



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

DECEMBER 31, 2006 AND 2005

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**CLATSKANIE PEOPLE'S UTILITY DISTRICT
PRINCIPAL OFFICIALS
DECEMBER 31, 2006**

<u><i>Name</i></u>	<u><i>Address</i></u>	<u><i>Title</i></u>
Merle Gillespie	PO Box 1270 Clatskanie, Oregon	President
Don Hooper	75960 Delena Road Clatskanie, Oregon	Vice-President
Rod Ollilia	76918 Rutters Road Clatskanie, Oregon	Secretary
Bob Wiggins	47100 River Ranch Lane Clatskanie, Oregon	Treasurer
Steve D. Petersen	29668 Riverview Terrace Rainier, Oregon	Director
Gregory Booth	23971 Blunk Drive Clatskanie, OR	General Manager and Registered 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, 2006 and 2005 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.

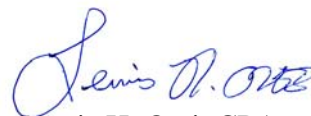
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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, 2006 and 2005 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.

Moss Adams LLP

Vancouver, Washington
May 29, 2007



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, 2006**

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 years ended December 31, 2006 and 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

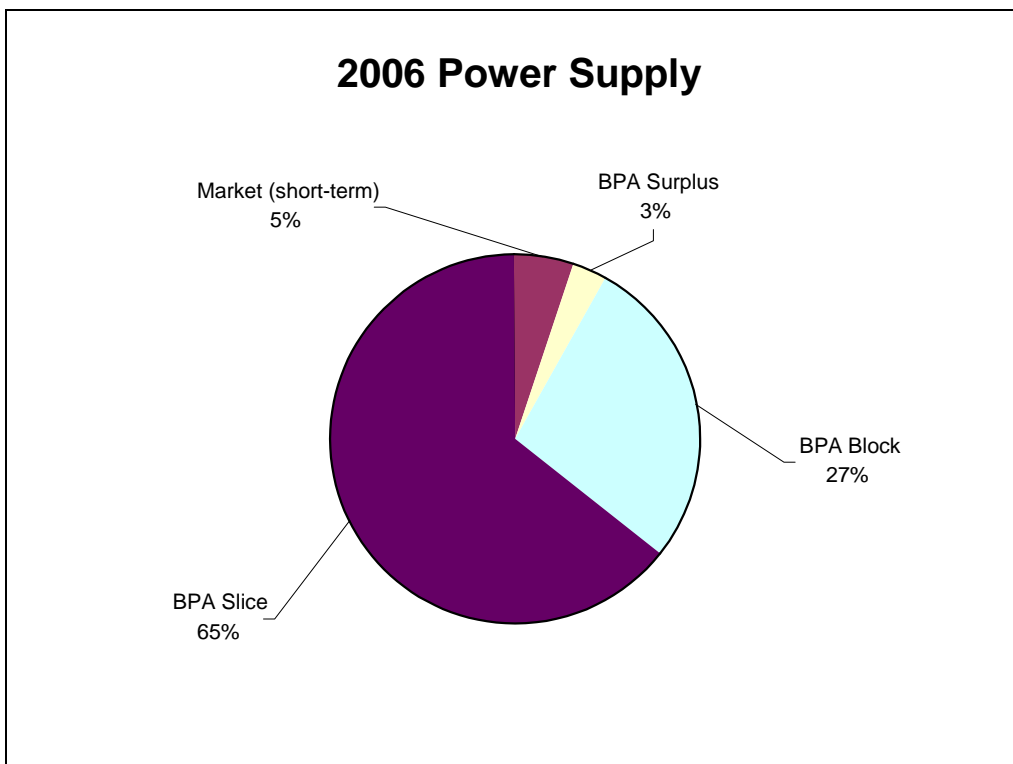
The District must comply with State of Oregon Statutes that authorize and control its activities and scope of its purchases and investments. Accordingly, the District's activities in the power markets are associated with the provisions of electricity to meet anticipated sales of the District and forecasts 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 2006 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 2006 power supplies.

