



Eugene Water & Electric Board

.....
Independent Auditor's Reports
.....
and Financial Statements
.....

December 31, 2016 and 2015

TABLE OF CONTENTS

Board of Commissioners and Officers	1
Report of Independent Auditors.....	2 – 4
Management’s Discussion and Analysis	5 – 21
Financial Statements	
Statements of net position	22 – 23
Statements of revenues, expenses and changes in net position.....	24 – 25
Statements of cash flows.....	26 – 28
Notes to financial statements	29 – 77
Required supplementary information.....	78 – 79
Supplementary Information	
Sustainability Accounting Standards Disclosures.....	80 – 81
Electric System long-term bonded debt and interest payment requirements, including current portion (unaudited)	82 – 83
Water System long-term bonded debt and interest payment requirements, including current portion (unaudited).....	84 – 85
Electric system analysis of certain restricted cash and investments for debt service (unaudited).....	86
Water system analysis of certain restricted cash and investments for debt service (unaudited).....	87
Audit Comments	
Report of independent auditors on compliance on internal controls over financial reporting based on an audit of financial statements performed in accordance with <i>Oregon Audit Standards</i>	88 – 89

This page intentionally left blank

Eugene Water & Electric Board

Board of Commissioners

Mr. John Simpson, “At Large,” President

Mr. Dick Helgeson, Wards 2 & 3, Vice-president

Mr. John Brown, Wards 4 & 5, Member

Mr. Steve Mital, Wards 1 & 8, Member

Mr. James Manning, Wards 6 & 7, Member

Officers

Mr. Frank Lawson, General Manager, Secretary

Ms. Anne Kah, Assistant Secretary

Ms. Susan Fahey, Treasurer

Ms. Susan Eicher, Assistant Treasurer

This page intentionally left blank

REPORT OF INDEPENDENT AUDITORS

The Board of Commissioners
Eugene Water & Electric Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric System, Water System and Combined Total Systems of Eugene Water & Electric Board (the "Board"), which comprise the individual and combined statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

REPORT OF INDEPENDENT AUDITORS (continued)

Opinions

In our opinion, the individual and combined financial statements referred to above present fairly, in all material respects, the financial position of the Board as of December 31, 2016 and 2015, and the results of its individual and combined operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's financial statements. The Electric System and Water System long-term bonded debt and interest payment requirements (including current portion) schedules and the Electric System and Water System analysis of certain restricted cash and investments for debt service schedules and sustainability accounting standards disclosures ("supplementary information") are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

REPORT OF INDEPENDENT AUDITORS (continued)

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated March 10, 2017, on our consideration of the Board's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

A handwritten signature in blue ink that reads "Julius D. Simon". The signature is cursive and includes a long horizontal flourish at the end.

For Moss Adams LLP
Portland, Oregon
March 10, 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following discussion provides an overview of the financial results of the Eugene Water & Electric Board (EWEB) for the years ended 2016, 2015, and 2014. This unaudited discussion is intended to be used in conjunction with the financial statements and note disclosures following this section.

EWEB is the largest publicly owned electric and water utility in Oregon. The City of Eugene commenced utility operations in 1908 with the purchase of a privately owned water system. In 1911, upon completion of the City’s first municipal hydroelectric power plant, the City organized the Eugene Water Board to operate the City’s electric and water utilities. The name of the Eugene Water Board was changed to the Eugene Water & Electric Board in 1949.

EWEB is chartered by the City of Eugene, Oregon (the City) and supplies electric and water service within the city limits of Eugene and to certain areas outside the city limits. EWEB operates as a primary government, and is not considered a component unit of the City. EWEB is governed by a five member Board of Commissioners who are elected by voters residing in the City. The Board of Commissioners has authority to set prices for water and electric services. Prices are set based on the cost of service delivery, including operating, capital, and debt service expenses.

The Statements of Net Position report assets, deferred outflows, liabilities, deferred inflows and net position as of the end of the financial year, December 31. The Statements of Revenues, Expenses and Changes in Net Position report revenues and expenses occurring during the financial year. The Statements of Cash Flows report cash from operating activities, investing activities, non-capital financing activities as well as capital and related financing activities.

Electric System

The Electric System supplies service to 92,000 residential, commercial, and industrial customers within the 236 square miles encompassing the City of Eugene, and certain customers along the McKenzie River between the cities of Walterville and Vida, where EWEB owns generation facilities. The Electric System, owns and operates 1,130 miles of overhead and underground distribution lines, and 129 miles of transmission lines. Power to supply customers is provided by contracts with Bonneville Power Authority (BPA), generation resources owned by EWEB, other contracted resources, and purchases from the wholesale energy markets. Excess power not needed for customer load is sold in the wholesale energy markets.

2016	mWh	
EWEB owned generation	618,954	13%
Contracted generation	2,608,184	54%
Market purchases	<u>1,644,306</u>	<u>34%</u>
	<u>4,871,444</u>	<u>100%</u>

The EWEB power supply resource mix is primarily hydro-power, but also includes wind, biomass, steam, and solar.

MANAGEMENT'S DISCUSSION AND ANALYSIS

During 2016, the Board sold the Smith Creek hydro-power generation facility and entered into a three year power purchase agreement with the new owner. The Smith Creek Hydroelectric Project represented approximately 10% of EWEB owned generation.

2016	mWh	
Hydro-power	2,848,959	58%
Wind	190,824	4%
Steam	69,141	1%
Biomass	118,214	2%
Other market purchases	1,644,306	34%
	<u>4,871,444</u>	<u>100%</u>

Net Operating Revenue

Electric System net operating revenue for 2016 decreased compared to both 2015 and 2014. Decreases were due to economic factors including market prices for power and weather trends.

Electric System - Net Operating Revenue					
			<i>restated</i>	Increase (Decrease)	Increase (Decrease)
(in thousands)	2016	2015	2014	2016/2015	2016/2014
Operating revenue	\$ 245,250	\$ 238,983	\$ 257,170	\$ 6,267	\$ (11,920)
Operating expense	(229,756)	(217,418)	(222,780)	(12,338)	(6,976)
Net operating revenue	<u>\$ 15,494</u>	<u>\$ 21,565</u>	<u>\$ 34,390</u>	<u>\$ (6,071)</u>	<u>\$ (18,896)</u>

Operating Revenue

Operating Revenue varies from year to year based on customer load, generation available for sale, and the market prices for generation available for sale. Residential customers make up approximately 90% of EWEB's customer base and approximately 50% of retail sales.

Recent residential price adjustments have been as follows:

2016 (effective February 2016)	2.5% increase
2015	no change
2014 (effective May 2014)	4.5% increase

Sales to residential customers are variable based on weather trends. Operating revenue from residential customers was impacted by an unusually warm first quarter of 2016, a time when consumption is generally at its peak for the year. The first quarter of 2015 was also warm compared to historical weather trends.

Commercial and industrial sales make up 10% of the EWEB customer base, and approximately 50% of customer revenue. Commercial and industrial sales are more reactive to economic conditions than weather conditions. Commercial and industrial sales have increased compared to both 2015 and 2014, as economic conditions have continued to stabilize from the post 2008 recession years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

While residential sales have remained relatively stable over the past three years, they have struggled to keep pace with the budget assumptions for consumption. 2016 residential consumption fell compared to prior years, due primarily to significantly fewer heating days from January through May.

Commercial and industrial sales have also been relatively stable. During 2016, consumption from commercial and industrial sales was nearly the same as prior years.

(in thousands)	2016	2015	2014	Increase	Increase
				(Decrease)	(Decrease)
				2016/2015	2016/2014
Residential	\$ 94,670	\$ 93,321	\$ 94,554	\$ 1,349	\$ 116
Commercial and industrial	100,193	98,153	97,732	2,040	2,461
	<u>\$ 194,863</u>	<u>\$ 191,474</u>	<u>\$ 192,286</u>	<u>\$ 3,389</u>	<u>\$ 2,577</u>

	2016	2015	2014	Increase	Increase
				(Decrease)	(Decrease)
				2016/2015	2016/2014
Residential	887,738	893,001	919,175	(5,263)	(31,437)
Commercial and industrial	1,482,663	1,484,380	1,492,279	(1,717)	(9,616)
	<u>2,370,401</u>	<u>2,377,381</u>	<u>2,411,454</u>	<u>(6,980)</u>	<u>(41,053)</u>

Power not needed to serve retail load is sold into the wholesale markets. The Electric System has an active hedging program to ensure prices for power sold into the wholesale market do not drop below the amount anticipated in the annual budget. Prices for market sales have reached historic lows, largely due to downward pressure on prices from low cost natural gas powered resources and decreases in the price of oil. When customer load is lower than anticipated, excess power is sold at market prices much lower than retail rates, resulting in lower operating revenue overall.

