

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

## AUDIT REPORT

Years Ended June 30, 2011, and 2010

**KENNETH KUHNS & CO.**

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CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

June 30, 2011

***Board of Directors***

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

***Administrative Staff***

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Paul Davies	General Manager and Registered Agent
Brian Barth	Accounting & Finance Manager
Doug Dawson	Communications & Information Technology Manager
Dennis Hinton	Customer & Energy Services Manager
Chris Chandler	Communication, Community & Economic Development Manager
Bruce Lovelin	Chief Engineer & Systems Engineering Manager
Gary Nieborsky	Distribution Engineering & Operations Manager
Sue Tyler	Personnel, Compensation & Benefits Manager
Brandon Hignite	Power Analyst

***Administrative Office***

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Newport, Oregon 97365

*Mailing Address:* P.O. Box 1126  
Newport, Oregon 97365

*Web Site:* [www.cencoast.com](http://www.cencoast.com)

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is designed to provide an overview of the financial activities of Central Lincoln People's Utility District (District) with registered office in Newport, Oregon for the year ended June 30, 2011. This supplementary information is to be read with the District's financial statements.

### Administration

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

### Service Area

The District's service area is located along the Oregon coast and extends through Lincoln, Lane, Douglas and Coos counties providing service to 38,515 customers. The area has a total length of 110 miles, varies in width from one to 25 miles. The District purchases all required energy from the Bonneville Power Administration (BPA). The BPA delivers power at nine points of delivery: Toledo, Florence, Mapleton, Berrydale, Gardiner, Reedsport, Lakeside, Hauser and Glasgow.

### Financial Summary and Analysis

The District operated through September 30, 2010 under the rate schedule adopted in September 2009. Beginning October 1, 2010 the District operated under the rate schedule adopted in September 2010.

#### Selected Financial Data

	Year Ended		
	6-30-2011	6-30-2010	6-30-2009
Operating revenues	\$ 72,953,164	\$ 69,101,609	\$ 67,451,561
Operating expenses	(70,032,196)	(66,155,556)	(60,852,652)
Nonoperating revenues-(expenses)	(107,593)	(151,794)	151,488
Net income	<u>\$ 2,813,375</u>	<u>\$ 2,794,259</u>	<u>\$ 6,750,397</u>

Revenue was up in 2011 primarily because of the rate increase last fall. Operating expenses were up because of increased costs in all phases of operating the utility.

	<u>6-30-2011</u>	<u>6-30-2010</u>	<u>6-30-2009</u>
<b>Assets:</b>			
Net electric plant	\$ 99,770,505	\$ 99,943,072	\$ 95,725,890
Current assets	31,237,699	28,472,360	30,917,332
Other assets	725,073	766,950	807,317
Deferred charges	<u>957,110</u>	<u>1,087,706</u>	<u>1,248,896</u>
 Total assets	 <u>132,690,387</u>	 <u>130,270,088</u>	 <u>128,699,435</u>
 <b>Liabilities:</b>			
Long-term debt	1,440,000	1,875,000	3,095,000
Current liabilities	7,463,870	7,893,064	8,210,934
Deferred credits	<u>1,998,175</u>	<u>1,527,057</u>	<u>1,212,793</u>
 Total liabilities	 <u>10,902,045</u>	 <u>11,295,121</u>	 <u>12,518,727</u>
 <b>Net assets:</b>			
Invested in capital assets - net of related debt	97,895,505	96,848,072	91,455,890
Restricted for bond debt service	253,750	711,667	685,417
Unrestricted	<u>23,639,087</u>	<u>21,415,228</u>	<u>24,039,401</u>
 Total net assets	 <u>\$ 121,788,342</u>	 <u>\$ 118,974,967</u>	 <u>\$ 116,180,708</u>

Net electric plant remained relatively stable as Central Lincoln continues to upgrade and improve its substations, distribution system and utility billing software, and continues to depreciate its electric plant.

Capital construction is funded through rates (and construction reserves) and a capital grant as no new debt has been issued since 1995.