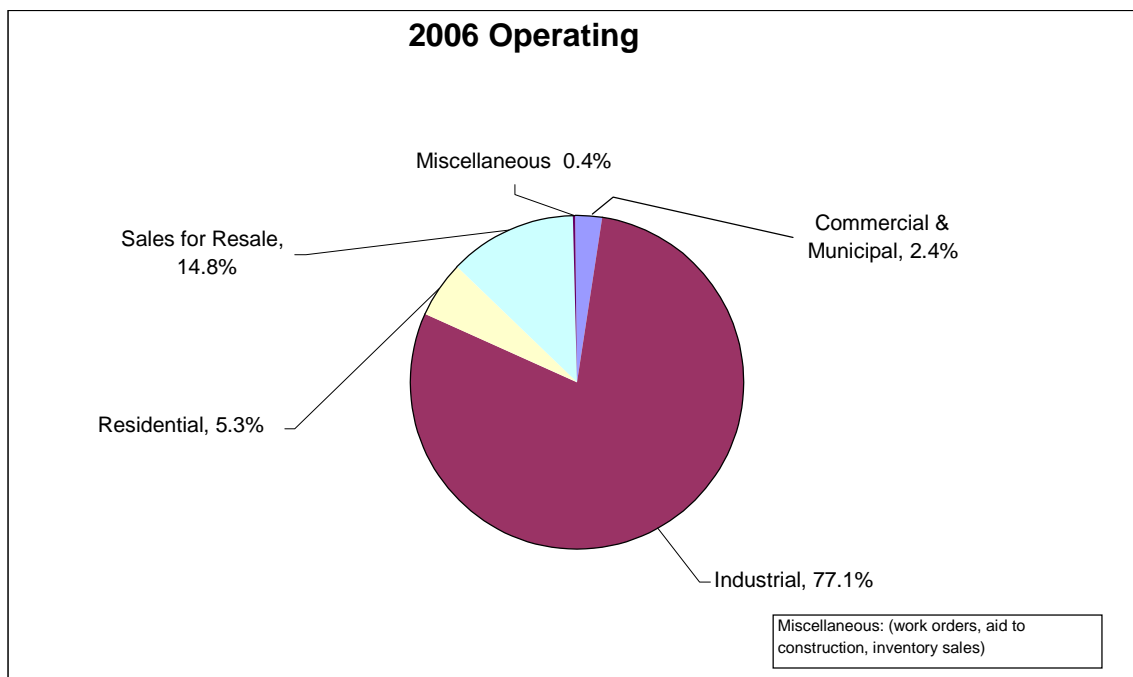


In its budgeting and planning, the District assumes various water conditions based on short and long term hydrological forecasts and revenue from wholesale sales of secondary power that is surplus to its retail needs equivalent to revenue resulting from District industrial power sales. Sales revenues 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, 2006**

Financial Summary and Analysis

During 2006 the gross operating revenues increased by approximately \$1.9 million (or 4.1%). Retail revenues, which consist of industrial, residential, commercial and municipal, increased by \$871,000 (2.2%). The primary factors in the increase in retail revenues were weather related for residential and commercial and economic for industrial. Wholesale revenue increased approximately \$1.4 million primarily due to increase of sales for resale of \$2.1 million and a decrease of the amortization of the Rate Stabilization by \$.75 million. The chart below indicates 2006 operating revenues.



**CLATSKANIE PEOPLE'S UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

Selected Financial Data (thousands of dollars)			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues	\$47,611	\$45,754	\$44,462
Operating Expenses	46,502	45,749	43,220
Operating Income	1,110	5	1,242
Operating Income before Depreciation and Amortization	2,540	1,369	2,533
Depreciation and Amortization	1,430	1,364	1,292
Change in Net Assets	520	136	1,354
Total Assets	25,092	27,900	29,180
Total Liabilities	6,639	9,968	11,383
Total Net Assets:			
Invested in Capital Assets, net of related debt	17,573	14,521	12,204
Unrestricted	880	3,412	5,593

Capital Assets and Long-Term Debt Activities

Total utility plant in service as of December 31, 2006, 2005 and 2004 consisted of the following:

(In thousands of dollars)			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Generation	\$6,745	\$6,745	\$6,745
Transmission and Distribution	16,974	16,482	15,530
General Plant	<u>3,955</u>	<u>3,846</u>	<u>3,685</u>
Total Plant in Service	<u>\$27,674</u>	<u>\$27,073</u>	<u>\$25,960</u>

