other receivables	99,260	862,301
Prepaid expenses and other current assets	1,224	13,120
Accounts payable and accrued liabilities	2,177,950	1,568,970
Deferred credits	(968,191)	1,609,204
Net cash from operating activities	<u>\$ 2,679,344</u>	<u>\$ 6,586,904</u>

CLATSKANIE PEOPLE'S UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and Summary of Significant Accounting Policies

Organization - Clatskanie People's Utility District (the District) is a State of Oregon municipal corporation, organized under Chapter 261 of the Oregon Revised Statutes (ORS), which provides electric power primarily to Clatskanie and Rainier, Oregon and the surrounding rural areas. The District is exempt from federal and state income taxes.

Reporting entity - In evaluating how to define the District, for financial reporting purposes, management has considered the District's financial reporting entity. The financial reporting entity consists of the District and component units. Component units are legally separate organizations for which the District is financially accountable and other organizations for which the District is not accountable but for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial statements to be misleading or incomplete. Based upon this criterion, the District has no component units.

Basis of accounting and presentation - The District is considered an enterprise and operates as a proprietary fund. The financial statements of the District have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with the subsequent GASB pronouncements (Standards and Interpretations), constitutes GAAP for governmental units. The District applies all Governmental Accounting Standards Board (GASB) statements and has elected not to apply any Financial Accounting Standards Board (FASB) statements issued after November 30, 1989 unless specifically referenced by GASB as permitted by GASB No. 20.

The Uniform System of Accounts, as prescribed by the Federal Energy Regulatory Commission (FERC), is the basis for the District's accounting policies.

Concentration of credit risk - The District's financial instruments that are exposed to concentration of credit risk consist primarily of cash and receivables. The District maintains its cash in bank deposit accounts which, at times, exceed federally insured limits (See Note 2). The District has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. Credit is extended to customers generally without collateral requirements, however, deposits are obtained from certain customers and formal shut-off procedures are in place.

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Utility plant - Utility plant assets are stated at cost (See Note 3). Cost includes contracted services, direct labor and materials, interest capitalized during construction and certain overhead items. The provision for depreciation is determined by the straight-line method over the estimated useful lives of the assets (as specified by the Federal Energy Regulatory Commission (FERC) for utility plant) ranging from three to fifty years.

Maintenance and repairs of utility plant is expensed as incurred. The actual or average cost of property replaced or renewed is removed from utility plant and such cost plus removal cost less salvage is charged to accumulated depreciation.

Electric plant acquisition adjustment - Represents the amount paid over net book value for the Rainier, Oregon service area and is being amortized over fifteen years.

Investment in Western Generation Agency - Investment in Western Generation Agency, a joint venture, is accounted for under the equity method of accounting (See Note 4).

Cash equivalents - The District considers short-term investments with maturities of three months or less to be cash equivalents (See Note 2).

Accounts receivable - Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated based on the District's historical losses, review of specific problem accounts, the existing economic conditions and the financial stability of its customers. Generally, the District considers accounts receivable past due after 30 days.

Materials and supplies inventory - Materials and supplies inventory consists primarily of items for construction and maintenance of utility plant and is valued at the lower of average cost or market.

Compensated absences - The District accrues accumulated unpaid vacation and a portion of sick leave benefits as the obligation is incurred (See Note 6).

Deferred credits - Primarily consists of deferred wholesale revenues for the benefit of future retail rate stabilization and is accounted for in accordance with Statement of Financial Accounting Standard (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation* (See Note 5) and Conservation and Renewable Discount Credits received less earned.

Revenue recognition - The District utilizes cycle billing and records revenue billed to its customers when the meters are read. Meters are read each month and industrial accounts are read at month-end. The District also records unbilled revenue, revenues from electric power delivered but not yet billed.

CLATSKANIE PEOPLE'S UTILITY DISTRICT NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Net assets - Net assets consist primarily of cumulative net revenues collected for the payment of utility plant or principal amortization of debt incurred for utility plant, in advance of net accumulated depreciation recognized on such plant. It is the District's intention to set rates at a level to continue replacing and improving net utility plant. Net assets consist of the following components:

- **Invested in capital assets, net of related debt** - This component of net assets consists of capital assets, net of accumulated depreciation, less outstanding balances of any debt borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Unrestricted** - This component of net assets consists of net assets that do not meet the definition of invested in capital assets, net of related debt.

