

TILLAMOOK PEOPLE'S UTILITY DISTRICT

ANNUAL FINANCIAL REPORT

Years Ended December 31, 2009, and 2008

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TILLAMOOK PEOPLE'S UTILITY DISTRICT

Board of Directors

<u>Name</u>	<u>Address</u>	<u>2009 Position</u>
Edwin L. Jenkins	6996 Bewley Creek Road Tillamook, Oregon	President
Ken Phillips	4855 Sunset Drive Tillamook, Oregon	Vice President
Harry E. Hewitt	1816 Ninth Street Tillamook, Oregon	Treasurer
Barbara A. Trout	17640 Old Pacific Highway Rockaway Beach, Oregon	Secretary
Doug Olson	PO Box 1000 Pacific City, Oregon	Director

Administrative Staff

Patrick F. Ashby	General Manager
Robert S. White	Power Services Group Manager
James R. Martin	Finance Manager
Joel George	Customer Services Manager
Barbara Johnson	Public Relations Manager

Registered Agent

Patrick F. Ashby 1115 Pacific Avenue Tillamook, Oregon

INDEPENDENT AUDITOR'S REPORT

April 9, 2010

Board of Directors
Tillamook People's Utility District
Tillamook, Oregon

We have audited the balance sheets of Tillamook People's Utility District as of December 31, 2009, and 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tillamook People's Utility District as of December 31, 2009, and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 4 through 8 and the schedule of funding progress for retiree health plan on page 24 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2010 on our consideration of Tillamook People's Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tillamook People's Utility District Management's Discussion and Analysis

The Management's Discussion and Analysis section of the District's Annual Financial Report presents an analysis of the financial position and activities of Tillamook People's Utility District for the year ended December 31, 2009. This report has been prepared by management and is a required component of an annual financial report prepared in accordance with generally accepted accounting principles. The discussion is designed to assist readers in understanding the accompanying financial statements through an objective and easily readable analysis of the District's financial activities based on currently known facts and conditions.

Financial Highlights

Comparison of 2009 and 2008 Revenues & Expenses

	<u>2009</u>		<u>2008</u>		<u>Increase (Decrease)</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Operating revenues:						
Sales of electricity	\$29,796,352	98.9%	\$28,511,794	98.9%	\$ 1,284,558	4.5%
Other operating revenues	338,325	1.1%	328,074	1.1%	10,251	3.1%
Total operating revenues	<u>30,134,677</u>	<u>100.0%</u>	<u>28,839,868</u>	<u>100.0%</u>	<u>1,294,809</u>	<u>4.5%</u>
Operating expenses:						
Cost of power	14,758,958	49.0%	11,635,767	40.3%	3,123,191	26.8%
Distribution expense:						
Operation	2,988,352	9.9%	2,986,644	10.4%	1,708	0.1%
Maintenance	2,912,666	9.7%	2,033,292	7.1%	879,374	43.2%
Customer accounts	940,907	3.1%	1,058,709	3.7%	(117,802)	-11.1%
Customer svc & info	630,634	2.1%	544,833	1.9%	85,801	15.7%
Sales	115,855	0.4%	151,772	0.5%	(35,917)	-23.7%
Admin & General	3,008,440	10.0%	3,182,502	11.0%	(174,062)	-5.5%
Depreciation	2,030,529	6.7%	1,958,724	6.8%	71,805	3.7%
Taxes	694,453	2.3%	648,338	2.2%	46,115	7.1%
Total operating expenses	<u>28,080,794</u>	<u>93.2%</u>	<u>24,200,581</u>	<u>83.9%</u>	<u>3,880,213</u>	<u>16.0%</u>
Net operating revenues	2,053,883	6.8%	4,639,287	16.1%	(2,585,404)	-55.7%
Interest and other income	115,248	0.4%	321,677	1.1%	(206,429)	-64.2%
Total net op rev, int & other inc	<u>2,169,131</u>	<u>7.2%</u>	<u>4,960,964</u>	<u>17.2%</u>	<u>(2,791,833)</u>	<u>-56.3%</u>
Interest and other charges:						
Interest on long-term debt	785,493	2.6%	935,839	3.2%	(150,346)	-16.1%
Other charges	31,760	0.1%	29,640	0.1%	2,120	7.2%
Total interest & other chgs	<u>817,253</u>	<u>2.7%</u>	<u>965,479</u>	<u>3.3%</u>	<u>(148,226)</u>	<u>-15.4%</u>
Net income	<u>\$ 1,351,878</u>	<u>4.5%</u>	<u>\$ 3,995,485</u>	<u>13.9%</u>	<u>\$ (2,643,607)</u>	<u>-66.2%</u>

Revenues

Revenues from sales of electricity showed an increase of 4.5% in 2009, even though kWh sales were only 2.2% higher in 2009. The difference is due to the 10% winter discounts. In 2008, six months (January through April and November and December) had the 10% discount applied to sales of electricity, while in 2009, only four months (January through April) had the 10% discount.

Power Supply

Although the District purchased about the same amount of kWhs in 2008 and 2009, the cost of power was 26.8% more in 2009. BPA's residential exchange payments resulted in a credit to power supply expense of over \$3.1 million in 2008. Also, BPA increased the wholesale power rate 7% effective October 2009.

Other Expenses

The increase in Distribution expense - Maintenance of \$879,374 and 43.2% was due mainly to the timing of the big December 2007 storm. The huge expenses hit the 2007 year, but the expensed portion of the FEMA reimbursement was credited in the year 2008. This made 2008 almost \$700,000 less than it would have been without the FEMA reimbursement for the previous year.

Customer accounts expense shows a decrease of \$117,802 and 11.1%. This was due to the Meter Reading expenses decreasing from the Districts Automated Meter Reading project that reads meters automatically.

Customer Services and Informational Expenses increased \$85,801 and 15.7% in 2009, mostly due to increased costs of conservation programs and credits for BPA's CFL and shower head promotions that helped credit over \$27,500 in 2008.

The decrease in Sales expense of \$35,917 and 23.7% is due primarily to the community grants being about \$25,000 less in 2009 than in 2008.