	2016	2015	2014
Retail sales	\$ 194,863,130	\$ 191,473,612	\$ 192,285,437
Retail volume	2,370,401	2,377,381	2,411,454
Average price per mWh	<u>\$ 82.21</u>	<u>\$ 80.54</u>	<u>\$ 79.74</u>
Wholesale sales	\$ 42,799,209	\$ 38,761,472	\$ 57,729,892
Wholesale volume	1,875,668	1,687,954	1,818,055
Average price per mWh	<u>\$ 22.82</u>	<u>\$ 22.96</u>	<u>\$ 31.75</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Expense

Electric System operating expenses include purchased power and transmission expense, including the cost of power from BPA. Prices for BPA and contracted resources are set by their respective contracts, which may escalate over time. Market purchases are made at times when resources aren't adequate for customer load or to support the EWEB hedging program, and are subject to price variability to the extent those sales are not fully hedged. Overall, purchased power expense increased compared to 2015 and was comparable to 2014.

Overall operating expense increased compared to both 2015 and 2014. The largest non-power operating expense is transmission and distribution expense. The increase in transmission and distribution expense was driven by restoration efforts following a severe ice storm in December. Depreciation has also increased due to the addition of assets with short depreciable lives.

The Electric System implemented Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) in 2015. Under GASB 68, the Electric Utility recognizes on the Statement of Net Position its share of the Net Pension Liability, or Asset, of the Public Employees Retirement System (PERS). GASB 68 results in pension expense that has "non-cash" components representing the change from year-to-year in the Net Pension Liability. EWEB has elected to treat the non-cash portion of pension expense as a regulatory deferral as allowed under regulatory accounting, since the Electric Utility does not intend to recover this expense in current rates. Deferred pension expense will be recognized over time as actual expenses are recovered in rates. Total operating expenses were:

(in thousands)	Electric System - Operating Expense				
	2016	2015	<i>restated</i> 2014	Increase (Decrease) 2016/2015	Increase (Decrease) 2016/2014
Purchased Power	\$ 117,194	\$ 108,239	\$ 115,016	\$ 8,955	\$ 2,178
System control	5,658	5,903	6,828	(245)	(1,170)
Wheeling	12,273	12,904	12,866	(631)	(593)
Steam and hydraulic generation	11,486	11,631	12,180	(145)	(694)
Transmission and distribution	24,546	22,148	20,925	2,398	3,621
Customer accounting	8,027	8,152	9,285	(125)	(1,258)
Conservation expenses	4,720	3,885	3,767	835	953
Administrative and general	21,865	21,018	22,381	847	(516)
Depreciation and utility plant	23,987	23,538	19,532	449	4,455
Operating expense	<u>\$ 229,756</u>	<u>\$ 217,418</u>	<u>\$ 222,780</u>	<u>\$ 12,338</u>	<u>\$ 6,976</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Non-operating Revenue, Expense, and Capital Contributions

(in thousands)	Electric System - Non Operating Revenue and Expense					
	2016	2015	<i>restated</i> 2014	Increase (Decrease) 2016/2015	Increase (Decrease) 2016/2014	
Non-operating revenue	\$ 12,843	\$ 6,461	\$ 9,596	\$ 6,382	\$ 3,247	
Non-operating expense	(11,453)	(12,294)	(16,321)	841	4,868	
Capital contributions	7,595	4,006	2,808	3,589	4,787	
Total	\$ 8,985	\$ (1,827)	\$ (3,917)	\$ 10,812	\$ 12,902	

For the Electric System, non-operating revenues are primarily miscellaneous revenues from sources unrelated to core business functions, including interest earnings, gains from disposal of assets, and grant revenue. Non-operating revenue has increased from both 2015 and 2014. During 2016, a \$4.8 million gain relating to the sale of the Smith Creek Hydroelectric Project was recognized. Investment earnings also increased compared to prior years as interest rates have risen over the past year and the investment portfolio is comprised of fixed income securities maturing in the near-term. 2014 included a \$1.3 million grant from FEMA for storm restoration.

Non-operating expenses, consist primarily of interest expense on debt. In 2016, the Board defeased \$23.8 million in bond principal, primarily using proceeds from the sale of the Smith Creek Hydroelectric Project. Also, the Board refinanced \$126.1 million of bonds lowering long-term debt obligations. In 2015, the Board paid off a \$28.8 million note relating to the Harvest Wind project. Overall efforts to reduce debt have reduced ongoing debt service payments and interest expense has decreased compared to both 2015 and 2014.

Capital contributions represent amounts customers contribute to construct assets that become part of plant in service for the Electric Utility. Capital contributions increased due to customer demand for new service, and due to significant work to upgrade or relocate EWEB lines and services in advance of construction of the Lane Transit District EMX Rapid Transit system.

Total Assets and Deferred Outflows of Resources

Total assets for the Electric System include utility plant, net of depreciation, current assets representing cash and investments, accounts receivable, materials inventory, and pre-paid expenses, as well as non-current assets such as jointly owned companies accounted for under the equity method for investments, and long-term investments.

Current assets are influenced by cash balances, investments having maturities less than one year, and changes in balances of customer and other receivables at year end. Current assets have decreased from 2015 and 2014 due to use of cash to pay off a short-term note for the Harvest Wind Project and defease debt. Also, reductions to current assets are driven by the use of bond proceeds to pay for capital work related to the Carmen-Smith Project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-current assets have decreased compared to 2014 but increased compared to 2015. In addition to the sale of the Smith Creek Hydroelectric Project, \$9.6 million of preliminary investigations was expensed in 2016. These were pre-construction costs for a fish ladder and fish screen at the Carmen-Smith Project. Due to a revised relicensing settlement agreement reducing overall project costs, these items will no longer be constructed. The amount of investments held at year-end having maturities greater than one year also contributes to the increase in non-current assets compared to 2015.

Deferred outflows of resources represent transactions occurring in future periods and are not classified as assets. Prior to implementation of GASB 68, deferred outflows were primarily the unrealized mark-to-market value of hedging derivatives. During 2016, the increase in deferred outflows of resources stems from changes in actuarial assumptions and differences between projected and actual earnings on investments related to EWEB's Public Employees Retirement System (PERS) net pension liability.

Electric System - Assets and Deferred Outflows

<u>(in thousands)</u>	2016	2015	<i>restated</i> 2014	Increase (Decrease) 2016/2015	Increase (Decrease) 2016/2014
Net utility plant	\$ 350,366	\$ 365,398	\$ 367,914	\$ (15,032)	\$ (17,548)
Current assets	153,170	168,727	180,294	(15,557)	(27,124)
Non-current assets	176,235	165,513	186,001	10,722	(9,766)
Deferred outflows of resources	57,024	8,937	6,951	48,087	50,073
Total assets and deferred outflows of resources	<u>\$ 736,795</u>	<u>\$ 708,575</u>	<u>\$ 741,160</u>	<u>\$ 28,220</u>	<u>\$ (4,365)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset Activity

(in thousands)	Electric System - Capital Assets			Increase	Increase
	2016	2015	2014	(Decrease)	(Decrease)
				2016/2015	2016/2014
Plant in service	\$ 741,378	\$ 752,863	\$ 728,250	\$ (11,485)	\$ 13,128
Accumulated depreciation	(403,328)	(393,797)	(371,954)	(9,531)	(31,374)
Property for future use	827	827	827	-	-
Construction work in progress	11,489	5,505	10,790	5,984	699
Net utility plant	\$ 350,366	\$ 365,398	\$ 367,913	\$ (15,032)	\$ (17,547)

Net utility plant has decreased each year since 2014 despite sustained additions to plant in service. The primary driver for the decrease in plant in service from 2015, is the sale of the Smith Creek Hydroelectric Project. The sale also reduced the balance of accumulated depreciation. The difference between the net book value and the cash sales price resulted in a \$4.8 million gain.