Note 2 - Cash and Investments

The District is required under Oregon Revised Statute (ORS) Chapter 295 to secure deposits in public funds made in non-governmental institutions. The Federal Deposit Insurance Corporation insures up to \$100,000 in each account. The District has obtained additional insurance to comply with this statute. As of December 31, 2005 and 2004, the District's cash and money market funds were fully insured in accordance with the ORS.

Concentration of credit risk is the risk that, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. Of the District's total deposits at December 31, 2005, 100% is invested in U.S. chartered commercial banks; however, such deposits are fully insured as noted above.

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 2 - Cash and Investments (Continued)

As of December 31, 2005:

<u>Cash and Deposit Type</u>	<u>Carrying Value</u>	<u>% of Portfolio</u>
Cash on hand	\$ 1,400	0.02%
General cash account	4,260,808	52.61%
Money market account	<u>3,836,036</u>	<u>47.37%</u>
	<u>\$ 8,098,244</u>	<u>100.00%</u>

As of December 31, 2004:

<u>Cash and Deposit Type</u>	<u>Carrying Value</u>	<u>% of Portfolio</u>
Cash on hand	\$ 1,000	0.01%
General cash account	<u>8,512,500</u>	<u>99.99%</u>
	<u>\$ 8,513,500</u>	<u>100.00%</u>

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 3 - Utility Plant In Service

	Balance December 31, 2004	Additions*	Retirements*	Balance December 31, 2005
Distribution system	\$ 15,255,328	\$ 1,031,816	\$ 80,041	\$ 16,207,103
Generation system	6,745,269	-	-	6,745,269
Transmission system	78,840	-	-	78,840
Structures and improvements	751,389	2,092	-	753,481
Equipment	2,886,456	169,937	10,199	3,046,194
Land and land rights	235,308	-	-	235,308
Organization and franchise costs	7,114	-	-	7,114
	<u>\$ 25,959,704</u>	<u>\$ 1,203,845</u>	<u>\$ 90,240</u>	<u>\$ 27,073,309</u>
Accumulated depreciation	<u>\$ 8,798,691</u>	<u>\$ 1,363,995</u>	<u>\$ 188,423</u>	<u>\$ 9,974,263</u>

* Additions and retirements include transfers.

Note 4 - Western Generation Agency

The Western Generation Agency (WGA) was created pursuant to an Intergovernmental Agency Agreement dated October 12, 1993 between the District and Eugene Water & Electric Board for the purpose of constructing, owning and operating an electric generation plant, the Wauna Cogeneration Project. WGA sells the energy from its generation to the Bonneville Power Administration (BPA) for a predetermined price and quantity. The BPA power purchase agreement will be in effect through April 2016.

The Project is comprised of both a Steam Turbine Generator (STG), capable of producing an average 26 MW (megawatts) of energy and a Fluidized Bed Boiler (FBB). The FBB is utilized in the production of steam that will be supplied to the STG. The steam production is accomplished by burning solid waste fuel generated by the existing pulp/paper manufacturing facility owned by Georgia Pacific, located in Wauna, Oregon.

Prior to and after the date the agreement was executed, the District expended funds related to the study and organization of the cogeneration project and for development costs related to the project. During 1994, after bonds were issued by the project, the District was reimbursed for \$416,157 of organization costs and \$1,437,104 of development costs which it had expended. The District was also reimbursed \$39,452 in January 1995 for organization costs incurred from July through November 1994. The District was not reimbursed for organization costs incurred prior to 1992 nor for payroll and travel costs.

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 4 - Western Generation Agency (Continued)

These expenditures, totaling \$241,255, are included in the investment in Western Generation Agency in the statement of net assets, as shown below.

In addition, the District has entered into an option agreement with Georgia Pacific for the right of first refusal to develop the second phase of the generating project. Option agreement payments are based upon distributions from Western Generation Agency (See below).