Balance Sheet:

	<u>2009</u>	<u>Percent</u>	<u>2008</u>	<u>Percent</u>
Assets				
Total electric plant	\$ 78,822,752		\$ 73,645,961	
Accumulated provision for depr	<u>(20,167,501)</u>		<u>(20,334,928)</u>	
Net electric plant	58,655,251	80.1%	53,311,033	73.5%
Notes receivable	427,850	0.6%	485,202	0.7%
Bond fund accounts	5,768,845	7.9%	5,768,845	8.6%
Current assets	7,531,852	10.3%	8,515,403	11.0%
Other assets and deferred chgs	<u>876,633</u>	<u>1.2%</u>	<u>4,497,711</u>	<u>6.2%</u>
Total assets	<u>\$ 73,260,431</u>	<u>100.0%</u>	<u>\$ 72,578,194</u>	<u>100.0%</u>
Liabilities & Net Assets				
Net assets	\$ 43,440,477	59.3%	\$ 42,088,599	58.0%
Long-term debt	23,878,353	32.5%	24,903,706	34.2%
Current liabilities	5,635,180	7.7%	5,445,029	7.5%
Deferred credits & other liab	<u>306,421</u>	<u>0.4%</u>	<u>140,860</u>	<u>0.2%</u>
Total Liabilities & Net Assets	<u>\$ 73,260,431</u>	<u>100.0%</u>	<u>\$ 72,578,194</u>	<u>100.0%</u>

The balance sheet shows an increase in Net electric plant of \$5.3 million. The capitalization of the automated meter reading project accounts for \$3.7 million of this, with normal construction accounting for the remainder. Current assets decreased just under \$1 million as the 2008 bond proceeds were spent on construction of plant. Other assets and deferred charges decreased \$3.6 million, and again, the capitalization of the automated meter reading was \$3.7 million of this. Long-term debt decreased just over \$1 million as we paid off normal debt maturities with no new debt.

Capital Assets

The District's investment in net electric plant as of December 31, 2009 amounted to \$58,655,251, net of accumulated depreciation. This represents 80.1% of total assets. Investment in electric plant includes land, structures, improvements, station equipment, poles, conductor, meters and transformers.

Long Term Debt

As of December 31, 2009, the District had debt outstanding of \$23,878,353. Of this amount, \$6,810,000 is from the 1998 bond sale, \$6,195,705 is from the 2008 bond sale, and \$10,872,648 consists of revenue certificates of indebtedness, issued in lieu of bonds for loans from the Rural Utilities Service.

Next Year's Budget

The 2010 budget forecasts higher sales revenue due to the discontinuation of the 10% Discount. Power supply costs increase from 2009 with BPA's 7% wholesale rate increase effective October 2009. Operating expenses overall increase similar to prior years. The major construction projects include the Ice Hill underground – phase 2 budgeted for \$650,000 and the rebuild of Resort Drive budgeted for \$350,000. All projects will be performed by District employees with the exception of the transmission projects for Oceanside and Neskowin.

A refinancing – or current refunding - of \$7.135 million of the 1998 bond issue was budgeted for, and was completed in March 2010. An RUS loan of \$7 million is budgeted for 2010. This amount represents the first half of the \$14 million RUS loan.

Five Year Comparison, stated in percentage of total operating revenue

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:					
Thousands of dollars	\$ 30,135	\$ 28,840	\$ 28,342	\$ 28,850	\$ 28,256
Percent	100.0%	100.0%	100.0%	100.0%	100.0%
Deduct:					
Cost of power	49.0%	40.3%	50.4%	52.3%	52.6%
Other operating expenses	44.2%	43.6%	42.4%	40.4%	42.2%
Net operating revenues	6.8%	16.1%	7.2%	7.3%	5.2%
Interest and other income	0.4%	1.1%	1.3%	1.6%	1.1%
Total net operating revenues, interest and other income	7.2%	17.2%	8.5%	8.9%	6.3%
Deduct:					
Interest and other charges	2.7%	3.3%	2.9%	2.9%	3.4%
Net Income	4.5%	13.9%	5.6%	6.0%	2.9%

Five Year Comparison of Financial Ratios

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Times Interest Earned Ratio (TIER):					
<i>Measures the extent to which earnings are adequate to meet the annual interest costs for bonds and certificates</i>					
<i>R.U.S. minimum is 1.25</i>					
Net Income	\$ 1,351,878	\$ 3,995,485	\$ 1,624,477	\$ 1,763,685	\$ 812,942
Add Interest expense	816,693	968,721	819,240	813,699	710,559
Rate stabilization fund (RSF) transfers	-	(1,500,000)	-	-	-
Subtotal	2,168,571	3,464,206	2,443,717	2,577,384	1,523,501
Divide by interest expense	816,693	968,721	819,240	813,699	710,559
TIER	2.66	3.58	2.98	3.17	2.14

Operating TIER:

Same as TIER above, except uses Net operating revenue instead of Net income

R.U.S. minimum is 1.10

Net oper rev (net of RSF tsfrs)	\$ 2,053,883	\$ 3,139,287	\$ 2,068,935	\$ 2,113,804	\$ 1,209,386
Divide by interest expense	816,693	968,721	819,240	813,699	710,559
Operating TIER	2.51	3.24	2.53	2.60	1.70

Debt Service Coverage (DSC):

Measures the District's ability to cover its debt service for bonds and certificates

R.U.S. minimum is 1.25

Net Income	\$ 1,351,878	\$ 3,995,485	\$ 1,624,477	\$ 1,763,685	\$ 812,942
Add interest expense	816,693	968,721	819,240	813,699	710,559
Add depreciation expense	2,030,529	1,958,724	1,759,776	1,732,213	1,647,211
RSF transfers	-	(1,500,000)	-	-	-
Subtotal	4,199,100	5,422,930	4,203,493	4,309,597	3,170,712
Divide by debt svc maturities	1,841,871	1,937,157	1,530,790	1,500,127	1,288,524
DSC	2.28	2.80	2.75	2.87	2.46

Operating DSC:

Same as DSC above, except uses Net operating revenue instead of Net income

Net operating revenue	\$ 2,053,883	\$ 3,139,287	\$ 2,068,935	\$ 2,113,804	\$ 1,209,386
Add depreciation expense	2,030,529	1,958,724	1,759,776	1,732,213	1,647,211
RSF transfers	-	(1,500,000)	-	-	-
Subtotal	4,084,412	3,598,011	3,828,711	3,846,017	2,856,597
Divide by debt svc maturities	1,841,871	1,937,157	1,530,790	1,500,127	1,288,524
Operating DSC	2.22	1.86	2.50	2.56	2.22

Equity Level:

Represents how much the customer has furnished of the total assets as compared to the portion borrowed

Net assets	\$ 43,440,477	\$ 42,088,599	\$ 38,093,114	\$ 36,468,637	\$ 34,704,952
Total assets	73,260,431	72,578,194	64,041,861	62,365,232	61,938,924
Equity Level	59.3%	58.0%	59.5%	58.5%	56.0%