The balance of construction work in progress more than doubled compared to 2015, but is very much in line with the balance from 2014.

Capital projects for the Electric System are categorized by “type”, with the type representing strategic category of the work in the capital plan. Type 1 projects are ongoing renewal and replacements which are typically funded through customer rates. Significant Type 1 projects for 2016 included capital replacements of the transmission and distribution system, generation facilities, information technology projects, buildings and land, and fleet vehicles. Work for installation of customer infrastructure, most of which is reimbursed by contributions in aid of construction, is also considered Type 1.

Type 2 Projects are rehabilitation and expansion projects and may be funded by either rates or issuance of bonds. In 2016, Type 2 projects included work on the Leaburg Dam roll gates, relocation of services to accommodate the Lane Transit District (LTD) EmX rapid transit project, and information technology projects.

Type 3 projects are strategic projects generally funded by the issuance of bonds. The Carmen Smith relicensing project is the primary Type 3 project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ongoing capital improvements by type include:

		Electric System - Capital projects		
		2016	2015	2014
Type 1	Buildings & Land	Buildings & Land	Buildings & Land	Buildings & Land
	Transmssion & Distribution	Transmssion & Distribution	Transmssion & Distribution	Transmssion & Distribution
	Transporation Equipment	Transporation Equipment	Transporation Equipment	Transporation Equipment
	Generation	Generation	Generation	Generation
	Information Technology	Information Technology	Information Technology	Information Technology
	Substations & Telecom	Substations & Telecom	Substations & Telecom	Substations & Telecom
Type 2	AMI	AMI	AMI	AMI
	Downtown Network	Downtown Network	Downtown Network	Downtown Network
	Holden Creek Substation	Holden Creek Substation	Holden Creek Substation	Leaburg Roll Gate Rebuild
	Leaburg Roll Gate Rebuild	Leaburg Roll Gate Rebuild	Leaburg Roll Gate Rebuild	Lane Transit District EmX Project
	Lane Transit District EmX Project	Lane Transit District EmX Project	Lane Transit District EmX Project	Information Technology - WAM
		Information Technology - WAM	Information Technology - WAM	
Type 3	Carmen Smith License Implementation	Carmen Smith License Implementation	Carmen Smith License Implementation	Carmen Smith License Implementation Roosevelt Operations Center

More detailed information about plant activity is available in Note 3 – Utility Plant, in the note disclosures to the financial statements.

Debt Activity

The Electric System issues revenue bonds or notes payable to fund capital projects. Current bond funded projects include Carmen Smith relicensing work. During 2016, the Board defeased \$23.8 million in bond principal, using cash reserves and proceeds from the sale of the Smith Creek Hydroelectric Project. Also, in September, the Board refunded bonds in the amount of \$126.1 million. No additional debt was issued in 2016.

During 2016, Moody's reviewed and upgraded their rating for the Electric System's bonds from Aa3 to Aa2, and Fitch Ratings reviewed and upgraded their Electric System bond rating from A- to AA-, with a stable outlook. Electric system bonds are rated AA- by Standard and Poor's Ratings Services.

A note for financing costs for the Harvest Wind Project matured in May of 2015, and the entire \$28.8 million balance was retired. The retirement of the Harvest Wind note, defeasance and refunding of existing debt and scheduled principal payments on bonded debt have resulted in a significant decrease in total outstanding debt over the last three years.

Electric System - Debt Activity						
				Increase (Decrease)	Increase (Decrease)	
		2016	2015	2014	2016/2015	2016/2014
<i>(in thousands)</i>						
Total outstanding debt	\$	211,444	\$ 246,376	\$ 289,156	\$ (34,932)	\$ (77,712)

MANAGEMENT'S DISCUSSION AND ANALYSIS

More detailed information about debt activity can be found in the note disclosure to the financial statements, Note – 12 Long-term Debt, and in the unaudited supplementary schedules following the note disclosures.

Liabilities and Deferred Inflows of Resources

Trends in total liabilities and deferred inflows of resources for the Electric System were influenced by the recognition of net pension liability, and deferral of the non-cash portion of pension expense for implementation of GASB 68. The Electric System recognized a net pension liability of \$87 million in 2016 and \$37 million in 2015. Those both compare to a \$16 million net pension asset for 2014. The change from a net pension asset to net pension liability was due to the Oregon Supreme Court Moro decision, which overturned certain PERS reforms that had been expected to result in significant savings for the PERS system. Regulatory deferred inflows of \$22 million were recognized in 2014 due to the deferral of non-cash pension expense, and a regulatory asset of \$6 million was recognized in 2015 as Pension debits. The decrease in deferred inflows of resources from 2015, is due in part to the reclassification of the net difference between projected and actual earnings on investments related to the PERS net pension liability. In 2016, it is presented as a deferred outflow of resources. Also, 2015 included a deferred inflow of resources relating to an inventory adjustment, which was recognized in 2016.

Current liabilities are primarily accounts and payroll payable, and the current portion of long-term debt. During 2014, the \$29 million Harvest Wind note was reclassified as current; it was paid off in 2015. Increases to current liabilities compared to 2015 can be traced to higher payables balance at year-end, primarily due to a storm event in mid-December. Significant contracted labor and mutual aid was used to restore power to EWEB's customers and reimbursement was pending at year end.

Electric System - Liabilities and Deferred Inflows

(in thousands)	2016	2015	<i>restated</i> 2014	Increase	Increase
				(Decrease)	(Decrease)
				2016/2015	2016/2014
Current liabilities	\$ 45,080	\$ 41,929	\$ 72,010	\$ 3,151	\$ (26,930)
Total liabilities	342,180	322,445	329,290	19,735	12,890
Deferred inflows of resources	7,294	13,732	59,966	(6,438)	(52,672)
Total Liabilities and deferred inflows of resources	\$ 349,474	\$ 336,177	\$ 389,256	\$ 13,297	\$ (39,782)

Net Position

The net investment in capital assets component of net position, which reflects the value of capital assets net of the debt incurred to acquire those assets has increased each year since 2014. Capital assets have been added each year, and debt levels were reduced during the year.

Restricted net assets are subject to external legal restrictions on their use, and are primarily representative of reserves for payment of debt service, customer donations, and amounts deposited in an escrow account relating to the Harvest Wind Project. The reduction in restricted net position in 2016 is indicative of the lower reserve balance required to service future debt following the refunding and defeasance previously mentioned.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unrestricted net position represents the accumulation of net assets that are not capital assets, or subject to external restrictions on their use. Unrestricted net position includes, but does not solely represent unrestricted cash position, as it incorporates the effects of non-cash transactions, including the effects of GASB 68 implementation.

Overall net position has increased by approximately 4% compared to 2015, and 10% compared to 2014.

(in thousands)	Electric System - Net Position				
	2016	2015	<i>restated</i> 2014	Increase (Decrease) 2016/2015	Increase (Decrease) 2016/2014
Net investment in capital assets	\$ 178,261	\$ 169,833	\$ 164,313	\$ 8,428	\$ 13,948
Restricted	13,283	17,528	17,844	(4,245)	(4,561)
Unrestricted	195,777	185,036	170,502	10,741	25,275
Total net position	<u>\$ 387,321</u>	<u>\$ 372,397</u>	<u>\$ 352,659</u>	<u>\$ 14,924</u>	<u>\$ 34,662</u>

Reserves and Investment Activity

The Board of Commissioners has established Electric System designated reserve accounts for specific purposes including funding routine capital activity and significant one-time expenses, and to protect customers from the effects of large fluctuations in power prices, generation volume and counterparty risk. The Board has authority to re-evaluate and redirect unrestricted reserves based on current priorities.

During 2016, the most significant changes to designated reserves were due to strategic decision making by the Board. Additional deposits were made to increase the Rate Stabilization Fund, which is available for one-time expenses, and the Pension and Medical reserve, which is accumulated with the intent to pay down the Electric System Oregon PERS or Other Post-employment liabilities.