Inception to date summary of investment activity follows:

Unreimbursed organization costs	\$ 241,255
Net income	657,862
Cash distributions received	(4,448,637)
Georgia Pacific - Option Payments	<u>948,137</u>
 Investment in Western Generation Agency at December 31, 2005	 <u><u>\$ (2,601,383)</u></u>

Summary of WGA assets, liabilities and net assets follows:

	<u>2005</u>	<u>2004</u>
Total assets	\$ 55,590,920	\$ 59,120,130
Total liabilities	50,654,891	52,691,185
Total net assets	4,936,029	6,428,945

Summary of WGA sales and income follows:

	<u>2005</u>	<u>2004</u>
Power sales	\$ 9,931,760	\$ 11,196,215
Operating income	4,688,173	5,393,823
Net income	188,508	455,590

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 4 - Western Generation Agency (Continued)

The Board of Directors is comprised of three appointed members from the District and three appointed members from Eugene Water & Electric Board and, as a separate legal entity, has no other association with either entity regarding financial reporting requirements. Financial information for the project is included in the financial statements of WGA and may be obtained from WGA's Trustee, BNY Western Trust Company, Seattle, Washington.

The District has established by resolution to use excess funds generated from the WGA investment to credit customer billings. The current credit is \$.005 per kilowatt-hour. Customer billing credits are identified as "billing allowance for Co-Generation funds" in the statement of revenues, expenses and changes in net assets. Total billing credits to customer accounts were \$184,185 and \$194,041 for the years ended December 31, 2005 and 2004, respectively.

Note 5 - Regulatory Liabilities - Deferred Credits

Due to regulation of its rates by its Board, the District is subject to the accounting requirements of Statement of Financial Accounting Standard (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*. Accordingly, certain income may be capitalized as a regulatory liability that would otherwise be charged to revenues. Regulatory liabilities are recorded when it is probable that future rates will permit recovery.

Deferred credits as of December 31, 2005 and 2004 consisted of the following:

Bonneville Power Administration (BPA) Surplus - Surplus was due to a management decision made in 2001 by the District's largest customer which reduced load and allowed the District to sell the energy back to BPA for a gain. The remaining balance of \$460,000 is being amortized on a straight-line basis over a five-year period, commencing on January 1, 2005.

Delivery Path Reservation - In 2004 the District received a \$1,973,000 settlement from BPA for delivery path reservation of an electrical substation owned by the District. The amount will be amortized on a straight-line basis over a five-year period, commencing January 1, 2005.

In 2005, the Board of Directors used \$600,000 of the deferred credit to offset additional power cost related to the BPA Slice agreement. This revenue was recorded to sales for resale.

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 6 - Compensated Absences

Employees are allowed to accrue up to 90 days of vested vacation pay. Terminated employees may elect to designate all or a portion of the vested amount to be paid to a Medical Savings Account (MSA) through the Variable Employee Beneficiary Association (VEBA) for health expenses. For any such amounts designated, the District will add the payroll cost savings of FICA, PERS and Medicare to the VEBA account.

Sick leave accrues at 8 hours per month with no maximum amount; however, three percent per year of service up to 60% will vest upon termination. At December 31, 2005, accrued vacation and sick leave were \$212,917 and \$114,108, respectively. At December 31, 2004, accrued vacation and sick leave were \$159,990 and \$93,148, respectively.

Note 7 - Long-Term Debt

	Balance December 31, 2004	Borrowings	Principal Maturities	Balance December 31, 2005
52% of prime, \$5,000,000 line of credit with Bank of America to construct an 11MW Gas Turbine Generator due in quarterly installments of interest only. Collateralized by the District's net revenues and subject to certain covenants. Matures June 2006.	\$ 4,241,000	\$ -	\$ 2,000,000	\$ 2,241,000
3.75% note payable to Bank of America due in quarterly installments of \$170,708, including interest. Collateralized by the District's net revenues. Matures July 2007.	1,776,336	-	624,940	1,151,396
	6,017,336	\$ -	\$ 2,624,940	3,392,396
Less current portion	4,865,942			2,889,708
	\$ 1,151,394			\$ 502,688

The prime interest rate at December 31, 2005 was 7.25%.

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 7 - Long-Term Debt (Continued)

Future maturities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,889,708	\$ 34,124	\$ 2,923,832
2007	<u>502,688</u>	<u>9,454</u>	<u>512,142</u>
	<u>\$ 3,392,396</u>	<u>\$ 43,578</u>	<u>\$ 3,435,974</u>

Note 8 - Pension Plan

The District participates in the State of Oregon Public Employees' Retirement System (PERS), an agent multiple-employer retirement system that acts as a common investment and administrative agent for Oregon municipalities. The District's payroll for employees covered by PERS for the years ended December 31, 2005 and 2004 was \$ 2,011,634 and \$1,668,911, respectively. Total payroll for the years ended December 31, 2005 and 2004 was \$2,127,184 and \$1,768,357, respectively.