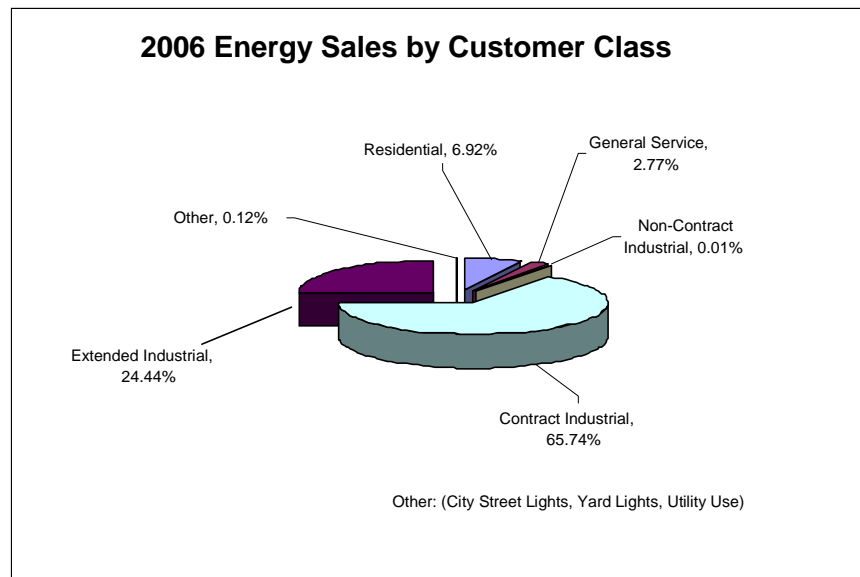
As of year-end, the District had approximately \$27.8 million of plant-in-service. Additions to utility plant consisted primarily of additions to the distribution system of approximately \$.5 million and transportation equipment of nearly \$110,000. Utility plant net of accumulated depreciation was \$18.1 million. This represented an increase in net plant of approximately \$162,000 over 2005. Capital construction was provided for through cash flows from revenues.

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

The District's long-term liabilities consist of the balance on a five-year note of \$.5 million (a decrease of \$2.9 million compared to 2005). The five-year note will be paid off in July 2007. The District may finance current construction with a revenue bond during 2007.

Retail Sales

Retail sales totaled approximately 1,011,000 megawatt-hours in 2006. 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 2006 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 & 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 expired on April 30, 2006 and the \$3.00 per 1,000 kWh will expire on April 30, 2007. We expect the cogeneration project revenues will allow for another 12-month rate credit to be reestablished in the fall of 2007, resulting in a cogeneration benefit in 2007 but only to the \$2.00 per 1,000 kWh level for part of the year.

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 36,000 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

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

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,	
	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,263,913	\$ 8,098,244
Accounts and other receivables, less allowance for doubtful accounts of approximately \$15,000 in 2006 and \$5,000 in 2005	3,514,168	3,856,714
Materials and supplies inventory	564,128	451,920
Prepaid expenses and other current assets	201,466	181,855
	<u>10,543,675</u>	<u>12,588,733</u>
UTILITY PLANT		
Utility plant in service	27,674,190	27,073,309
Less accumulated depreciation	10,989,778	9,974,263
	<u>16,684,412</u>	<u>17,099,046</u>
Net utility plant in service	16,684,412	17,099,046
Construction in progress	752,982	106,849
Electric plant acquisition adjustment, net of accumulated amortization of \$398,780 and \$329,781 at December 31, 2006 and 2005, respectively	638,241	707,240
	<u>18,075,635</u>	<u>17,913,135</u>
Net utility plant	18,075,635	17,913,135
OTHER ASSETS		
Investment in Western Generation Agency	(3,527,603)	(2,601,383)
	<u>(3,527,603)</u>	<u>(2,601,383)</u>
Total assets	<u>\$ 25,091,707</u>	<u>\$ 27,900,485</u>

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
STATEMENT OF NET ASSETS**

LIABILITIES AND NET ASSETS

	DECEMBER 31,	
	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 5,140,982	\$ 5,654,126
Current portion of long-term debt and note payable	<u>502,586</u>	<u>2,889,708</u>
Total current liabilities	<u>5,643,568</u>	<u>8,543,834</u>
NON-CURRENT LIABILITIES		
Long-term debt, net of current portion	-	502,688
Deferred credits	<u>995,203</u>	<u>921,394</u>
Total non-current liabilities	<u>995,203</u>	<u>1,424,082</u>
Total liabilities	<u>6,638,771</u>	<u>9,967,916</u>
NET ASSETS		
Invested in capital assets, net of related debt	17,573,049	14,520,739
Unrestricted	<u>879,887</u>	<u>3,411,830</u>
Total net assets	<u>18,452,936</u>	<u>17,932,569</u>
Total liabilities and net assets	<u><u>\$ 25,091,707</u></u>	<u><u>\$ 27,900,485</u></u>