The Electric System also maintains restricted reserves for purposes including payment of principal and interest on debt, and proceeds from bond issuance restricted for use on capital projects.

Working cash and short term investments are not held in reserve and are available for the day-to-day operations of the utility. Working cash balances were above target at the beginning of 2016 in anticipation of the debt defeasance associated to the sale of the Smith Creek Hydroelectric Project.

All Electric System working cash and reserves are held in bank accounts, the Local Government Investment Pool, or in high quality securities. Investment strategy focuses on preserving principal, liquidity of funds and lastly on investment returns.

Water System

The source of supply for the Water System is the McKenzie River, with its headwaters in the Cascade Range east of Eugene. Intake and purification of water is performed at the Hayden Bridge Water Filtration Plant. In addition to the filtration plant, the Water System owns and operates 23 reservoirs, 27 pump stations, and approximately 800 miles of transmission and distribution mains. The Water System provides water service to residential, commercial, and industrial customers within the EWEB service territory. The Water system delivers service to neighboring water districts and bills those water districts at wholesale rates. Water is also sold at wholesale rates to a nearby city and a privately owned water company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Operating Revenue

Water net operating revenue decreased by 8% compared to 2015, and increased by 11% compared to 2014.

(in thousands)	2016	2015	<i>restated</i> 2014	Increase	Increase
				(Decrease)	(Decrease)
				2016/2015	2016/2014
Operating revenue	\$ 38,958	\$ 37,521	\$ 35,066	\$ 1,437	\$ 3,892
Operating expense	(24,067)	(21,296)	(21,614)	(2,771)	(2,453)
Net operating revenue	\$ 14,891	\$ 16,225	\$ 13,452	\$ (1,334)	\$ 1,439

Operating Revenue

Consumption of water varies depending on the season and the weather pattern of a particular year. Peak consumption is generally in the summer months, but can begin sooner in warmer years. Consumption has remained stable for the past three years. Water rates were restructured to recover more fixed costs in the monthly basic charge starting in 2013. 2016 average rates increased by 3.6%. For 2014 and 2015, average rates increased by 5.7% and 4.9%.

Residential customers make up 90% of the customer base of the Water System, and, similar to the Electric system, residential consumption is more responsive to weather conditions than commercial and industrial. Water sales revenue for retail customers has increased by 3% compared to 2015, and by 11% compared 2014.

(in thousands)	2016	2015	2014	Increase	Increase
				(Decrease)	(Decrease)
				2016/2015	2016/2014
Residential	\$ 20,758	\$ 20,150	\$ 18,710	\$ 608	\$ 2,048
Commercial and industrial	14,332	13,879	13,003	453	1,329
	\$ 35,090	\$ 34,029	\$ 31,713	\$ 1,061	\$ 3,377

(in thousands)	2016	2015	2014	Increase	Increase
				(Decrease)	(Decrease)
				2016/2015	2016/2014
Residential	3,926	4,042	3,972	(116)	(46)
Commercial and industrial	3,532	3,528	3,388	4	144
	7,458	7,570	7,360	(112)	98

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Water System revenue increase includes the effect of a series of rate changes intended to accumulate reserves to partially fund the Second Source project. The purpose of the Second Source project is to secure water supplies to customers in the event the current source is compromised. Willamette River water rights have been secured, and pre-construction activities are underway. To avoid substantial price increases when construction begins, EWEB adopted a rate smoothing strategy over the ten-year financial plan.

Wholesale sales include sales to River Road and Santa Clara Water Districts, the City of Veneta, and the Willamette Water Company. Rates for wholesale sales have also increased since 2014, but the wholesale rates do not include the component to accumulate reserves for the Second Source project.

	2016	2015	2014
Retail sales	\$ 35,089,542	\$ 34,029,012	\$ 31,713,872
Retail volume	7,570,612	7,569,669	7,361,214
Average price per Kgal	\$ 4.63	\$ 4.50	\$ 4.31
Wholesale sales	\$ 2,178,764	\$ 2,130,001	\$ 2,213,221
Wholesale volume	714,254	745,187	867,226
Average price per Kgal	\$ 3.05	\$ 2.86	\$ 2.55

Operating Expense

The Water System pumps and purifies all water sold and does not have wholesale purchase expense. The largest production expenses are purification and transmission and distribution of water. Other significant expenses are administrative and general, and depreciation. Water operating expenses have increased compared to prior years, in part, as a result of a shift in work from capital related projects to operations and maintenance related activities. Similar to the electric utility, depreciation expense has risen due to the recent addition of plant of assets with short depreciable lives.

The Water System also implemented Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68). Under GASB 68, the Water Utility recognizes on the Statement of Net Position its share of the Net Pension Liability, or Asset, of the PERS system. GASB 68 results in pension expense that has "non-cash" components representing the change from year-to year in the Net Pension Liability. EWEB has elected to treat the non-cash portion of pension expense as a regulatory deferral, as allowed under regulatory accounting, since the Water Utility does not intend to recover this expense in current rates. Deferred pension expense will be recognized over time as actual expenses are recovered in rates. Total operating expenses were:

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands)	Water System - Operating Expense				
	2016	2015	<i>restated</i> 2014	Increase (Decrease) 2016/2015	Increase (Decrease) 2016/2014
Transmission and distribution	\$ 6,200	\$ 5,172	\$ 5,957	\$ 1,028	\$ 243
Source of supply, pumping and purification	5,744	6,035	4,630	(291)	1,114
Customer accounting	1,494	993	1,340	501	154
Conservation expenses	250	180	151	70	99
Administrative and general	4,255	3,189	3,948	1,066	307
Depreciation and utility plant	6,124	5,727	5,588	397	536
Operating expense	<u>\$ 24,067</u>	<u>\$ 21,296</u>	<u>\$ 21,614</u>	<u>\$ 2,771</u>	<u>\$ 2,453</u>

Other Non-operating Revenue, Expense, Capital Contributions, and System Development Charges

Non-operating revenue of the Water System consists primarily of miscellaneous revenue not associated with core business activities, and interest and investment revenue. Non-operating revenue has increased compared to 2015 and decreased compared to 2014. Investment earnings increased compared to prior years as the interest rates have risen over the past year and the Board's investment portfolio is comprised of fixed income securities maturing in the near-term.

Non-operating expense is primarily interest expense for long-term debt and capital leases. EWEB refinanced \$29 million worth of bond principal during the year, reducing previously existing debt service requirements. \$16 million of new debt was issued in conjunction with the refinancing. Interest expense has remained steady even with the issuance of new debt in 2016.

Capital contributions are related to customer work to extend or relocate water mains and services. The Water System experienced a large increase in capital contributions in 2015 compared to 2016 and 2014. The increase in 2015 was due to upgrades and relocation of mains and services as part of the LTD EMX project and an increase in assets constructed by contractors becoming a part of the Water System. The Water System's work on the LTD EMX project tapered off in 2016 as work neared completion.

(in thousands)	Water System - Non Operating Revenue and Expense				
	2016	2015	<i>restated</i> 2014	Increase (Decrease) 2016/2015	Increase (Decrease) 2016/2014
Non-operating revenue	\$ 516	\$ 207	\$ 823	\$ 309	\$ (307)
Non-operating expense	(3,470)	(3,364)	(3,525)	(106)	55
Capital contributions	2,790	6,874	2,975	(4,084)	(185)
Total	<u>\$ (164)</u>	<u>\$ 3,717</u>	<u>\$ 273</u>	<u>\$ (3,881)</u>	<u>\$ (437)</u>

Total Assets and Deferred Outflows of Resources

Total assets for the Water System include utility plant, net of depreciation, current assets that represent cash and short-term investments, accounts receivable, materials inventory, and pre-paid expenses, as well as non-current assets such as long-term investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Recent price increases associated with EWEB's adoption of a smoothing strategy for the second filtration plant costs have resulted in accumulation of a higher level of working cash and establishment of reserves. In addition, \$16 million was received in new bond proceeds and placed in a restricted reserve to fund capital projects.

Non-current assets have increased since 2015 and 2014, with the most significant changes being an increase in the balance of long-term investments.