All full-time District employees are eligible to participate in PERS after six months of employment. Employee contributions are fully vested. Employer contributions vest after five years of participation, and are payable monthly for life. The basic monthly benefit is a percentage (1.67%) of an eligible employee's final average salary, multiplied by years of credited service. Final average salary is the employee's average salary over the last three years of credited service, or the highest three calendar year salaries of the last ten calendar year salaries. Benefits are reduced if retirement occurs prior to age 58 with less than 30 years of service. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute. The rate of employee contribution is established by law, currently at 6%, and is funded by the District. The rate of employer contribution is set by the Public Employees' Retirement Board based upon actuarial valuations. The employer rate for PERS 1 and 2 through June 2003 was 18.61%. The employer rate for PERS 1 and 2 through June 2005 was 15.11% and 20.18% thereafter. The employer rate for PERS 3 is 8.04%, effective March 2006 this amount will increase to 16.88%. Contributions to PERS for 2005 and 2004 were \$435,885 and \$349,308, respectively.

The Oregon Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 73, 200 S.W. Market Street, Suite 700, Portland, Oregon 97207-0073.

As all PERS employers are required by law to submit the contributions adopted by the Retirement Board and the employer contributions are calculated in conformity with Governmental Accounting Standards

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 8 - Pension Plan (Continued)

Board Statement No. 27, there is no pension benefit obligation. The contributions actually made are equal to the annual pension cost.

The District's information regarding the actuarial value of assets, as provided by the Oregon Public Employees Retirement System financial report, actuarial accrued liability and unfunded actuarial liability for the last valuation date is shown below:

	<u>Valuation Date</u>
	<u>12/31/2003</u>
Actuarial value of assets	10,407,125
Actuarial liability	13,715,304
Unfunded actuarial liability	3,308,179
Funded percent	76%
Covered payroll	1,761,948
Unfunded actuarial liability as a percent of covered payroll	188%

Note 9 - Deferred Compensation Plan

The District sponsors a deferred compensation plan (Internal Revenue Code Section 457) for all eligible employees. The plan is entirely funded by voluntary employee contributions. Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries.

Note 10 - Power Supply

Purchased Power

Effective October 1, 2001, the District entered into a Block and Slice Power Sales Agreement with the Bonneville Power Administration (BPA). The provisions of this agreement establishes the terms under which the District is committed to purchase its power for a period of ten years. The Power Sales Agreement specifies that BPA rates are variable and includes provisions for various adjustments depending on actual load and BPA costs. In addition, the Slice portion of the agreement includes a true-up provision that allows BPA to recover Slice costs not previously recovered during the fiscal year. BPA assesses this true up on an annual basis. The true up is paid, or refunded if a credit, during the next fiscal year. The true-up at December 31, 2005 and 2004 was a charge of approximately \$1.9 million and \$433,623, respectively, and was charged to power costs and recorded in accounts payable in the statement of net assets.

CLATSKANIE PEOPLE'S UTILITY DISTRICT NOTES TO FINANCIAL STATEMENTS

Note 10 - Power Supply (Continued)

As indicated, the District has paid for and expensed the true-up for 2002; however, is in the process of disputing the charges. The District along with the other Slice customers contend elements of the true-up are not applicable to their contract and should be reversed. If all disputed elements were reversed, the District would receive a credit. As of December 31, 2005, the Slice customers and BPA are working through the dispute resolution process as stipulated in the contract.

The Slice portion of the agreement commits the District to purchase a certain fixed percentage of BPA generation which varies depending on the available water and may result in power that is surplus to the District's needs and which the District intends to sell on the open market.

The District periodically enters into forward contracts to meet load requirements. As of December 31, 2005, the District had no forward contracts outstanding.