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

	YEAR ENDED DECEMBER 31,	
	2006	2005
OPERATING REVENUES		
Industrial	\$ 36,715,004	\$ 36,102,609
Sales for resale	7,058,376	5,672,234
Residential	2,909,916	2,778,562
Commercial and municipal	1,381,759	1,254,959
Conservation programs, net	(229,894)	(16,588)
Other	160,068	146,515
Billing allowance for Co-Generation funds	(383,957)	(184,185)
Total operating revenues	<u>47,611,272</u>	<u>45,754,106</u>
OPERATING EXPENSES		
Purchased power and transmission	40,228,310	39,689,798
Administrative and general	2,179,394	1,969,925
Depreciation and amortization	1,430,257	1,363,995
Distribution maintenance	949,194	1,232,793
Distribution operations	868,266	784,115
Customer accounting, collection and assistance	481,578	432,268
Generation	166,185	77,497
Property taxes	198,476	198,609
Total operating expenses	<u>46,501,660</u>	<u>45,749,000</u>
INCOME FROM OPERATIONS	<u>1,109,612</u>	<u>5,106</u>
OTHER INCOME (EXPENSE)		
Interest income	207,568	210,338
Interest expense	(70,593)	(173,596)
Total other income, net	<u>136,975</u>	<u>36,742</u>
INCOME BEFORE INCOME (LOSS) FROM JOINT VENTURE	1,246,587	41,848
INCOME (LOSS) FROM WESTERN GENERATION AGENCY	<u>(726,220)</u>	<u>94,254</u>
NET INCREASE IN NET ASSETS	520,367	136,102
NET ASSETS, beginning of year	<u>17,932,569</u>	<u>17,796,467</u>
NET ASSETS, end of year	<u>\$ 18,452,936</u>	<u>\$ 17,932,569</u>

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

	YEAR ENDED DECEMBER 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from customers	\$ 48,027,627	\$ 44,885,175
Cash paid to suppliers	(43,620,590)	(40,361,842)
Cash paid to employees	(1,785,092)	(1,645,380)
Taxes paid	(198,476)	(198,609)
Net cash from operating activities	<u>2,423,469</u>	<u>2,679,344</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Utility plant additions, net	(1,592,757)	(1,055,994)
Change in materials and supplies inventory	(112,208)	(89,798)
Equity distributions from Western Generation Agency	200,000	639,390
Interest received	207,568	210,338
Net cash from investing activities	<u>(1,297,397)</u>	<u>(296,064)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(2,889,810)	(2,624,940)
Interest paid	(70,593)	(173,596)
Net cash from financing activities	<u>(2,960,403)</u>	<u>(2,798,536)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(1,834,331)	(415,256)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,098,244</u>	<u>8,513,500</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,263,913</u>	<u>\$ 8,098,244</u>
Reconciliation of operating income to net cash from operating activities:		
Income from operations	\$ 1,109,612	\$ 5,106
Adjustments to reconcile income from operations to net cash from operating activities		
Depreciation and amortization	1,430,257	1,363,995
Changes in assets and liabilities		
Accounts and other receivables	342,546	99,260
Prepaid expenses and other current assets	(19,611)	1,224
Accounts payable and accrued liabilities	(513,144)	2,177,950
Deferred credits	73,809	(968,191)
Net cash from operating activities	<u>\$ 2,423,469</u>	<u>\$ 2,679,344</u>

See accompanying notes.

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 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.

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.

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

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

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 on a straight-line basis 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.

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.

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

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

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, 2006 and 2005, 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, 2006, 100% is invested in U.S. chartered commercial banks; however, such deposits are fully insured as noted above.

As of December 31, 2006:

Cash and Deposit Type	Carrying Value	% of Portfolio
Cash on hand	\$ 1,400	0.02%
General cash account	3,669,806	58.59%
Money market account	2,592,707	41.39%
	\$ 6,263,913	100.00%

**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>

Note 3 - Utility Plant In Service

	Balance December 31, 2005	Additions*	Retirements*	Balance December 31, 2006
Distribution system	\$ 16,207,103	\$ 559,884	\$ 67,996	\$ 16,698,991
Generation system	6,745,269	-	-	6,745,269
Transmission system	78,840	-	-	78,840
Structures and improvements	753,481	-	-	753,481
Equipment	3,046,194	321,018	212,025	3,155,187
Land and land rights	235,308	-	-	235,308
Organization and franchise costs	7,114	-	-	7,114
	<u>\$ 27,073,309</u>	<u>\$ 880,902</u>	<u>\$ 280,021</u>	<u>\$ 27,674,190</u>
Accumulated depreciation	<u>\$ 9,974,263</u>	<u>\$ 1,430,257</u>	<u>\$ 414,742</u>	<u>\$ 10,989,778</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.

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 4 - Western Generation Agency (Continued)

The Project is comprised of both a Steam Turbine Generator (STG), capable of producing an average 36 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.