Deferred outflows of resources represents transactions occurring in future periods and are not classified as assets. During 2016, the increase in deferred outflows of resources stems from changes in actuarial assumptions and differences between projected and actual earnings on investments related to the Board's Public Employees Retirement System (PERS) net pension liability.

Water System - Assets and Deferred Outflows

(in thousands)	2016	2015	<i>restated</i> 2014	Increase (Decrease) 2016/2015	Increase (Decrease) 2016/2014
Net utility plant	\$ 160,506	\$ 154,067	\$ 144,697	\$ 6,439	\$ 15,809
Current assets	45,562	30,908	28,035	14,654	17,527
Non-current assets	17,837	9,078	6,249	8,759	11,588
Deferred outflows of resources	11,562	2,237	1,910	9,325	9,652
Total assets and deferred outflows of resources	<u>\$ 235,467</u>	<u>\$ 196,290</u>	<u>\$ 180,891</u>	<u>\$ 39,177</u>	<u>\$ 54,576</u>

Capital Asset Activity

Water System - Capital Assets

(in thousands)	2016	2015	2014	Increase (Decrease) 2016/2015	Increase (Decrease) 2016/2014
Plant in service	\$ 267,602	\$ 254,513	\$ 237,294	\$ 13,089	\$ 30,308
Accumulated depreciation	(111,344)	(105,624)	(100,581)	(5,720)	(10,763)
Property for future use	1,184	1,138	969	46	215
Construction work in progress	3,063	4,041	7,016	(978)	(3,953)
Net utility plant	<u>\$ 160,505</u>	<u>\$ 154,068</u>	<u>\$ 144,698</u>	<u>\$ 6,437</u>	<u>\$ 15,807</u>

Capital projects for the Water System are categorized by "type," with the type representing category of the work in the capital plan. Type 1 projects are ongoing capital renewal and replacements funded primarily by customer rates. Significant Type 1 projects for 2016 included ongoing capital replacements of the water pump stations and distribution system. Work for installation of customer infrastructure, most of which is reimbursed by contributions in aid of construction, is also considered Type 1.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Type 2 Projects are rehabilitation and expansion projects, and may be funded by either rates or issuance of bonds. Type 2 projects include, relocation and replacement of mains and of services to accommodate the Lane Transit District EmX rapid transit project and upgrades at the Hayden Bridge water filtration plant.

Type 3 projects are strategic projects generally funded by the issuance of bonds. The Second Source project is currently the only Type 3 project for the Water system.

Ongoing capital improvements by type included:

		Water System - Capital projects		
		2016	2015	2014
Type 1	Water Intake and Filtration Plant	Water Intake and Filtration Plant	Water Intake and Filtration Plant	Water Intake and Filtration Plant
	Water Mains	Water Mains	Water Mains	Water Mains
	Services and meters	Services and meters	Services and meters	Services and meters
	Reservoirs	Reservoirs	Reservoirs	Reservoirs
	Transporation Equipment	Distribution system	Distribution system	Distribution system
	Pump stations	Information Technology	Information Technology	Information Technology
Type 2	AMI	Buildings & Land	Buildings & Land	Buildings & Land
	Distribution system	Transporation Equipment	Transporation Equipment	Transporation Equipment
	Lane Transit District EmX Project	Lane Transit District EmX Project	Lane Transit District EmX Project	Lane Transit District EmX Project
	Filtration Plant Upgrades			
Type 3	Second source	Second source		

More detailed information about plant activity is available in Note 3 – Utility Plant, in the note disclosures to the financial statements.

Debt Activity

During 2016, the Board refunded existing debt of the Water System to take advantage of market conditions and the low interest rate environment for municipal securities. As part of the same issuance, \$16 million in new debt was issued to fund ongoing strategic capital projects. Water System bonds are rated Aa2 by Moody's Investors Service, AA by Standard and Poor's Rating Services, and AA+ by Fitch Ratings.

		Water System - Debt Activity				
					Increase (Decrease)	Increase (Decrease)
		2016	2015	2014	2016/2015	2016/2014
(in thousands)						
Total outstanding debt	\$	61,113	\$ 45,846	\$ 47,705	\$ 15,267	\$ 13,408

More detailed information about debt activity can be found in the note disclosure to the financial statements, Note – 12 Long-term Debt, and in the unaudited supplementary schedules following the note disclosures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liabilities and Deferred Inflows of Resources

Trends in total liabilities and deferred inflows of resources for the Water System were influenced by the recognition of net pension liability, and deferral of the non-cash portion of pension expense due to the implementation of GASB 68. The Water System recognized a net pension liability of \$19.1 million in 2016 and \$8.2 million in 2015, compared to a \$3.5 million net pension asset for 2014. The change from a net pension asset to net pension liability was due to the Oregon Supreme Court Moro decision, which overturned certain PERS reforms that had been expected to result in significant savings for the PERS system. The decrease in deferred inflows of resources from 2015, is due in part to the reclassification of the net difference between projected and actual earnings on investments related to the PERS net pension liability. In 2016, it is presented as a deferred outflow of resources. Also, 2015 included a deferred inflow of resources relating to an inventory adjustment, which was recognized in 2016.

Current liabilities are primarily accounts and payroll payable, and the current portion of long-term debt. Current liability balances have decreased compared to 2015 and 2014.

Water System - Liabilities and Deferred Inflows

(in thousands)	2016	2015	<i>restated</i> 2014	Increase (Decrease) 2016/2015	Increase (Decrease) 2016/2014
Current liabilities	\$ 5,974	\$ 6,029	\$ 6,503	\$ (55)	\$ (529)
Total liabilities	101,185	75,798	70,661	25,387	30,524
Deferred inflows of resources	1,009	1,947	12,042	(938)	(11,033)
Total Liabilities and deferred inflows of resources	<u>\$ 102,194</u>	<u>\$ 77,745</u>	<u>\$ 82,703</u>	<u>\$ 24,449</u>	<u>\$ 19,491</u>

Net Position

The net investment in capital assets component of net position, which reflects the value of capital assets net of the debt incurred to acquire those assets has increased each year since 2014. Capital assets have been added each year.

Restricted net assets are subject to external legal restrictions on their use and are primarily representative of reserves for payment of debt service and deposits of System Development Charges (SDC) to a restricted reserve for work not yet completed. Restricted net position increased in 2016 primarily due to an increase in SDC reserves.

Unrestricted net position represents the accumulation of assets that are not capital assets, or subject to external restrictions on their use. Unrestricted net position includes, but does not solely represent unrestricted cash position, as it incorporates the effects of non-cash transactions, including the effects of GASB 68 implementation. The Water System's unrestricted net position has increased 29% compared to 2015 and 179% compared to 2014, reflecting improvements in net income and unrestricted cash position following strong consumption and rate increases and changes designed to improve fixed cost recovery.

Overall net position has increased by approximately 12% compared to 2015, and 35% compared to 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands)	Water System - Net Position				
	2016	2015	<i>restated</i> 2014	Increase (Decrease) 2016/2015	Increase (Decrease) 2016/2014
Net investment in capital assets	\$ 97,536	\$ 90,478	\$ 83,590	\$ 7,058	\$ 13,946
Restricted	7,369	6,142	4,851	1,227	2,518
Unrestricted	28,367	21,924	10,162	6,443	18,205
Total net position	\$ 133,272	\$ 118,544	\$ 98,603	\$ 14,728	\$ 34,669

Reserves and Investment Activity

The Board of Commissioners has established Water System designated reserves for specific purposes including the funding of routine capital activity and significant one-time expenses. In addition, designated reserves accumulate funding for pension and post-retirement benefits. The Board has authority to re-evaluate and redirect reserves based on current priorities. During 2016, the most significant reserve activity was the enhancement of a rate stabilization fund, and the continuing accumulation of the Second Source project reserve. The Water System also had sufficient funds to increase the balance of the Pension and Medical reserve first established in 2014.

The Water System maintains restricted reserves for purposes including payment of principal and interest on debt. Restricted reserves also include proceeds from bond issuance restricted for use on capital projects and funds collected through System Development Charges.

Working cash and short term investments are not held in reserve and are available for the day-to-day operations of the utility.

All Water System working cash and reserves are held in bank accounts, the Local Government Investment Pool, or in high quality securities. Investment strategy focuses on preserving principal, liquidity of funds and lastly on investment returns.

STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	Electric System		Water System		Total System	
	2016	2015	2016	2015	2016	2015
ASSETS						
Capital assets						
Utility plant in service	\$ 741,377,401	\$ 752,863,250	\$ 267,601,807	\$ 254,512,937	\$ 1,008,979,208	\$ 1,007,376,187
Less accumulated depreciation	403,327,971	393,797,390	111,343,682	105,624,389	514,671,653	499,421,779
Net utility plant in service	338,049,430	359,065,860	156,258,125	148,888,548	494,307,555	507,954,408
Property held for future use	827,449	827,449	1,184,434	1,137,570	2,011,883	1,965,019
Construction work in progress	11,489,223	5,505,140	3,063,265	4,040,590	14,552,488	9,545,730
Net utility plant	350,366,102	365,398,449	160,505,824	154,066,708	510,871,926	519,465,157
Current assets						
Cash and cash equivalents	13,322,730	14,689,960	4,740,905	7,342,484	18,063,635	22,032,444
Short-term investments	12,250,258	8,715,300	845,370	1,014,695	13,095,628	9,729,995
Restricted cash and investments	27,424,546	42,121,803	19,562,392	7,142,756	46,986,938	49,264,559
Designated cash and investments	52,930,042	58,915,274	14,959,703	9,702,084	67,889,745	68,617,358
Receivables, less allowances	35,212,662	31,603,034	3,298,133	3,353,602	38,510,795	34,956,636
Due from Water System	870,656	887,148	-	-	-	-
Materials and supplies	3,675,617	4,286,899	900,943	1,011,704	4,576,560	5,298,603
Prepays	6,901,844	6,931,033	1,254,708	1,340,697	8,156,552	8,271,730
Option premiums short-term	581,400	576,960	-	-	581,400	576,960
Total current assets	153,169,755	168,727,411	45,562,154	30,908,022	197,861,253	198,748,285
Non-current assets						
Investments - designated	50,610,475	34,257,786	12,286,276	5,641,524	62,896,751	39,899,310
Investments - unrestricted	8,588,049	9,399,833	1,269,344	1,094,392	9,857,393	10,494,225
Receivables, conservation and other	3,453,706	5,160,480	157,206	196,101	3,610,912	5,356,581
Due from Water System	16,612,001	17,266,499	-	-	-	-
Investment in WGA	3,509,388	2,786,809	-	-	3,509,388	2,786,809
Investment in Harvest Wind	23,730,662	25,067,481	-	-	23,730,662	25,067,481
Preliminary investigations	31,940,789	40,821,423	-	-	31,940,789	40,821,423
Other assets	37,789,869	30,752,543	4,124,167	2,145,501	41,914,036	32,898,044
Total non-current assets	176,234,939	165,512,854	17,836,993	9,077,518	177,459,931	157,323,873
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows of resources	57,024,020	8,936,627	11,561,575	2,237,313	68,585,595	11,173,940
Total assets and deferred outflows of resources	\$ 736,794,816	\$ 708,575,341	\$ 235,466,546	\$ 196,289,561	\$ 954,778,705	\$ 886,711,255

Note: Inter-system receivables and payables are eliminated in the total systems columns.

See accompanying notes

STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	Electric System		Water System		Total System	
	2016	2015	2016	2015	2016	2015
LIABILITIES						
Current liabilities						
Payables	\$ 26,292,077	\$ 18,892,593	\$ 1,201,768	\$ 1,200,732	\$ 27,493,845	\$ 20,093,325
Accrued payroll and benefits	4,754,554	4,909,776	1,094,979	1,181,216	5,849,533	6,090,992
Due to Electric System	-	-	870,656	887,148	-	-
Payable from restricted assets						
Accrued interest on long-term debt	2,868,599	4,616,586	966,271	840,235	3,834,870	5,456,821
Long-term debt due within one year	11,165,000	13,510,000	1,840,000	1,920,000	13,005,000	15,430,000
Total current liabilities	<u>45,080,230</u>	<u>41,928,955</u>	<u>5,973,674</u>	<u>6,029,331</u>	<u>50,183,248</u>	<u>47,071,138</u>
Non-current liabilities						
Long-term debt	200,279,317	232,865,868	59,273,233	43,925,956	259,552,550	276,791,824
Due to Electric System	-	-	16,612,001	17,266,499	-	-
Net pension liability	86,824,424	37,311,057	19,059,020	8,190,233	105,883,444	45,501,290
Other liabilities	9,996,306	10,339,481	267,484	385,843	10,263,790	10,725,324
Total liabilities	<u>342,180,277</u>	<u>322,445,361</u>	<u>101,185,412</u>	<u>75,797,862</u>	<u>425,883,032</u>	<u>380,089,576</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of resources	7,293,921	13,732,200	1,009,432	1,947,248	8,303,353	15,679,448
NET POSITION						
Net investment in capital assets	178,261,000	169,832,994	97,536,117	90,478,405	275,797,117	260,311,399
Restricted	13,282,845	17,528,492	7,368,976	6,142,255	20,651,821	23,670,747
Unrestricted	195,776,773	185,036,294	28,366,609	21,923,791	224,143,382	206,960,085
Total net position	<u>387,320,618</u>	<u>372,397,780</u>	<u>133,271,702</u>	<u>118,544,451</u>	<u>520,592,320</u>	<u>490,942,231</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 736,794,816</u>	<u>\$ 708,575,341</u>	<u>\$ 235,466,546</u>	<u>\$ 196,289,561</u>	<u>\$ 954,778,705</u>	<u>\$ 886,711,255</u>

Note: Inter-system receivables and payables are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Years ended December 31, 2016 and 2015

	Electric System		Water System		Total System	
	2016	2015	2016	2015	2016	2015
Residential	\$ 94,669,774	\$ 93,321,059	\$ 20,757,948	\$ 20,149,706	\$ 115,427,722	\$ 113,470,765
Commercial and industrial	100,193,356	98,152,553	14,331,595	13,879,307	114,524,951	112,031,860
Sales for resale and other	50,386,851	47,509,022	3,868,120	3,491,974	54,254,971	51,000,996
Operating revenues	245,249,981	238,982,634	38,957,663	37,520,987	284,207,644	276,503,621
Purchased power	117,194,256	108,239,149	-	-	117,194,256	108,239,149
System control	5,657,580	5,902,729	-	-	5,657,580	5,902,729
Wheeling	12,273,110	12,903,604	-	-	12,273,110	12,903,604
Steam and hydraulic generation	11,486,118	11,631,178	-	-	11,486,118	11,631,178
Transmission and distribution	24,545,553	22,147,905	6,200,025	5,171,972	30,745,578	27,319,877
Source of supply, pumping and purification	-	-	5,744,599	6,034,985	5,744,599	6,034,985
Customer accounting	8,027,392	8,151,904	1,493,979	993,499	9,521,371	9,145,403
Conservation expenses	4,720,681	3,885,029	250,264	180,023	4,970,945	4,065,052
Administrative and general	21,864,641	21,018,247	4,254,641	3,188,522	26,119,282	24,206,769
Depreciation on utility plant	23,986,786	23,537,801	6,123,925	5,726,510	30,110,711	29,264,311
Operating expenses	229,756,117	217,417,546	24,067,433	21,295,511	253,823,550	238,713,057
Net operating income	15,493,864	21,565,088	14,890,230	16,225,476	30,384,094	37,790,564
Investment earnings	2,864,903	678,899	252,943	67,736	3,117,846	746,635
Interest earnings, Water	982,621	1,119,164	-	-	-	-
Other revenue	8,995,438	4,663,328	263,479	138,884	9,258,917	4,802,212
Non-operating revenues	12,842,962	6,461,391	516,422	206,620	12,376,763	5,548,847

Note: Inter-system interest earnings and expenses are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Years ended December 31, 2016 and 2015