Working Capital

The amount of current assets above current liabilities

Current assets	\$ 7,531,852	\$ 8,515,403	\$ 4,467,523	\$ 7,897,429	\$ 9,321,315
less current liabilities	5,635,180	5,445,029	6,529,010	5,803,012	6,141,562
Working capital	1,896,672	3,070,374	-2,061,487	2,094,417	3,179,753

(Continues)

Five Year Comparison of Financial Ratios (Continued)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current Ratio:					
<i>Current assets compared to current liabilities</i>					
Current assets	\$ 7,531,852	\$ 8,515,403	\$ 4,467,523	\$ 7,897,429	\$ 9,321,315
Current liabilities	5,635,180	5,445,029	6,529,010	5,803,012	6,141,562
Current ratio	1.34	1.56	0.68	1.36	1.52
Rate of Return					
<i>Net income as a percentage of net utility plant</i>					
Net income	\$ 1,351,878	\$ 3,995,485	\$ 1,624,477	\$ 1,763,685	\$ 812,942
Net utility plant	58,655,251	53,311,033	51,302,504	48,258,503	45,720,456
Rate of Return	2.3%	7.5%	3.2%	3.7%	1.8%

FINANCIAL STATEMENTS

EXHIBIT A

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Assets</u>	December 31,	
	<u>2009</u>	<u>2008</u>
Electric plant: (Notes 1 and 2)		
In service - at cost	\$ 75,719,795	\$ 71,102,096
Acquisition adjustment	(126,384)	(126,384)
Construction work in progress	3,229,341	2,670,249
Total electric plant	78,822,752	73,645,961
Less:		
Accumulated provision for depreciation	(20,167,501)	(20,334,928)
Net electric plant	58,655,251	53,311,033
Notes receivable	427,850	485,202
Bond fund accounts: (Notes 1 and 3)		
Cash and investments:		
Reserve fund	2,268,845	2,268,845
Rate stabilization fund	3,500,000	3,500,000
Total bond fund accounts	5,768,845	5,768,845
Current assets:		
Cash and investments: (Notes 1 and 3)		
Cash and cash equivalents	2,748,022	2,902,540
Principal redemption fund	580,552	497,498
Special deposits related to bond interest	139,627	227,307
Accounts receivable (net of allowance for doubtful accounts of \$186,879 and \$188,465, respectively)	2,561,583	2,911,449
Interest receivable	2,271	28,811
Materials and supplies, at average cost	1,104,705	1,517,893
Prepayments	395,092	429,905
Total current assets	7,531,852	8,515,403
Other assets and deferred charges:		
Other deferred charges (Notes 1 and 4)	876,633	4,497,711
Total assets	\$ 73,260,431	\$ 72,578,194

The accompanying notes are an integral part of this statement.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Balance Sheet

<u>Net Assets and Liabilities</u>	December 31,	
	<u>2009</u>	<u>2008</u>
Net Assets:		
Invested in capital assets - net of related debt	\$ 33,738,012	\$ 27,453,440
Restricted for rate stabilization fund	3,500,000	3,500,000
Restricted for bond debt service	2,849,397	2,766,343
Unrestricted	<u>3,353,068</u>	<u>8,368,816</u>
Total net assets	<u>43,440,477</u>	<u>42,088,599</u>
Long-term debt: (Note 5)		
Revenue bonds, less current maturities	12,940,000	13,440,000
RUS revenue certificates of indebtedness, less current maturities	10,872,648	11,395,145
Unamortized revenue bond premium	<u>65,705</u>	<u>68,561</u>
Total long-term debt	<u>23,878,353</u>	<u>24,903,706</u>
Current liabilities:		
Current maturities of long-term debt (Note 5)	1,038,886	953,887
Accounts payable	2,659,556	2,760,762
Customer deposits	253,232	230,174
Accrued interest	139,627	227,307
Accrued vacation pay	650,118	638,419
Other accruals	<u>893,761</u>	<u>634,480</u>
Total current liabilities	<u>5,635,180</u>	<u>5,445,029</u>
Commitments (Note 10)		
Other liabilities and deferred credits:		
Deferred credits (Note 1)	<u>281,421</u>	<u>115,860</u>
Operating reserves:		
Reserve for state unemployment compensation	<u>25,000</u>	<u>25,000</u>
Total net assets and liabilities	<u>\$ 73,260,431</u>	<u>\$ 72,578,194</u>

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Statement of Revenues, Expenses and
Changes in Net Assets

	Years Ended December 31,	
	2009	2008
Operating revenues:		
Sales of electricity:		
Residential:		
Urban and rural	\$ 13,898,001	\$ 13,259,599
Secondary	4,145,655	4,111,728
Commercial:		
Small	5,442,224	5,195,316
Large	5,927,819	5,569,173
Area lighting	266,662	266,492
Public lighting	115,991	109,486
Other operating revenues	338,325	328,074
Total operating revenues	<u>30,134,677</u>	<u>28,839,868</u>
Operating expenses:		
Cost of power	14,758,958	11,635,767
Distribution expense:		
Operation	2,988,352	2,986,644
Maintenance	2,912,666	2,033,292
Customer accounts expense	940,907	1,058,709
Customer service and informational expense	630,634	544,833
Sales expense	115,855	151,772
Administrative and general expense	3,008,440	3,182,502
Depreciation	2,030,529	1,958,724
Taxes	694,453	648,338
Total operating expenses	<u>28,080,794</u>	<u>24,200,581</u>
Net operating revenues	2,053,883	4,639,287
Interest and other income	115,248	321,677
Total net operating revenues, interest and other income	<u>2,169,131</u>	<u>4,960,964</u>
Interest and other charges:		
Interest on long-term debt:		
Bonds and certificates	816,693	968,721
Less amount charged to construction	(31,200)	(32,882)
Amortization of debt premium, discount, expense and loss	31,760	29,640
Total interest and other charges	<u>817,253</u>	<u>965,479</u>
Net income	1,351,878	3,995,485
Net assets - beginning of year	<u>42,088,599</u>	<u>38,093,114</u>
Net assets - end of year	<u>\$ 43,440,477</u>	<u>\$ 42,088,599</u>

The accompanying notes are an integral part of this statement.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Statement of Cash Flows