Currently there is a total of \$1,875,000 in revenue bonds outstanding. This past year the District's debt service coverage ratio was 8.22. The minimum bond covenant requirement is 1.25.

### **Power Supply**

The District is a statutory preference customer of the Bonneville Power Administration (BPA) and historically purchased all of its power from the BPA. In November 2008, the District executed a Power Sales Agreement with the Bonneville Power Administration for the period October 1, 2011 through September 30, 2028. Wholesale power rates under this agreement will be adjusted every two years and are currently fixed through September 30, 2013.

## **FINANCIAL STATEMENTS**

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Assets</u>	June 30,	
	2011	2010
Electric plant: (Notes 1 and 2)		
In service - at cost	\$ 187,336,291	\$ 179,579,993
Construction in progress	10,172,420	13,281,782
Total electric plant	197,508,711	192,861,775
Less:		
Accumulated provision for depreciation	(97,738,206)	(92,918,703)
Net electric plant	99,770,505	99,943,072
Current assets:		
Cash and investments (Notes 1 and 3):		
Current cash	23,050,280	19,903,910
Restricted for bond debt service	260,869	722,695
Customer accounts receivable (net of allowance for doubtful accounts of \$149,675 in 2011 and \$150,046 in 2010)	3,441,319	3,182,677
Other receivables	610,440	743,761
Materials and supplies (Note 1)	3,394,669	3,434,983
Prepayments	433,886	433,141
Other	46,236	51,193
Total current assets	31,237,699	28,472,360
Other assets:		
Net pension obligation (Note 7)	725,073	766,950
Deferred charges:		
Unamortized debt expense (Notes 1 and 5)	85,010	151,627
Unamortized transmission agreement expense (Note 4)	872,100	928,942
Clearing accounts	-	7,137
Total deferred charges	957,110	1,087,706
Total assets	\$ 132,690,387	\$ 130,270,088

The accompanying notes are an integral part of this statement.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Net Assets and Liabilities</u>	June 30,	
	2011	2010
Net assets:		
Invested in capital assets - net of related debt	\$ 97,895,505	\$ 96,848,072
Restricted for bond debt service	253,750	711,667
Unrestricted	23,639,087	21,415,228
Total net assets	121,788,342	118,974,967
Long-term debt:		
Bonds payable, less current maturities (Note 5)	1,440,000	1,875,000
Current liabilities:		
Current maturities of long-term debt (Note 5)	435,000	1,220,000
Accounts payable	4,177,521	3,884,732
Accrued compensated absences (Note 1)	1,938,007	1,897,949
Customer deposits	895,014	867,818
Accrued interest - long term debt	7,119	11,028
Accrued interest - customer deposits	11,209	11,537
Total current liabilities	7,463,870	7,893,064
Deferred credits:		
Post-employment health care benefits (Note 8)	1,532,756	986,770
Liability reserves (Note 6)	237,237	305,925
Other deferred credits	228,182	234,362
Total deferred credits	1,998,175	1,527,057
Total net assets and liabilities	\$ 132,690,387	\$ 130,270,088

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30,	
	2011	2010
Operating revenues:		
Sales of electricity:		
Residential	\$ 34,137,061	\$ 31,709,793
Commercial	13,671,496	13,041,123
Industrial	23,140,260	22,360,828
Other	1,048,748	991,727
Other operating revenues:		
Rent from electric plant	620,028	655,244
Miscellaneous service revenue	335,571	342,894
	72,953,164	69,101,609
Total operating revenues		
Operating expenses:		
Cost of power	41,351,337	40,225,208
Transmission and distribution expense - operations	3,314,027	2,861,083
Transmission and distribution expense - maintenance	2,891,550	2,386,844
Customer accounts expense	2,074,792	1,882,139
Customer service and informational expense	54,890	234,157
Administrative and general expense	9,261,566	8,602,408
Depreciation	7,938,471	7,032,913
Taxes and franchise fees	3,145,563	2,930,804
	70,032,196	66,155,556
Total operating expenses		
Net operating revenues	2,920,968	2,946,053
Nonoperating revenues-(expenses):		
Interest on investments	66,179	101,971
Interest expense - long term debt	(104,971)	(150,325)
Interest expense - other	(2,184)	(5,753)
Amortization of debt expense	(66,617)	(97,687)
	(107,593)	(151,794)
Total nonoperating revenues-(expenses)		
Net income	2,813,375	2,794,259
Net assets - beginning of year	118,974,967	116,180,708
Net assets - end of year	\$ 121,788,342	\$ 118,974,967