	Electric System		Water System		Total System	
	2016	2015	2016	2015	2016	2015
Other revenue deductions	\$ 701,774	\$ 1,259,881	\$ 203,406	\$ 61,622	\$ 905,180	\$ 1,321,503
Loss on debt defeasance	1,452,551	-	-	-	1,452,551	-
Interest expense and related amortization	9,298,262	11,033,773	2,283,535	2,183,680	11,581,797	13,217,453
Interest expense, Electric	-	-	982,621	1,119,164	-	-
Non-operating expenses	11,452,587	12,293,654	3,469,562	3,364,466	13,939,528	14,538,956
Income before capital contributions and special items	16,884,239	15,732,825	11,937,090	13,067,630	28,821,329	28,800,455
Contributions in aid of construction	6,655,664	3,085,774	1,160,986	4,010,687	7,816,650	7,096,461
Contributed plant assets	939,115	920,455	283,591	1,507,744	1,222,706	2,428,199
System development charges	-	-	1,345,584	1,355,915	1,345,584	1,355,915
Capital contributions	7,594,779	4,006,229	2,790,161	6,874,346	10,384,940	10,880,575
Special item - Carmen Smith	9,556,180	-	-	-	9,556,180	-
Change in net position	14,922,838	19,739,054	14,727,251	19,941,976	29,650,089	39,681,030
Total net position at beginning of year	372,397,780	352,658,726	118,544,451	98,602,475	490,942,231	451,261,201
Total net position at end of year	\$ 387,320,618	\$ 372,397,780	\$ 133,271,702	\$ 118,544,451	\$ 520,592,320	\$ 490,942,231

Note: Inter-system interest earnings and expenses are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015

	Electric System		Water System		Total System	
	2016	2015	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 256,371,220	\$ 253,119,191	\$ 39,119,053	\$ 37,492,222	\$ 295,490,273	\$ 290,611,413
Other receipts	929,315	1,164,715	165,083	141,408	1,094,398	1,306,123
Power purchases	(108,546,709)	(109,889,303)	-	-	(108,546,709)	(109,889,303)
Payments to employees/employer paid benefits	(47,457,800)	(47,863,967)	(12,638,847)	(12,029,918)	(60,096,647)	(59,893,885)
Payments to suppliers	(43,382,507)	(36,725,568)	(5,523,518)	(4,021,116)	(48,906,025)	(40,746,684)
Proceeds from sale of real property	-	3,000,000	-	-	-	3,000,000
Contributions in lieu of taxes	(13,082,608)	(13,148,342)	-	-	(13,082,608)	(13,148,342)
Net cash from operating activities	44,830,911	49,656,726	21,121,771	21,582,596	65,952,682	71,239,322
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investment securities	(100,250,993)	(71,773,549)	(38,138,565)	(25,628,922)	(138,389,558)	(97,402,471)
Proceeds from sale and maturities of investments	84,344,800	101,419,183	17,174,404	15,360,623	101,519,204	116,779,806
Interest on investments	3,645,661	2,070,267	375,659	176,356	4,021,320	2,246,623
Distributions from equity investments	2,182,000	1,745,000	-	-	2,182,000	1,745,000
Net cash from investing activities	(10,078,532)	33,460,901	(20,588,502)	(10,091,943)	(30,667,034)	23,368,958
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Note receipts/(payments) to Electric from Water	207,277	207,277	(207,277)	(207,277)	-	-
Interest receipts/(payments) to Electric from Water	1,013,103	1,120,908	(1,013,103)	(1,120,908)	-	-
Lease receipts/(payments) to Electric from Water	433,231	441,143	(433,231)	(441,143)	-	-
Principal payments	(1,745,000)	(30,272,398)	-	-	(1,745,000)	(30,272,398)
Interest payments	(1,147,712)	(1,923,770)	-	-	(1,147,712)	(1,923,770)
Net cash from non-capital financing activities	(1,239,101)	(30,426,840)	(1,653,611)	(1,769,328)	(2,892,712)	(32,196,168)

Note: Inter-system note, lease and interest receipts and payments are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015

	Electric System		Water System		Total System	
	2016	2015	2016	2015	2016	2015
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal payments	\$ (11,765,000)	\$ (11,180,000)	\$ (425,000)	\$ (1,840,000)	\$ (12,190,000)	\$ (13,020,000)
Proceeds from issuance of bonds	135,708,508	-	45,111,411	-	180,819,919	-
Payments to refund debt	(141,364,628)	-	(31,042,587)	-	(172,407,215)	-
Payments to defease debt	(26,945,077)	-	-	-	(26,945,077)	-
Additions to plant and non-utility property, net	(26,086,811)	(23,196,199)	(12,658,742)	(15,264,203)	(38,745,553)	(38,460,402)
Proceeds from disposition of Smith Creek Hydro	22,121,277	-	-	-	22,121,277	-
Interest payments	(9,932,105)	(10,346,381)	(1,680,808)	(2,088,161)	(11,612,913)	(12,434,542)
Additions to preliminary surveys and other	(755,084)	(296,388)	-	-	(755,084)	(296,388)
Capital contributions	7,594,779	4,006,230	2,790,161	6,874,346	10,384,940	10,880,576
Net cash from capital and related financing activities	(51,424,141)	(41,012,738)	2,094,435	(12,318,017)	(49,329,706)	(53,330,755)
CHANGE IN CASH AND CASH EQUIVALENTS	(17,910,863)	11,678,049	974,093	(2,596,693)	(16,936,770)	9,081,356
CASH AND CASH EQUIVALENTS, beginning of year	67,739,265	56,061,216	16,736,319	19,333,012	84,475,584	75,394,228
CASH AND CASH EQUIVALENTS, end of year						
Including cash and cash equivalents restricted or designated: \$36,505,672 and \$12,969,507 (\$53,049,305 and \$9,393,835 in 2015) for Electric and Water, respectively	\$ 49,828,402	\$ 67,739,265	\$ 17,710,412	\$ 16,736,319	\$ 67,538,814	\$ 84,475,584

NON-CASH CAPITAL ACTIVITY:

In 2016, plant assets contributed by developers were \$939,115 for the electric system, and \$283,591 for the water system (\$920,455 for the electric system, and \$1,507,744 for the water system in 2015)

In September 2015, land and easements valued at \$211,900 were acquired in exchange for cash and land valued at \$160,000.

Note: Inter-system note, lease and interest receipts and payments are eliminated in the total systems columns.

See accompanying notes.

Continued

STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015

	Electric System		Water System		Total System	
	2016	2015	2016	2015	2016	2015
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES						
Net operating income	\$ 15,493,864	\$ 21,565,088	\$ 14,890,230	\$ 16,225,476	\$ 30,384,094	\$ 37,790,564
Adjustments to reconcile net operating income to net cash from operating activities						
Depreciation, including allocated	25,231,889	24,724,331	6,123,925	5,726,510	31,355,814	30,450,841
Other revenue	3,694,342	552,830	271,005	211,805	3,965,347	764,635
Other revenue deductions	(637,302)	(1,039,139)	(188,748)	(40,555)	(826,050)	(1,079,694)
(Increase) decrease in assets						
Receivables	(4,590,636)	1,971,477	55,468	(99,161)	(4,535,168)	1,872,316
Materials and supplies	611,281	260,829	110,758	(93,346)	722,039	167,483
Prepayments and special deposits	29,189	339,261	85,989	85,163	115,178	424,424
Conservation loans, net	1,133,240	(714,193)	-	-	1,133,240	(714,193)
Other assets	2,792,325	3,747,581	-	-	2,792,325	3,747,581
(Increase) decrease in deferred outflows of resources						
Decrease in fair value of hedging derivatives	(1,218,280)	(353,866)	-	-	(1,218,280)	(353,866)
Increase (decrease) in liabilities						
Accounts payable, accrued payroll and benefits	6,653,178	(719,144)	3,534	(335,706)	6,656,712	(1,054,850)
Other liabilities	(1,146,617)	14,015	-	-	(1,146,617)	14,015
Increase (decrease) in deferred inflows of resources	(3,215,561)	(692,344)	(230,390)	(97,590)	(3,445,951)	(789,934)
Net cash from operating activities	<u>\$ 44,830,911</u>	<u>\$ 49,656,726</u>	<u>\$ 21,121,771</u>	<u>\$ 21,582,596</u>	<u>\$ 65,952,682</u>	<u>\$ 71,239,322</u>

See accompanying notes.