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 loss	(68,359)
Cash distributions received	(4,648,636)
Georgia Pacific - Option Payments	<u>948,137</u>
Investment in Western Generation Agency at December 31, 2006	<u><u>\$ (3,527,603)</u></u>

Summary of WGA assets, liabilities and net assets follows:

	<u>2006</u>	<u>2005</u>
Total assets	\$ 49,999,060	\$ 55,590,920
Total liabilities	57,282,065	50,654,891
Total net assets	(7,283,005)	4,936,029

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

Note 4 - Western Generation Agency (Continued)

Summary of WGA sales and income follows:

	<u>2006</u>	<u>2005</u>
Power sales	\$ 9,319,098	\$ 9,931,760
Operating income	3,815,290	4,688,173
Net income (loss)	(1,452,439)	188,508

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 \$383,957 and \$184,185 for the years ended December 31, 2006 and 2005, 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, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Regulatory liabilities	\$ 919,005	\$ 1,255,442
Other	76,198	(334,048)
Total deferred credits	<u>\$ 995,203</u>	<u>\$ 921,394</u>

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, 2006, accrued vacation and sick leave were \$260,434 and \$197,325, respectively. At December 31, 2005, accrued vacation and sick leave were \$212,917 and \$114,108, respectively.

Note 7 - Long-Term Debt

	Balance December 31, 2005	Borrowings	Principal Maturities	Balance December 31, 2006
63.5% of prime minus .15%, \$5,000,000 line of credit with Bank of America for capital improvement projects due in quarterly installments of interest only. Collateralized by the District's net revenues and subject to certain covenants.	\$ 2,241,000	\$ -	\$ 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.	1,151,396	-	648,810	502,586
	3,392,396	\$ -	\$ 2,889,810	502,586
Less current portion	2,889,708			502,586
	<u>\$ 502,688</u>			<u>\$ -</u>

The prime interest rate at December 31, 2006 was 8.25%.

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

Note 8 - Pension Plan

Plan Description - The District contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the District's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying District employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. The Individual Account Program (IAP), is the defined contribution portion of the plan. Beginning January 1, 2004, all OPERF and OPSRP member contributions go into the IAP. OPERF members retain their existing OPERF accounts, but any future member contributions are deposited into the member's IAP account, not the member's OPERF account.

Both PERS plans provide retirement and disability benefits, post employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits differ depending upon employee entry date. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Oregon Public Employees Retirement Board (OPSRB) as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR, 97281-3700 or by calling 503-598-7377.

Funding Policy - Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. As a result of an agreement with the District's Board, the District pays the required employee contribution of 6.00%. Additionally, the District is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF rates were 15.11% from January 2005 to June 2006, and 20.18% thereafter. The OPSRP rates were 8.04% from January 2005 to March 2006, and 16.88% thereafter. Effective July 1, 2007, the PERS Board adopted new rates based on a December 31, 2005 actuarial valuation. The new contribution rates for the District will be 17.23% for OPERF and 19.93% for OPSRP. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual Pension Cost - All participating employers are required by law to submit the contributions as adopted by OPERB. For the years ended December 31, 2006 and 2005, the District's total annual pension costs were \$559,922 and \$435,885, respectively. These costs were equal to the required and actual contributions. The District has no pension benefit obligation.

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.

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

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, 2006 and 2005 was a charge of approximately \$1.1 and \$1.9 million, respectively, and was charged to power costs and recorded in accounts payable in the statement of net assets.

For 2002, the District paid and expensed the true-up provision. However, the District, along with the other Slice customers, contended elements of the 2002 true-up were not applicable to their contract and should be reversed. During the year ended December 31, 2006, the Slice customers and the BPA resolved the dispute. The terms of the resolution resulted in a \$1.1 million credit to the District.

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, 2006, 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 contact is not marked-to-market in current earnings or other comprehensive income.

The District maintained 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 was \$20.67 per megawatt-hour. This contract served 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.

Conservation

Beginning October 1, 2006, the District initiated an expanded three-year conservation program known as "Conservation Rate Credit." 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, 2006.

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

Note 10 - Power Supply (Continued)

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.

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, 2007. 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 84% and 77% of accounts receivable as of December 31, 2006 and 2005, 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.

AUDIT COMMENTS

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

February 1, 2007

To the Board of Commissioners
Clatskanie People's Utility District

We have audited the accompanying financial statements of the Clatskanie People's Utility District as of and for the year ended December 31, 2006 and have issued our report thereon dated May 29, 2007. 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 Board'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 requirements 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.

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. The results of our test 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board'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 controls that might be a significant deficiency or material weaknesses. 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. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses.

This report is intended for the information and use of management, Board of Commissioners and the Secretary of State, 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

For Moss Adams LLP
Certified Public Accountants