	Years Ended December 31,	
	2009	2008
Cash flows from operating activities:		
Cash received from customers	\$29,624,800	\$28,641,060
Cash payments for purchased power	(13,447,438)	(12,395,548)
Cash payments to suppliers for goods and services	(6,711,758)	(7,738,467)
Cash payments to employees for services	(4,390,493)	(4,779,118)
Net cash provided by operating activities	<u>5,075,111</u>	<u>3,727,927</u>
Cash flows from capital and related financing activities:		
Bond proceeds (including premium of \$70,942)	-	6,695,942
Bond issuance costs	(5,240)	(257,078)
Principal payments on bonds and certificates of indebtedness	(937,498)	(926,640)
Interest payments on long-term debt, net of amount capitalized	(873,173)	(977,635)
Construction and acquisition of plant	(3,191,165)	(4,799,012)
Plant removal costs	(510,309)	(366,770)
Materials salvaged from retirements	149,749	331,143
Increase in miscellaneous deferred charges	(65,759)	(30,477)
Net cash used in capital and related financing activities	<u>(5,433,395)</u>	<u>(330,527)</u>
Cash flows from investing activities:		
Net decrease-(increase) in:		
Notes receivable	57,352	113,142
Bond fund accounts	-	(1,939,562)
Principal redemption fund	(83,054)	(858)
Special deposits related to bond interest	87,680	41,796
Interest and other income	<u>141,788</u>	<u>320,641</u>
Net cash provided by-(used in) investing activities	<u>203,766</u>	<u>(1,464,841)</u>
Net increase-(decrease) in cash and cash equivalents	(154,518)	1,932,559
Cash and cash equivalents - beginning of year	<u>2,902,540</u>	<u>969,981</u>
Cash and cash equivalents - end of year	<u>\$ 2,748,022</u>	<u>\$ 2,902,540</u>

The accompanying notes are an integral part of this statement.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Statement of Cash Flows

	Years Ended December 31,	
	2009	2008
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenues	<u>\$ 2,053,883</u>	<u>\$ 4,639,287</u>
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation	2,030,529	1,958,724
Decrease-(increase) in:		
Accounts receivable	349,866	(1,092,079)
Materials and supplies	413,188	(428,047)
Prepayments	34,813	(125,526)
Increase-(decrease) in:		
Accounts payable	(101,206)	(1,148,730)
Customer deposits	23,058	10,470
Accrued vacation pay	11,699	(19,696)
Other accruals	<u>259,281</u>	<u>(66,476)</u>
Total adjustments	<u>3,021,228</u>	<u>(911,360)</u>
Net cash provided by operating activities	<u>\$ 5,075,111</u>	<u>\$ 3,727,927</u>
Noncash investing, capital and financing activities:		
Other deferred charges	\$ 34,616	\$ 32,021
Unamortized revenue bond premium	(2,856)	(2,381)
Amortization of debt premium, discount, expense and loss	<u>(31,760)</u>	<u>(29,640)</u>
Total noncash investing, capital and financing activities	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2009, and 2008

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Tillamook People's Utility District is a municipal corporation organized under Oregon Revised Statutes Chapter 261. The District is a power distribution utility serving patrons in almost all of Tillamook County and small portions of Yamhill and Clatsop counties. The District's Board of Directors has the authority to set rates and charges for services furnished. Substantially all revenues are derived from the sale of electric power to residential and commercial customers.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. 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. Significant policies are described below.

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.

Reporting Entity - The financial statements of the District include all financial activities for which the Board of Directors is financially accountable. The District has no component units.

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. Sales of electricity are generally recognized on the basis of billings and are recorded when customers are billed.

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.

Electric Plant - Electric plant is recorded at cost. The cost of additions, renewals and replacements of property is added to plant, and repairs and maintenance of property is charged to expense. The District capitalizes an allowance for funds used during construction equivalent to the interest cost incurred to finance plant under construction. Property units renewed or replaced are removed from plant at their estimated cost. The cost of plant retired, plus removal cost, less salvage, is charged to the depreciation reserve.

Investments – Investments are carried at fair value.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2009, and 2008

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

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. Cash and investments which are restricted for debt service are not considered to be cash equivalents.

Deferred Items - Established utility accounting procedures permit deferral of items which affect the time at which various items enter into the determination of net income.

Additional significant accounting policies are summarized in Note 2.

2 - ELECTRIC PLANT AND DEPRECIATION PROCEDURES:

Electric plant activity for the year ended December 31, 2009 was as follows:

	Balance January 1, 2009	Increases	Decreases	Balance December 31, 2009
Electric plant not being depreciated:				
Land	\$ 972,460	\$ 627	\$ -	\$ 973,087
Intangible plant	556	-	-	556
Construction in progress	2,670,249	2,495,554	1,936,462	3,229,341
Total electric plant not being depreciated	3,643,265	2,496,181	1,936,462	4,202,984
Electric plant being depreciated:				
Transmission and distribution	60,859,800	6,073,056	1,970,340	64,962,516
General	9,269,280	698,381	184,025	9,783,636
Total electric plant being depreciated	70,129,080	6,771,437	2,154,365	74,746,152
Less accumulated depreciation	20,334,928	2,030,529	2,197,956	20,167,501
Total electric plant being depreciated, net	49,794,152	4,740,908	(43,591)	54,578,651
Acquisition adjustment	(126,384)	-	-	(126,384)
Electric plant, net	<u>\$ 53,311,033</u>	<u>\$ 7,237,089</u>	<u>\$ 1,892,871</u>	<u>\$ 58,655,251</u>

Provision has been made for depreciation of transmission plant at a straight-line annual composite rate of 2.75 percent in 2009 and 2008. Provision has been made for depreciation of distribution plant at straight-line annual composite rates of 1.8 to 14.4 percent in 2009 and 2008. General plant depreciation rates have been applied on a straight-line basis with annual rates of 3.0 to 14.4 percent in 2009 and 2008.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2009, and 2008

3 - CASH AND INVESTMENTS:

Cash and investments are comprised of the following as of December 31, 2009, and 2008:

	<u>2009</u>	<u>2008</u>
Working funds	\$ 1,450	\$ 1,000
Deposits with financial institutions	3,946,022	7,661,811
Investments	<u>5,289,574</u>	<u>1,733,379</u>
Total cash and investments	<u>\$9,237,046</u>	<u>\$9,396,190</u>

Deposits

Deposits with financial institutions include bank demand and time certificate deposits. The total bank balance, as shown on the banks' records, was \$4,011,107 at December 31, 2009, and \$7,787,285 at December 31, 2008. Of these deposits, the total covered by federal depository insurance was \$1,106,308 at December 31, 2009, and \$1,000,902 at December 31, 2008.