The accompanying notes are an integral part of this statement.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Statement of Cash Flows

	Year Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Cash received from customers	\$ 72,816,713	\$69,046,380
Cash payments for purchased power	(41,332,033)	(40,004,549)
Cash payments to suppliers for goods and services	(10,305,246)	(9,009,612)
Cash payments to employees for services	(9,534,316)	(10,265,076)
Net cash provided by operating activities	<u>11,645,118</u>	<u>9,767,143</u>
Cash flows from capital and related financing activities:		
Construction and acquisition of plant	(8,781,179)	(11,629,205)
Capital grant contributions	1,077,102	-
Proceeds from sale of equipment	8,716	21,494
Principal payments on bonds payable	(1,220,000)	(1,175,000)
Interest payments on bonds payable	(108,880)	(153,924)
Other interest payments	(2,512)	(5,987)
Net cash used in capital and related financing activities	<u>(9,026,753)</u>	<u>(12,942,622)</u>
Cash flows from investing activities:		
Interest on investments	<u>66,179</u>	<u>101,971</u>
Net increase-(decrease) in cash and cash equivalents	2,684,544	(3,073,508)
Cash and cash equivalents - beginning of year	<u>20,626,605</u>	<u>23,700,113</u>
Cash and cash equivalents - end of year	<u>\$ 23,311,149</u>	<u>\$20,626,605</u>
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenues	<u>\$ 2,920,968</u>	<u>\$ 2,946,053</u>
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation	7,938,471	7,032,913
Decrease-(increase) in:		
Customer accounts receivable	(258,642)	(427,525)
Other receivables	364,388	51,278
Materials and supplies	40,314	197,591
Prepayments	(745)	(193,947)
Other current assets	4,957	(8,515)
Net pension obligation	41,877	40,367
Unamortized transmission agreement expense	56,842	56,841
Clearing accounts	7,137	6,662
Increase-(decrease) in:		
Accounts payable	(8,821)	377,597
Accrued compensated absences	40,058	(697,564)
Customer deposits	27,196	71,128
Post-employment health care benefits	545,986	549,796
Liability reserves	(68,688)	(23,934)
Other deferred credits	(6,180)	(211,598)
Total adjustments	<u>8,724,150</u>	<u>6,821,090</u>
Net cash provided by operating activities	<u>\$ 11,645,118</u>	<u>\$ 9,767,143</u>
Noncash capital and related financing activities:		
Deferred charges - unamortized debt expense	\$ 66,617	\$ 97,687
Amortization of debt expense	(66,617)	(97,687)
Total noncash capital and related financing activities	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

## Notes to Financial Statements June 30, 2011, and 2010

### 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### General

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

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

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

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

Significant policies are described below.

#### Description of Reporting Entity

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

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

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

### Basis of Accounting

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

### Electric Plant

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

Other than general plant assets, the costs of additions, renewals and betterments with a useful life exceeding one year are capitalized regardless of dollar amount. General plant additions of approximately \$1,000 or more with a useful life exceeding one year are capitalized. Repairs and minor replacements are charged to operating expenses. The cost of property retired, together with removal cost less salvage, is charged to accumulated depreciation when property is removed.

### Depreciation

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

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

### Investments

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

### Cash and Cash Equivalents

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

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

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

### Materials and Supplies

Materials and supplies are carried at average cost.