In accordance with guidance issued under Issue No. C15 - "Normal Purchase and Normal Sales Exception for Option - Type Contracts and Forward Contracts in Electricity" by the Financial Accounting Standards Board's Derivative Implementation Group for Statement No. 133, the District does not mark forward contracts to market. If a contract meets the criteria for normal purchase and normal sales exception, then the contract is not marked-to-market in current earnings or other comprehensive income.

The District maintains an additional power contract with BPA for an average four megawatts per hour from October 1, 2001 through September 30, 2006. The original price under this contract is \$20.67 per megawatt-hour. This contract serves as the mechanism to collect a partial deferral of payment for power purchased between October 1, 2000 and September 30, 2001 increasing the rate to \$45.49 per megawatt-hour. The deferral, including interest, is being expensed over the contract period as follows:

Conservation

Beginning October 1, 2001, the District initiated an expanded five-year conservation program known as "The Conservation and Renewables Discount Program." The program provides incentives for measures in the residential, commercial and industrial sectors. Funding for the program is provided by a BPA rate discount of 0.5 mills per KWH, which commenced October 1, 2001.

Power Management

On September 15, 2001, the District entered into a power management services agreement with Eugene Water & Electric Board (EWEB) to provide certain power scheduling, purchasing, sales and related services to assist in the short term management of the District's power supply. The cost for these services consists of a fixed monthly fee and an incentive fee of 1% of monthly gross wholesale sales of power and transmission rights. Either party may terminate the contract at any time upon giving 90 days written notice. Power purchases or sales of one week or longer duration are managed directly by the District in accordance with adopted risk management policies.

Note 10 - Power Supply (Continued)

Generation

In 2001 the District constructed an 11 MW Gas Turbine Generator. Power generated will supplement the power supply needs of the District. The District has entered into agreements for fuel management (purchasing and scheduling) and transportation services that expire October 31, 2006. The price per MMBTU is set at the average daily market price on the day the gas is used by the District.

Note 11 - Major Customer

The District has one industrial customer which accounts for approximately 90% of retail power sales and 77% and 76% of accounts receivable as of December 31, 2005 and 2004, respectively. Services are provided to this customer under the terms of an ongoing electric service contract that may be terminated by either party one year from the date of notification. Subsequent to year-end, the industrial customer changed ownership; however, there were no changes to the contract terms.

Effective January 1, 2003, the District entered into an agreement to provide up to 34 MW of power to serve the retail load for two additional facilities of this customer, located outside of the District's service areas. This agreement shall be in effect for a period of one year and continue thereafter until terminated, by either party for any reason, upon one years advance written notice.

Note 12 - Subsequent Events

Subsequent to year-end, the District entered into a power purchase agreement with various irrigation districts (Boise-Kuna Irrigation District, Nampa & Meridian Irrigation District, New York Irrigation District, Wilder Irrigation District, and Big Bend Irrigation District), the "Irrigation Districts". The District intends to purchase all surplus electric energy from a hydroelectric facility to be constructed by the Irrigation Districts. Issuance of bonds and construction of the project is anticipated to begin in 2006. The Project is expected to be completed either late 2008 or early 2009. The purchase price of power is set at 90% of the Mid-C index with a cost sharing of 70% of the difference between the actual costs of production of power and 90% of the Mid-C index.

SUPPLEMENTAL INFORMATION

AUDIT COMMENTS

Oregon Administrative Rules 162-10-000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in an audit report. Required comments and disclosures related to the audit of such statements and schedules are set forth following:

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON CLATSKANIE PEOPLE'S UTILITY DISTRICT'S COMPLIANCE AND CERTAIN ITEMS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH OREGON AUDITING STANDARDS

Board of Directors
Clatskanie People's Utility District

We have audited the accompanying financial statements of Clatskanie People's Utility District as of and for the year ended December 31, 2005 and have issued our report thereon dated March 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules (OAR) 162-10-000 to 162-10-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting records and related internal control structure.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirement relating to debt.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

The result of our tests disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

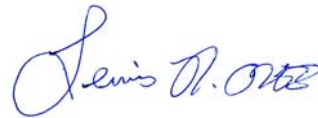
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of management, Board of Directors and the Secretary of State and Division of Audits, of the State of Oregon. However, this report is a matter of public record and its distribution is not limited.

Moss Adams LLP

Vancouver, Washington
March 31, 2006



Lewis H. Orsi, CPA
A partner of Moss Adams, LLP
Certified Public Accountants