Effective July 1, 2008, the Oregon State Treasurer became 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, \$2,904,799 was exposed to custodial credit risk as of December 31, 2009, and \$6,786,383 was exposed to custodial credit risk as of December 31, 2008, because collateral for deposits covered by the state collateral pool is not held by a 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.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2009, and 2008

3 - CASH AND INVESTMENTS: (Contd)

Investments (Contd)

The composition of the District's investments as of December 31, 2009, and 2008, is shown below:

	2009		2008	
	Fair Value	Percent	Fair Value	Percent
U.S. Government agencies securities:				
Federal Home Loan Bank	\$ -	0.0%	\$ 200,590	11.6%
U.S. Treasury Obligations	2,598,208	49.1%	-	0.0%
Investment in Oregon Local Government Investment Pool	2,691,366	50.9%	1,532,789	88.4%
Total investments	<u>\$ 5,289,574</u>	<u>100.0%</u>	<u>\$ 1,733,379</u>	<u>100.0%</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 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 December 31, 2009 were: 64% mature within 93 days, 13% mature from 94 days to one year, and 23% mature from one to three years. Weighted average maturities of investments in the Oregon Short-Term Fund at December 31, 2008 were: 67% mature within 93 days, 16% mature from 94 days to one year, and 17% mature from one to three years.

Investments in U.S Government agencies securities consist of U.S. Government instrumentalities which are generally rated AAA by Standard & Poor's and/or Aaa by Moody's. The District's investments in U.S. Government securities consist of U.S. Treasury securities which do not require a rating. As of December 31, 2009, and 2008, all of these investments mature in less than one year.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2009, and 2008

3 - CASH AND INVESTMENTS: (Contd)

Investments (Contd)

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The securities underlying the District's investment in the U.S. Government and agencies securities are held by the District's counterparty, not in the District's name.

Cash and investments as of December 31, 2009, and 2008, are presented on the balance sheet as follows:

	<u>2009</u>	<u>2008</u>
Bond fund accounts:		
Reserve fund	\$ 2,268,845	\$ 2,268,845
Rate stabilization fund	3,500,000	3,500,000
Cash and cash equivalents	2,748,022	2,902,540
Principal redemption fund	580,552	497,498
Special deposits related to bond interest	139,627	227,307
Total cash and investments	<u>\$ 9,237,046</u>	<u>\$ 9,396,190</u>

The District created a rate stabilization fund as permitted by the District's bond resolution and is funding it from unrestricted cash and investments. The resolution allows the District to use amounts in this fund for its debt service coverage calculation as defined in the District's bond resolution.

4 - DETAIL OF OTHER DEFERRED CHARGES:

Following is a summary of amounts recorded as other deferred charges as of December 31, 2009, and 2008:

	<u>2009</u>	<u>2008</u>
Unamortized debt discount and expense	\$ 429,990	\$ 445,778
Unamortized loss on reacquisition of debt	243,460	257,048
Automated meter reading	-	3,657,461
Long range plan	25,150	50,470
Other	178,033	86,954
Total deferred charges	<u>\$ 876,633</u>	<u>\$4,497,711</u>

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2009, and 2008

5 - LONG-TERM DEBT:

Bonds and Certificates

Authority to issue revenue bonds is granted to the District under the provisions of Chapter 261, Oregon Revised Statutes. Revenue certificates of indebtedness have been issued in lieu of bonds for loans obtained from the Rural Utilities Service. Long-term debt covenants specify that District revenues are pledged for the retirement of long-term debt. The proceeds of all bonds and certificates were used for construction and acquisition of capital assets.

At December 31, 2009, bonds and certificates payable consist of the following:

Electric System Revenue Bonds:	
Series 1998	\$ 7,135,000
Series 2008	<u>6,305,000</u>
Total electric system revenue bonds	<u>13,440,000</u>
RUS revenue certificates of indebtedness:	
5% loans	1,761,000
variable rate loans	<u>9,650,534</u>
Total RUS revenue certificates of indebtedness	<u>11,411,534</u>
Total bonds and certificates payable	24,851,534
Less current maturities	<u>1,038,886</u>
Long-term debt	<u><u>\$23,812,648</u></u>

The Electric System Revenue Bonds, Series 1998, are due annually through December 1, 2027, with interest at 4.15% to 4.75% per annum payable semi-annually on June 1 and December 1.

The Electric System Revenue Bonds, Series 2008, are due annually through December 1, 2032, with interest at 3.00% to 4.00% per annum payable semi-annually on June 1 and December 1.

The RUS revenue certificates of indebtedness are due semi-annually or annually with interest at 5% per annum or a variable rate with a maximum rate of 7% per annum.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2009, and 2008

5 - LONG-TERM DEBT: (Contd)

Bonds and Certificates (Contd)

Principal and interest activity during the year was as follows:

	<u>Principal</u>		<u>Interest</u>	
	<u>Outstanding 1-1-2009</u>	<u>Matured and paid</u>	<u>Outstanding 12-31-2009</u>	<u>Matured and paid</u>
Revenue bonds	\$ 13,920,000	\$ 480,000	\$ 13,440,000	\$ 597,295
Certificates of indebtedness	<u>11,869,032</u>	<u>457,498</u>	<u>11,411,534</u>	<u>307,078</u>
Totals	<u>\$25,789,032</u>	<u>\$ 937,498</u>	<u>\$ 24,851,534</u>	<u>\$ 904,373</u>

Scheduled future maturities of principal and interest are as follows:

<u>Year</u>	<u>Electric System Revenue Bonds</u>		<u>RUS Revenue Certificates of Indebtedness</u>		<u>Totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 500,000	\$ 577,780	\$ 538,886	\$ 415,224	\$ 1,038,886	\$ 993,004
2011	520,000	559,042	533,469	542,138	1,053,469	1,101,180
2012	540,000	537,563	513,849	516,556	1,053,849	1,054,119
2013	565,000	515,252	534,237	490,858	1,099,237	1,006,110
2014	585,000	491,913	519,895	464,961	1,104,895	956,874
2015-19	3,330,000	2,064,125	2,544,413	1,944,455	5,874,413	4,008,580
2020-24	3,755,000	1,268,965	2,777,047	1,288,040	6,532,047	2,557,005
2025-29	2,460,000	544,385	3,174,738	524,332	5,634,738	1,068,717
2030-32	<u>1,185,000</u>	<u>102,000</u>	<u>275,000</u>	<u>19,425</u>	<u>1,460,000</u>	<u>121,425</u>
Totals	<u>\$ 13,440,000</u>	<u>\$ 6,661,025</u>	<u>\$ 11,411,534</u>	<u>\$ 6,205,989</u>	<u>\$ 24,851,534</u>	<u>\$ 12,867,014</u>

Scheduled interest maturities for RUS variable rate loans are based on the maximum rate of seven percent per annum, except for the 23rd Series. The 23rd Series are equal payment loans and scheduled principal and interest maturities are based on an estimated variable rate provided by RUS.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2009, and 2008

6 - RETIREMENT PLAN:

Plan Description

The District participates in the State of Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer pension plan which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The system is a statewide defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. PERS is administered under Oregon Revised Statutes Chapter 238 and Chapter 238A by the Public Employees Retirement Board. Participation by state government units, school districts, and community colleges is mandatory. Participation by most political subdivisions is optional but irrevocable if elected. A stand-alone financial report is not available for the District. However, the State of Oregon Public Employees Retirement System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, 11410 S.W. 68th Parkway, P.O. Box 23700, Tigard, Oregon 97281-3700 or by calling (503) 598-PERS.