### Unamortized Debt Expense

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

### Compensated Absences

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

### Operating Revenues

Georgia-Pacific Corporation currently accounts for over 41% of the District's total kilowatt-hour sales. The next largest customer of the District accounted for less than 1% of the District's total kilowatt-hour sales and less than 1% of the District's revenues from the sale of electricity in the current year.

### Net assets

The District's policy is to first use restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

2 - ELECTRIC PLANT:

Electric plant activity for the year ended June 30, 2011 was as follows:

	July 1, 2010	Increases	Decreases	June 30, 2011
Electric plant not being depreciated:				
Intangible	\$ 147,817	\$ -	\$ -	\$ 147,817
Land	4,499,530	75,401	-	4,574,931
Construction in progress	13,281,782	7,736,357	10,845,719	10,172,420
Total electric plant not being depreciated	17,929,129	7,811,758	10,845,719	14,895,168
Electric plant being depreciated:				
Transmission	15,510,939	447,240	98,511	15,859,668
Distribution	118,872,735	7,475,168	1,194,917	125,152,986
General	40,548,972	2,246,673	1,194,756	41,600,889
Total electric plant being depreciated	174,932,646	10,169,081	2,488,184	182,613,543
Accumulated depreciation:				
Transmission	6,163,091	628,834	171,204	6,620,721
Distribution	53,416,939	4,983,463	1,767,267	56,633,135
General	33,338,673	2,326,174	1,180,497	34,484,350
Total accumulated depreciation	92,918,703	7,938,471	3,118,968	97,738,206
Total electric plant being depreciated, net	82,013,943	2,230,610	(630,784)	84,875,337
Electric plant, net	\$ 99,943,072	\$10,042,368	\$10,214,935	\$ 99,770,505

Electric plant activity for the year ended June 30, 2010 was as follows:

	July 1, 2009	Increases	Decreases	June 30, 2010
Electric plant not being depreciated:				
Intangible	\$ 147,817	\$ -	\$ -	\$ 147,817
Land	4,499,530	-	-	4,499,530
Construction in progress	10,301,514	10,983,738	8,003,470	13,281,782
Total electric plant not being depreciated	14,948,861	10,983,738	8,003,470	17,929,129
Electric plant being depreciated:				
Transmission	14,065,330	1,652,562	206,953	15,510,939
Distribution	115,838,989	3,701,813	668,067	118,872,735
General	37,303,087	3,245,885	-	40,548,972
Total electric plant being depreciated	167,207,406	8,600,260	875,020	174,932,646
Accumulated depreciation:				
Transmission	5,770,386	599,657	206,952	6,163,091
Distribution	48,879,617	4,895,471	358,149	53,416,939
General	31,780,374	1,537,785	(20,514)	33,338,673
Total accumulated depreciation	86,430,377	7,032,913	544,587	92,918,703
Total electric plant being depreciated, net	80,777,029	1,567,347	330,433	82,013,943
Electric plant, net	\$ 95,725,890	\$12,551,085	\$ 8,333,903	\$ 99,943,072

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

## 3 - CASH AND INVESTMENTS:

Cash and investments are comprised of the following as of June 30, 2011, and 2010:

	<u>2011</u>	<u>2010</u>
Working funds	\$ 78,599	\$ 71,707
Deposits with financial institutions	1,045,104	965,835
Investments	<u>22,187,446</u>	<u>19,589,063</u>
Total cash and investments	<u>\$ 23,311,149</u>	<u>\$ 20,626,605</u>

### Deposits

Deposits with financial institutions include bank demand deposits. The total bank balance, as shown on the banks' records, was \$1,454,524 at June 30, 2011, and \$1,230,810 at June 30, 2010. Of these deposits, the total covered by federal depository insurance was \$524,845 at June 30, 2011, and \$408,817 at June 30, 2010.