Funding Policy

PERS members are required to contribute 6% of their annual covered salary. The District is required to contribute an actuarially determined rate. The current rate is 7.36% of annual covered payroll for member employees of the State and Local Government Rate Pool. The current rate is 8.55% of annual covered payroll for member employees of the Oregon Public Service Retirement Plan. The District contributes the employer's portion and the employee's portion for all employees. The contribution requirements of plan members and the District are established and may be amended by the Public Employees Retirement Board. The District's contributions to PERS for the years ended December 31, 2009, 2008, and 2007 were \$593,388, \$680,877 and \$664,012, respectively, equal to the required contributions each year.

7 - POST-EMPLOYMENT HEALTH CARE BENEFITS:

Plan Description

The District administers a single-employer defined benefit healthcare plan. The plan provides postretirement healthcare benefits for eligible retirees until the retiree turns 65 or has received the subsidy for 5 years. Benefit provisions are established through District policy. The District's post-employment health care plan does not issue a publicly available financial report. The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions for the year ending December 31, 2008.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2009, and 2008

7 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (Contd)

Funding Policy

Contribution requirements are established through District policy. Retirees and their dependents are eligible to receive the same medical and dental coverage as active employees. \$350 of the monthly medical premium is paid by the employer. The retiree is responsible for the dental premiums. No spousal coverage is paid for by the employer. Funding is on a pay-as-you-go basis. The District made \$18,701 in contributions to the plan in 2009 and \$29,400 in contributions to the plan in 2008.

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:

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 48,097	\$ 33,582
Interest on net OPEB obligation	188	-
Adjustment to annual required contribution	<u>(529)</u>	<u>-</u>
Annual OPEB cost	47,756	33,582
Contributions made	<u>(18,701)</u>	<u>(29,400)</u>
Increase in net OPEB obligation	29,055	4,182
Net OPEB obligation - beginning of year	<u>4,182</u>	<u>-</u>
Net OPEB obligation - end of year	<u><u>\$ 33,237</u></u>	<u><u>\$ 4,182</u></u>

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

<u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/2009	\$ 47,756	39.2%	\$ 33,237
12/31/2008	\$ 33,582	87.5%	\$ 4,182

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2009, and 2008

7 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (Contd)

Funded Status and Funding Progress

As of August 1, 2008, the actuarial accrued liability for benefits was \$285,126 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$285,126. The covered payroll (annual payroll of active employees covered by the plan) was \$2,434,203 for 2008 and the ratio of the UAAL to the covered payroll was 11.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far 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.

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 August 1, 2008, 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 period. Actuarial assumptions included a discount rate of 4.5% and an annual healthcare cost trend rate of 8% in the first year, 7% in the second year, and grading down to 5.55 in the fifteenth year.

8 - RISK MANAGEMENT:

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 and property 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. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2009, and 2008

9 - 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.

10 - COMMITMENTS:

Power Purchase Agreements

In October 2000, the District executed a Full Service Power Sales Agreement with the Bonneville Power Administration (BPA) for the period October 1, 2001 through September 30, 2011. Wholesale power rates under this agreement are not fixed.

In October 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 are not fixed.

11 – SUBSEQUENT EVENT:

In March 2010, the District issued \$7,390,000 in Electric Revenue Refunding Bonds, Series 2010. The net proceeds were used to refund the \$7,135,000 in outstanding Electric Revenue Refunding Bonds, Series 1998. The District refunded the Series 1998 Bonds to reduce its total debt service payments over the life of the Series 2010 Bonds by \$607,509 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$482,014.

REQUIRED SUPPLEMENTARY INFORMATION

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Funding Progress for Retiree Health Plan

	Actuarial Valuation Date	Actuarial Valuation Date
	<u>8-1-2008</u>	<u>8-1-2006</u>
Actuarial value of assets (a)	\$ -	\$ -
Actuarial accrued liability (b)	<u>285,126</u>	<u>251,878</u>
Unfunded actuarial accrued liability (b-a)	<u>\$ 285,126</u>	<u>\$ 251,878</u>
Funded ratio (a/b)	<u>0%</u>	<u>0%</u>
Covered payroll (c)	<u>\$ 2,434,203</u>	<u>\$ 6,759,924</u>
Unfunded actuarial accrued liability as a percentage of covered payroll ((b-a)/c)	<u>11.7%</u>	<u>3.7%</u>

OTHER SUPPLEMENTARY INFORMATION

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Changes in Electric Plant in Service
Year Ended December 31, 2009

	Balance 1/1/2009	Additions	Retirements	Balance 12/31/2009
Intangible plant:				
Miscellaneous intangible plant	\$ 556	\$ -	\$ -	\$ 556
Transmission and distribution plant:				
Land and land rights	616,483	627	-	617,110
Roads and trails	47,128	-	-	47,128
Structures and improvements	6,250	-	6,250	-
Station equipment	11,603,787	717,492	1,531,947	10,789,332
Poles, towers and fixtures	8,177,507	731,868	98,083	8,811,292
Overhead conductors and devices	11,859,629	800,818	98,983	12,561,464
Underground conduit	1,273,283	43,395	4,172	1,312,506
Underground conductors and devices	6,876,664	438,539	727	7,314,476
Transformers, regulators and capacitors	13,652,218	299,704	139,167	13,812,755
Services	6,037,232	40,459	35,902	6,041,789
Meters and devices	950,338	2,986,577	48,522	3,888,393
Installations on customers' premises	219,253	5,442	1,795	222,900
Street lighting equipment	203,639	8,762	4,792	207,609
Total transmission and distribution plant	61,523,411	6,073,683	1,970,340	65,626,754
General plant:				
Land and land rights	308,849	-	-	308,849
Structures and improvements	3,803,709	52,752	-	3,856,461
Office furniture and equipment	94,142	-	-	94,142
Computer equipment	236,381	57,279	-	293,660
Transportation equipment	3,937,917	450,434	184,025	4,204,326
Stores equipment	74,414	-	-	74,414
Shop equipment	205,358	-	-	205,358
Laboratory equipment	151,443	-	-	151,443
Heavy work equipment	35,139	-	-	35,139
Communications equipment	382,306	61,404	-	443,710
Miscellaneous equipment	348,471	76,512	-	424,983
Total general plant	9,578,129	698,381	184,025	10,092,485
Total electric plant in service	\$ 71,102,096	\$ 6,772,064	\$ 2,154,365	\$ 75,719,795

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Bonds and Certificates Debt Service Transactions
Year Ended December 31, 2009

	Interest Rates	Original Issue	Principal Transactions			Interest Transactions				
			Outstanding 1/1/2009	2009 Issues	2009 Retirements	Outstanding 12/31/2009	Matured 1/1/2009	2009 Maturities	2009 Payments	Matured 12/31/2009
Electric system revenue bonds:										
22nd series, dated 11/1/98	4.15 - 4.75%	\$ 9,995,000	\$ 7,450,000	\$ -	\$ 315,000	\$ 7,135,000	\$ -	\$ 334,075	\$ 334,075	\$ -
24th series, dated 3/1/08	3.00 - 4.00%	6,625,000	6,470,000		165,000	6,305,000	-	263,220	263,220	-
RUS revenue certificates of indebtedness:										
10th series, dated 10/1/76	5%	965,000	95,000	-	30,000	65,000	-	4,000	4,000	-
11th series, dated 5/1/79	5%	646,000	180,000	-	32,000	148,000	-	8,194	8,194	-
13th series, dated 9/1/80	5%	1,671,000	618,000	-	75,000	543,000	-	28,998	28,998	-
15th series, dated 3/1/83	5%	864,000	420,000	-	30,000	390,000	-	20,227	20,227	-
18th series, dated 11/1/88	5%	993,000	645,000	-	30,000	615,000	-	31,462	31,462	-
20th series, dated 7/1/94	variable	2,920,000	2,470,000	-	55,000	2,415,000	-	60,025	60,025	-
21st series, dated 11/1/96	variable	2,170,000	1,860,000	-	40,000	1,820,000	-	39,092	39,092	-
23rd series, dated 11/1/03	variable	6,125,000	5,581,032		165,498	5,415,534	-	115,080	115,080	-
Total		<u>\$ 32,974,000</u>	<u>\$ 25,789,032</u>	<u>\$ -</u>	<u>\$ 937,498</u>	<u>\$ 24,851,534</u>	<u>\$ -</u>	<u>\$ 904,373</u>	<u>\$ 904,373</u>	<u>\$ -</u>

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Future Bonds and Certificates Debt Service Requirements
December 31, 2009

Year	Electric System Revenue Bonds		RUS Revenue Certificates of Indebtedness		Total Future Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 500,000	\$ 577,780	\$ 538,886	\$ 415,224	\$ 1,038,886	\$ 993,004
2011	520,000	559,042	533,469	542,138	1,053,469	1,101,180
2012	540,000	537,563	513,849	516,556	1,053,849	1,054,119
2013	565,000	515,252	534,237	490,858	1,099,237	1,006,110
2014	585,000	491,913	519,895	464,961	1,104,895	956,874
2015	610,000	467,165	546,831	438,707	1,156,831	905,872
2016	635,000	441,365	460,053	413,911	1,095,053	855,276
2017	665,000	414,285	513,573	389,861	1,178,573	804,146
2018	695,000	385,705	537,403	363,746	1,232,403	749,451
2019	725,000	355,605	486,553	338,230	1,211,553	693,835
2020	755,000	323,725	511,035	313,302	1,266,035	637,027
2021	790,000	290,275	540,859	286,850	1,330,859	577,125
2022	820,000	255,262	566,039	258,859	1,386,039	514,121
2023	860,000	218,920	596,591	229,317	1,456,591	448,237
2024	530,000	180,783	562,523	199,712	1,092,523	380,495
2025	560,000	157,525	588,851	170,153	1,148,851	327,678
2026	580,000	132,940	615,591	139,125	1,195,591	272,065
2027	605,000	107,470	647,757	106,439	1,252,757	213,909
2028	350,000	80,575	680,363	71,904	1,030,363	152,479
2029	365,000	65,875	642,176	36,711	1,007,176	102,586
2030	380,000	50,363	135,000	14,525	515,000	64,888
2031	395,000	34,213	140,000	4,900	535,000	39,113
2032	410,000	17,424	-	-	410,000	17,424
Totals	<u>\$ 13,440,000</u>	<u>\$ 6,661,025</u>	<u>\$ 11,411,534</u>	<u>\$ 6,205,989</u>	<u>\$ 24,851,534</u>	<u>\$ 12,867,014</u>

Scheduled interest maturities for RUS variable rate loans are based on the maximum rate of seven percent per annum, except for the 23rd Series. The 23rd Series are equal payment loans and scheduled principal and interest maturities are based on an estimated variable rate provided by RUS.

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Operating Expenses

	Years Ended December 31,	
	2009	2008
Cost of power	\$14,758,958	\$11,635,767
Distribution expense:		
Operation:		
Station expenses	81,738	68,729
Dispatching	110,981	113,122
Operation of lines	2,172,143	2,252,089
Meter expenses	606,814	545,108
Environmental programs	10,468	73
Rents	6,208	7,523
Total distribution expense - operation	2,988,352	2,986,644
Maintenance:		
Station equipment	86,708	120,520
Overhead and underground lines	2,568,515	1,680,760
Line transformers and devices	175,256	153,900
Meters	19,647	13,662
Street lighting and signal systems	62,540	64,450
Total distribution expense - maintenance	2,912,666	2,033,292
Customer accounts expense:		
Meter reading	149,440	273,171
Customer records and collection	761,545	756,901
Uncollectible accounts	29,922	28,637
Total customer accounts expense	940,907	1,058,709
Customer service and informational expense:		
Customer assistance	406,905	312,327
Informational and instruction expense	223,729	232,506
Total customer service and informational expense	630,634	544,833
Sales expense:		
Demonstration and selling	-	2,329
Advertising	46,792	58,605
Other	69,063	90,838
Total sales expense	115,855	151,772

TILLAMOOK PEOPLE'S UTILITY DISTRICT

Schedule of Operating Expenses

	Years Ended December 31,	
	2009	2008
Administrative and general expense:		
Administrative and general salaries	\$ 1,299,164	\$ 1,200,063
Office supplies and expense	367,679	340,545
Outside services employed	413,282	397,374
Property insurance	82,220	57,420
Injuries and damages	10,382	31,840
Employee pensions and benefits	190,140	199,318
Miscellaneous general expenses	465,964	505,591
Maintenance of general plant	179,609	450,351
Total administrative and general expense	3,008,440	3,182,502
Depreciation:		
Distribution plant	1,826,580	1,738,441
General plant	203,949	220,283
Total depreciation	2,030,529	1,958,724
Taxes:		
Property	673,964	628,782
Oregon Department of Energy Assessment	20,489	19,556
Total taxes	694,453	648,338
Total operating expenses	\$28,080,794	\$24,200,581

**INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

April 9, 2010

Board of Directors
Tillamook People's Utility District
Tillamook, Oregon

We have audited the financial statements of Tillamook People's Utility District as of and for the year ended December 31, 2009, and have issued our report thereon dated April 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tillamook People's Utility District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition to this report on the internal control over financial reporting and on compliance and other matters, we have issued a management letter as required by the Rural Utilities Service.