The Oregon State Treasurer is responsible for monitoring public funds held by bank depositories in excess of FDIC insured amounts, and for assuring that public funds on deposit are collateralized to the extent required by Oregon Revised Statutes (ORS) Chapter 295. ORS Chapter 295 requires depository banks to place and maintain on deposit with a third-party custodian bank securities having a value of 10%, 25% or 110% of public funds on deposit depending primarily on the capitalization level of the depository bank.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for deposits custodial credit risk. Of the District's bank balance, \$929,679 was exposed to custodial credit risk as of June 30, 2011, and \$821,993 was exposed to custodial credit risk as of June 30, 2010, because deposits in excess of FDIC insurance were uncollateralized and/or were collateralized but not held by the third-party custodian bank in the District's name.

### Investments

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

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

## 3 - CASH AND INVESTMENTS: (Contd)

### Investments (Contd)

At June 30, 2011, and 2010, the District's investments consisted of:

	<u>2011</u>	<u>2010</u>
Investment in Oregon Local Government Investment Pool	<u>\$ 22,187,446</u>	<u>\$ 19,589,063</u>

The Oregon Local Government Investment Pool is an open-ended, no-load diversified portfolio pool. The fair value of the District's position in the pool is substantially the same as the value of the District's participant balance. The District's investment in the Oregon Local Government Investment Pool is 100% of total investments.

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Oregon Short-Term Fund manages this risk by limiting the maturity of the investments held by the fund. Weighted average maturities of investments in the Oregon Short-Term Fund at June 30, 2011 were: 55% mature within 93 days, 23% mature from 94 days to one year, and 22% mature from one to three years. Weighted average maturities of investments in the Oregon Short-Term Fund at June 30, 2010 were: 77% mature within 93 days, 8% mature from 94 days to one year, and 15% mature from one to three years.

The District has restricted cash and investments for bond debt service totaling \$260,869 at June 30, 2011, and \$722,695 at June 30, 2010.

## 4 – UNAMORTIZED TRANSMISSION AGREEMENT EXPENSE:

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

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

5 - LONG-TERM DEBT:

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

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

At June 30, 2011, and 2010, bonds payable consist of the following:

	<u>2011</u>	<u>2010</u>
Series 2001 Revenue Refunding Bonds, principal payable annually on December 1 beginning in 2001. Interest at 4.4% to 4.7% per annum payable semi-annually on June 1 and December 1 each year.	\$1,875,000	\$2,295,000
Series 2002 Revenue Refunding Bonds, principal payable annually on December 1 beginning in 2003. Interest at 3.5% per annum payable semi-annually on June 1 and December 1 each year.	<u>-</u>	<u>800,000</u>
	1,875,000	3,095,000
Less current maturities	<u>435,000</u>	<u>1,220,000</u>
Long-term debt	<u>\$1,440,000</u>	<u>\$1,875,000</u>

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

5 - LONG-TERM DEBT: (Contd)

Bond principal and interest transactions for 2010-11 are as follows:

	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011	Due Within One Year	Interest Matured and Paid
Series 2001	\$ 2,295,000	\$ -	\$ 420,000	\$ 1,875,000	\$ -	\$ 94,880
Series 2002	800,000	-	800,000	-	435,000	14,000
	<u>\$ 3,095,000</u>	<u>\$ -</u>	<u>\$ 1,220,000</u>	<u>\$ 1,875,000</u>	<u>\$ 435,000</u>	<u>\$ 108,880</u>

As of June 30, 2011, scheduled annual maturities of bond principal and interest are as follows:

Year	Principal	Interest	Total
2011-12	\$ 435,000	\$ 75,860	\$ 510,860
2012-13	455,000	56,052	511,052
2013-14	480,000	34,775	514,775
2014-15	505,000	11,868	516,868
Total	<u>\$ 1,875,000</u>	<u>\$ 178,555</u>	<u>\$ 2,053,555</u>

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

6 - LIABILITY RESERVES:

Liability reserves consist of the following at June 30, 2011, and 2010:

	2011	2010
Unemployment claims	\$ 5,248	\$ 5,248
Medical, dental and optical	226,956	295,320
Unclaimed checks	5,033	5,357
Total	<u>\$ 237,237</u>	<u>\$ 305,925</u>

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

## 7 - RETIREMENT PLAN:

### Plan Description

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

The Pension Trust covers the District's union and non-union employees. The plan provides retirement, disability and death benefits to plan participants and their beneficiaries. The District's Board of Directors has the power to alter, amend or terminate the Trust. As of July 1, 2011, the plan has the following number of participants:

Terminated plan member vested	12
Active plan members	<u>123</u>
Total	<u><u>135</u></u>

In June 2010, the Board of Directors amended the plan such that no employees hired on or after July 1, 2010 will be eligible to participate in the plan. Employees hired on or after July 1, 2010 will be able to participate in a 401(k) plan.

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

### Funding Policy

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

### Annual Pension Cost and Net Pension Obligation

The District's annual pension cost and net pension obligation for the July 1, 2010 to June 30, 2011 fiscal year were as follows:

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

7 - RETIREMENT PLAN: (Contd)

Annual Pension Cost and Net Pension Obligation (Contd)

Annual required contribution	\$ 2,518,989
Interest on net pension obligation	(53,687)
Adjustment to annual required contribution	<u>95,565</u>
Annual pension cost	2,560,867
Contributions made	<u>2,518,990</u>
Increase in net pension obligation	41,877
Net pension obligation - beginning of year	<u>(766,950)</u>
Net pension obligation - end of year	<u><u>\$ (725,073)</u></u>

The annual required contribution for the year was determined as part of the July 1, 2010 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return and (b) projected salary increases of 5.5%. An explicit inflation component was not identified but was assumed consistent for both (a) and (b). The actuarial value of assets equaled the market value of assets. Because the valuation was based on the aggregate actuarial cost method, which does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

Three-Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-11	\$ 2,560,867	98%	\$ (725,073)
6-30-10	2,291,672	98%	(766,950)
6-30-09	1,820,689	98%	(807,317)

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 48 percent funded. The actuarial accrued liability for benefits was \$23,267,605, and the actuarial value of assets was \$11,084,275, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,183,330. The anticipated covered payroll (annual payroll of active employees covered by the plan) was \$9,670,822, and the ratio of the UAAL to the anticipated covered payroll was 126 percent.

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

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

8 - POST-EMPLOYMENT HEALTH CARE BENEFITS:

Plan Description

The District administers a single-employer defined benefit health care plan. The plan provides post-employment health care benefits for eligible retirees (until age 65) and their spouses through the District's health care plan, which covers both active and retired participants. Benefit provisions are established through District policy. The criteria to determine eligibility includes employee age, years of service and date of hire. No employees hired on or after July 1, 2010 will be eligible for the plan benefits. The District's post employment health care plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements are established through District policy. In general, retirees are required to contribute 16% of the standard COBRA premium. Funding is on a pay-as-you-go basis. During 2010-11, the District contributed \$359,301 and participants receiving benefits contributed \$41,035 to the plan. During 2009-10, the District contributed \$341,298 and participants receiving benefits contributed \$29,112 to the plan.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a 15 year period. The following table shows the components of the District's annual OPEB cost for the year, amounts actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 954,568
Interest on net OPEB obligation	39,471
Adjustment to annual required contribution	<u>(88,752)</u>
Annual OPEB cost	905,287
Contributions made	<u>(359,301)</u>
Increase in net OPEB obligation	545,986
Net OPEB obligation - beginning of year	<u>986,770</u>
Net OPEB obligation - end of year	<u><u>\$ 1,532,756</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010-11, 2009-10 and 2008-09 were as follows:

# CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

## 8 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (Contd)

### Annual OPEB Cost and Net OPEB Obligation (Contd)

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 905,287	40%	\$ 1,532,756
6/30/2010	891,094	38%	986,770
6/30/2009	877,805	50%	436,974

### Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$6,288,849 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,288,849. The anticipated covered payroll (annual payroll of active employees covered by the plan) was \$9,380,438, and the ratio of the UAAL to the anticipated covered payroll was 67%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