This report is intended solely for the information and use of the Board of Directors, management and the Rural Utilities Service and is not intended to be and should not be used by anyone other than these specified parties.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.

INDEPENDENT AUDITOR'S COMMENTS

INDEPENDENT AUDITOR'S COMMENTS

Internal Control

Our report on the District's internal control over financial reporting is presented on pages 30 and 31 of this audit report.

Other Comments and Disclosures

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

- ORS Chapter 295 regarding collateral securing depository balances,
- ORS 294.035 regarding the investment of surplus public funds,
- the legal requirements relating to debt,
- ORS Chapter 279 in the awarding of public contracts and the construction of public improvements.

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

Additionally, we make the following comments:

- Tillamook People's Utility District uses an automated double entry system of accounts. This system and related accounting records are adequate for the needs of the District.
- We have reviewed the following summary of insurance coverage in force at December 31, 2009, as provided by the District, for compliance with legal matters. Since we are not experts in insurance matters, we make no representation as to the adequacy of such coverage.

DESCRIPTION OF INSURANCE COVERAGE

LIMIT OF LIABILITY

Special Districts Association of Oregon

Policy No. 24P42864-384 (1/1/2009 to 1/1/2010)

Property:

Buildings, increased cost of construction,
demolition

\$16,062,022

\$1,000 deductible
per occurrence

DESCRIPTION OF INSURANCE COVERAGELIMIT OF LIABILITY

Property: (Contd)

Business personal property, tenants improvements and betterments, stock, property of others	\$7,019,077
Portable equipment, mobile equipment and other inland marine scheduled items	\$1,266,665
Electronic data processing equipment and media	\$420,240
Newly acquired or newly constructed real property	\$1,000,000
Business interruption	\$1,000,000
Extra expense – including EDP extra expense	\$500,000
Newly acquired personal property	\$500,000
Debris removal – or 25% of loss, whichever is less	\$5,000,000
Demolition and increased cost of construction	\$5,000,000
Rented or leased equipment	\$100,000
Accounts receivable, valuable papers and records, personal property in transit, fine arts, off premises service interruption, personal property in the care, custody or control	\$250,000
Pollutant clean-up	\$25,000
Personal property at unscheduled locations, personal property of employees – in the aggregate, loss adjustment expenses	\$15,000
Computer virus	\$10,000
Money and securities	\$5,000

Liability:

General liability:	\$ 500,000	Each occurrence
Increased limits of liability	<u>9,500,000</u>	
Total limit of liability	<u>\$10,000,000</u>	\$1,000 deductible
Liability under Oregon Statutes based on any tort claim or demand arising out of an alleged act or omission of the public body, its officers, employees or agents in performance of duty to the district.		
Liability under Federal Discrimination and Civil Rights Statutes		
Legal liability under the laws of any state, other than Oregon		
Employee benefits liability	Included	\$1,000 deductible
Public officials liability	Included	\$1,000 deductible
Employment practices liability	Included	\$1,000 deductible
Emergency operations pollution	Included	\$1,000 deductible

DESCRIPTION OF INSURANCE COVERAGELIMIT OF LIABILITY

Liability: (Contd)

Potable water treatment pollution	Included	\$1,000 deductible
Ethics complaint defense	\$2,500	No deductible
BOLI defense costs	\$50,000	No deductible
OSHA defense costs	\$5,000	No deductible
Pollution coverage – (minimum)	\$100,000	\$1,000 deductible
Applicators pollution coverage	\$50,000	\$1,000 deductible
Injunctive relief defense	\$25,000	No deductible
Uninsured/underinsured motorist	\$500,000	No deductible

Automobile liability:	\$10,500,000	No deductible
All owned automobiles		Combined single limit of liability for property damage and bodily injury
Non-owned and hired automobiles		

Automobile physical damage:		
All owned automobiles	per schedule	
Hired automobiles	\$50,000	

Equipment Breakdown Coverage:

Comprehensive boiler, pressure vessel, mechanical and electrical objects including production machines used to supply the named participant		
Property damage limit per accident	\$50,000,000	\$1,000 deductible
Water damage	Included	per occurrence
Computer equipment and media	Included	

Sublimits:

Demolition and inc. cost of construction	\$2,500,000
Newly acquired property	\$5,000,000
Extra expense	\$500,000
Business income – actual loss sustained	\$1,000,000
Ordinance or law (increased cost of const.)	\$2,500,000
Contingent business income	\$1,000,000
Expediting expense	\$10,000,000
Hazardous substance	\$1,000,000
Perishable goods	\$500,000
Ammonia contamination	\$250,000
Data restoration	\$1,000,000
Portable generators	\$10,000
Service interruption with 24 hour waiting period	\$500,000

Earthquake Extension:

Direct physical loss to covered property on or at covered location(s) caused by earthquake, (including after shocks) landslide, subsidence, sinkhole collapse or volcanic eruption.	\$24,758,004	2% deductible
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DESCRIPTION OF INSURANCE COVERAGE

LIMIT OF LIABILITY

**Special Districts Association of Oregon/Travelers Casualty and
Surety Company of America**

Policy No. 103501149 (1/1/2009 to 1/1/2010)

Comprehensive Crime:		\$1,000 deductible
Public employee dishonesty coverage	\$500,000	
Faithful performance of duty	\$100,000	
Forgery or alteration coverage	\$500,000	
Theft, disappearance and destruction coverage:		
Inside premises	\$500,000	
Outside premises	\$500,000	
Computer fraud coverage	\$25,000	

Special Districts Association of Oregon

Policy No. 24W42864-216 (6/30/2009 to 6/30/2010)

Workers' Compensation:		
Per occurrence coverage A – workers' compensation		Statutory
Per occurrence coverage B – employer's liability		\$1,000,000

COMMENDATION

The cooperation and assistance extended by the officers and employees of the District during the audit was very commendable and is sincerely appreciated.