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

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation conducted as of June 30, 2009, the projected unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized using the level-dollar method over a 15-year open period. Actuarial assumptions included a discount rate of 4% and an annual healthcare cost trend rate of 7.25% initially, reduced gradually to a rate of 5.5% beginning in 2015 for 14 years, and slowly trending downward to an ultimate rate of 4.75% in the 33<sup>rd</sup> year and thereafter.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

9 - RISK MANAGEMENT:

Health and Unemployment

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

		Liability July 1	Claims Paid	Claims Estimates and Adjustments	Liability June 30
2010-11	Health insurance	\$ 295,320	\$ (2,033,034)	\$ 1,964,670	\$ 226,956
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 300,568</u>	<u>\$ (2,033,034)</u>	<u>\$ 1,964,670</u>	<u>\$ 232,204</u>
2009-10	Health insurance	\$ 320,492	\$ (1,807,803)	\$ 1,782,631	\$ 295,320
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 325,740</u>	<u>\$ (1,807,803)</u>	<u>\$ 1,782,631</u>	<u>\$ 300,568</u>
2008-09	Health insurance	\$ 308,635	\$ (2,004,072)	\$ 2,015,929	\$ 320,492
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 313,883</u>	<u>\$ (2,004,072)</u>	<u>\$ 2,015,929</u>	<u>\$ 325,740</u>
2007-08	Health insurance	\$ 298,424	\$ (1,494,526)	\$ 1,504,737	\$ 308,635
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 303,672</u>	<u>\$ (1,494,526)</u>	<u>\$ 1,504,737</u>	<u>\$ 313,883</u>
2006-07	Health insurance	\$ 231,100	\$ (1,533,436)	\$ 1,600,760	\$ 298,424
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 236,348</u>	<u>\$ (1,533,436)</u>	<u>\$ 1,600,760</u>	<u>\$ 303,672</u>

Liability

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

## CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements  
June 30, 2011, and 2010

### 10 - INCOME TAX STATUS:

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

### 11 - POWER PURCHASE AGREEMENTS:

The District is a statutory preference customer of the Bonneville Power Administration (BPA) and historically purchased all of its power from the BPA. In November 2008, the District executed a Power Sales Agreement with the Bonneville Power Administration for the period October 1, 2011 through September 30, 2028. Wholesale power rates under this agreement will be adjusted every two years and are currently fixed through September 30, 2013.

### 12 - COMMITMENTS:

In April 2010, the District was awarded a \$9,936,950 U.S. Department of Energy Smart Grid Grant which is being used to purchase and install Smart Grid technology throughout the District's service territory. The total project cost, including \$9,936,950 in matching funds to be provided by the District, is budgeted at \$19,873,900 over the three year implementation period from the date of award. As of June 30, 2011, the District has expended \$3,111,174 on the project and has claimed \$1,555,587 for reimbursement from the U.S. Department of Energy.

**REQUIRED SUPPLEMENTARY INFORMATION**

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Schedule of Funding Progress for Retirement Plan

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (Entry Age)*</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Anticipated Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Anticipated Covered Payroll</u>
7/1/2011	\$11,084,275	\$23,267,605	\$12,183,330	48%	\$ 9,670,822	126%
7/1/2010	11,284,781	23,136,226	11,851,445	49%	10,075,956	118%
7/1/2009	10,790,730	21,741,608	10,950,878	50%	9,380,438	117%

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

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Schedule of Funding Progress for Retiree Health Plan

	Actuarial Valuation Date
	<u>6/30/2009</u>
Actuarial value of assets (a)	\$ -
Actuarial accrued liability (b)	<u>6,288,849</u>
Unfunded actuarial accrued liability (b-a)	<u>\$ 6,288,849</u>
Funded ratio (a/b)	<u>0%</u>
Covered payroll (c)	<u>\$ 9,380,438</u>
Unfunded actuarial accrued liability as a percentage of covered payroll ((b-a)/c)	<u>67%</u>

**OTHER SUPPLEMENTARY INFORMATION**

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Schedule of Electric Plant in Service

	June 30,	
	2011	2010
Intangible plant:		
Organization	\$ 14,743	\$ 14,743
Franchises and consents	1,387	1,387
Miscellaneous	131,687	131,687
Total intangible plant	<u>147,817</u>	<u>147,817</u>
Transmission plant:		
Land and land rights	2,239,585	2,239,585
Station equipment	50,344	50,344
Poles, towers and fixtures	9,757,821	9,483,167
Overhead conductors and devices	5,699,366	5,625,291
Underground conduit	54,999	54,999
Underground conductors and devices	297,138	297,138
Total transmission plant	<u>18,099,253</u>	<u>17,750,524</u>
Distribution plant:		
Land and land rights	1,854,647	1,779,246
Structures and improvements	4,146,829	3,987,377
Station equipment	33,125,477	29,945,744
Poles, towers and fixtures	15,168,742	14,433,413
Overhead conductors and devices	14,093,832	13,670,043
Underground conduit	12,440,555	12,166,850
Underground conductors and devices	12,625,967	12,199,774
Line transformers	21,776,967	21,124,665
Services	6,071,918	5,917,560
Meters and devices	3,081,194	2,869,232
Installations on customers' premises	636,113	628,645
Street lighting equipment	1,985,392	1,929,432
Total distribution plant	<u>127,007,633</u>	<u>120,651,981</u>
General plant:		
Land and land rights	480,699	480,699
Structures and improvements	10,893,220	10,796,119
Office furniture and equipment	11,657,443	11,384,325
Transportation equipment	6,125,456	6,456,838
Stores equipment	8,529	8,529
Tools and shop equipment	938,798	873,643
Laboratory equipment	497,602	524,018
Communications equipment	11,400,620	10,426,279
Miscellaneous equipment	79,221	79,221
Total general plant	<u>42,081,588</u>	<u>41,029,671</u>
Total electric plant in service	<u>\$ 187,336,291</u>	<u>\$ 179,579,993</u>

**INDEPENDENT AUDITOR'S COMMENTS REQUIRED BY  
OREGON STATE REGULATIONS**

**DISCLOSURES IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS AND OMB CIRCULAR A-133**

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2011

	<u>Federal CFDA Number</u>	<u>Accrued Revenues 7-1-2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Revenues 6-30-2011</u>
<b>U.S. Department of Energy:</b>					
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	<u>\$247,418</u>	<u>\$1,077,102</u>	<u>\$1,308,169</u>	<u>\$ 478,485</u>

**Note to Schedule of Expenditures of Federal Awards:**

Basis of Accounting

The schedule of expenditures of federal awards presents receipts on the cash basis of accounting and presents expenditures on the accrual basis of accounting. Differences between receipts and expenditures are reflected as accrued revenues.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2011

A - SUMMARY OF AUDIT RESULTS:

1. The independent auditor's report expresses an unqualified opinion on the financial statements of Central Lincoln People's Utility District.
2. There were no significant deficiencies in internal control over financial reporting reported during the audit of the financial statements of Central Lincoln People's Utility District.
3. No instances of noncompliance material to the financial statements of Central Lincoln People's Utility District were disclosed during the audit.
4. There were no significant deficiencies in internal control over compliance reported during the audit of the major federal award program of Central Lincoln People's Utility District.
5. The independent auditor's report on compliance for the major federal award program of Central Lincoln People's Utility District expresses an unqualified opinion.
6. No audit findings relative to the major federal award program of Central Lincoln People's Utility District are reported in this schedule.
7. The program tested as a major program is as follows:

Program Name	CFDA Number
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122

8. The threshold for distinguishing Type A programs from Type B programs was \$300,000.
9. Central Lincoln People's Utility District was not required to have an audit conducted under OMB Circular A-133 in the prior year and therefore did not qualify as a low-risk auditee.

B - FINDINGS, FINANCIAL STATEMENTS AUDIT:

None.

C - FINDINGS AND QUESTIONED COSTS, MAJOR FEDERAL AWARD PROGRAMS  
AUDIT:

None.