Note 1 – Summary of significant accounting policies

Reporting Entity

The Eugene Water & Electric Board (Board or EWEB) is an administrative unit of the City of Eugene, Oregon. However, as established by the Governmental Accounting Standards Board (GASB) definition of a reporting entity, the Board is considered a primary government and is not a component unit of another entity, nor are there any component units of which the Board is financially accountable. The Board is responsible for the ownership and operation of the Electric and Water Systems, and the basic financial statements include these two Systems.

The Board provides energy and water service to residential, commercial and industrial customers located in a 236 square mile area, including the City of Eugene and adjacent suburban areas. The Board has the authority to fix rates and charges. In order to secure power resources, the Board has taken ownership of various generation facilities, and entered into various power purchase agreements.

In addition, the Board has entered into joint ventures, whereby it has taken an equity position in various generation facilities. The operations and sale of energy generated from the Board's relationship with each of the facilities is subject to certain risks. Operations are contingent on various factors, such as regulation, licensing agreements, river flow levels and weather patterns.

The Board is subject to various forms of regulation under federal, state and local laws and is subject to various Federal Energy Regulatory Commission (FERC) regulations. Laws and regulations are subject to change and may have a direct impact on the operations of the Board.

Eliminations

Amounts receivable and payable between the Electric and Water Systems and related interest earnings and expenses are eliminated in the Total Systems columns of the financial statements (see Note 13).

Method of Accounting

The Board maintains its accounting records in accordance with accounting principles generally accepted in the United States of America. The Board applies accounting and reporting standards of the GASB, exclusively. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and are maintained on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

Effective January 1, 2016, the Board adopted GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets Not Within the Scope of GASB 68*, and *Amendments to Certain Provisions of GASB 67 & 68*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The GASB issued Statement No 77, *Tax Abatement Disclosures* and Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* effective for the Board in 2016. The accounting and reporting standards established by these statements did not have any impact during implementation.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 1 – Summary of significant accounting policies, continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent 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.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications have no effect on previous net revenue or net position.

Utility Plant in Service and Depreciation

Utility plant is stated at original cost. Costs include labor, materials and related indirect costs, such as engineering, transportation and allowance for funds used during construction (i.e. interest). Additions, renewals, and betterments with a minimum cost of \$5,000 or greater per item are capitalized. Repairs and minor replacements are recorded as operating expenses. Depreciation is computed using straight-line group rates. When property is retired, the property cost and any removal costs are charged to accumulated depreciation. The estimated useful lives of assets are those used commonly in the utility industry or they are based on the Board’s experience with similar assets.

Asset Class	Estimated Depreciable Lives in Years	
	Electric System	Water System
Land	n/a	n/a
Intangible assets	n/a	n/a
Distribution plant	20-50	-
Hydraulic production	15-50	-
Steam production	15-50	-
Other production	15-50	-
Telecommunications	10	-
Transmission plant	25-50	-
General plant	3-50	3-50
Pumping plant	-	15-50
Supply plant	-	20-50
Treatment plant	-	15-50
Transmission & distribution plant	-	15-50

(Note 1 – Summary of significant accounting policies, continued)

Cash Equivalents

For purposes of these statements, cash equivalents are defined as short-term, highly liquid investments both readily convertible to known amounts of cash and so near maturity they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. The Board considers money market accounts and government investment pool holdings to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts of current assets, including unrestricted, designated and restricted cash and investments, and current liabilities approximate fair value due to the short-term maturity of those instruments. The fair value of the Board's investments and debt are estimated based on the quoted market prices for the same or similar issues.

Restricted Assets

Cash and investments restricted by provisions of bond resolutions and agreements with other parties are identified as restricted assets. When the restricted assets are expendable within the terms of the agreements, it is the Board's policy to spend restricted resources first, then unrestricted resources as needed.

Materials and Supplies

Materials and supplies provide for additions and repairs to utility plant and are stated at weighted average cost.

Preliminary Investigations

At December 31, 2016, the Electric System had \$31.9 million (\$40.8 million at December 31, 2015) in deferred costs for the preliminary investigation of projects it believes will be viable in the future. Most of the balance was for preconstruction relicensing costs of the Carmen-Smith Project.

Regulatory Assets & Deferred Inflows of Resources

The Board has deferred inflows of resources and other assets to be charged to future periods matching the reporting periods when the revenues and expenses are included for rate-making purposes.

Regulatory Assets

- **Conservation Assets**

Conservation assets for the Electric System represent installations of energy saving measures at customer properties. The conservation asset balance is reduced as costs are recovered, which for the most part represent debt service payments included in rates for related borrowing.

- **Unamortized Bond Issue Costs**

Unamortized bond issue costs represent the remaining expense related to various debt issuances. The asset is amortized over the duration of the related debt and recognition of these costs is included in the rate making process.

(Note 1 – Summary of significant accounting policies, continued)

- **Accreted Interest on Capital Appreciation Bonds**

Capital appreciation bonds are issued with a deep discount payable when the bonds mature. Interest accrued, but not yet paid, is included in other liabilities. Retail rates include interest costs as they become payable on a cash basis.

- **Pension debits**

Pension debits represent a portion of the change in net pension liability, as defined under GASB Statement No. 68. Regulatory accounting is used to recognize pension expense in accordance with the required employer contribution rates set by the Oregon Public Employees Retirement System.

Regulatory Deferred Inflows of Resources

- **Inventory Adjustment**

An inventory adjustment was made for unrecorded items purchased and paid for in previous periods. The deferred inflow is reduced as materials are used or written-off.

Debt Refundings

For current and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt (gain or loss) is deferred and amortized as a component of interest expense over the remaining life of the old debt or the new debt, whichever is shorter. These amounts are reported as a deferred outflow of resources on the statement of net position.

Net Position

Net position consists of:

- **Net investment in capital assets**

Net investment in capital assets is capital assets, net of accumulated depreciation and outstanding balances of any bonds and other borrowings attributable to the acquisition, construction, or improvement of those assets.

- **Restricted**

Restricted components of net position have constraints placed on their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

- **Unrestricted**

The unrestricted component of net position includes remaining amounts neither "restricted" nor "net investment in capital assets."

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 1 – Summary of significant accounting policies, continued)

Net position was as follows:

	2016		2015	
	Electric System	Water System	Electric System	Water System
Net investment in capital assets	\$ 178,261,000	\$ 97,536,117	\$ 169,832,994	\$ 90,478,405
Restricted for:				
Customer care program	756,749	-	487,648	-
Harvest Wind escrow	2,064,302	-	2,070,097	-
System development charges	-	4,271,124	-	2,973,201
Debt service	10,461,795	3,097,852	14,970,747	3,169,054
	<u>13,282,846</u>	<u>7,368,976</u>	<u>17,528,492</u>	<u>6,142,255</u>
Unrestricted	<u>195,776,773</u>	<u>28,366,609</u>	<u>185,036,294</u>	<u>21,923,791</u>
	<u>\$ 387,320,619</u>	<u>\$ 133,271,702</u>	<u>\$ 372,397,780</u>	<u>\$ 118,544,451</u>

Operating Revenue and Expense

Operating revenues are recorded on the basis of service delivered while operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Revenues are derived primarily from the sale and transmission of electricity and from the sale of water. Revenue is recognized when power or water is delivered to and received by the customer. Approximately 10% of 2016 Electric System retail revenues were the result of sales to one industrial customer (10% of retail sales were the result of sales to one customer in 2015). Estimated revenues are accrued for power and water delivered but not yet billed to customers.

The credit practices of the Board require an evaluation of new customer's credit worthiness on a case-by-case basis. At the discretion of management, a deposit may be obtained from the customer. Concentrations of credit risk with respect to receivables for residential customers are limited due to the large number of customers comprising the Board's customer base. Credit losses have been within management's expectations. Similar to its evaluation of residential, commercial and industrial customers' credit reviews, the Board continually evaluates its wholesale power customers (sales for resale revenue) by reviewing credit ratings and financial credit worthiness of existing and new wholesale customers.

Receivables are recorded net of the allowance for doubtful accounts. The allowance is determined by an examination of write off experience in the preceding five years, and consideration of other influences as appropriate. Total amounts written off for the year ended December 31, 2016 were \$869,000 (\$646,000 for 2015) for the Electric System and \$51,000 (\$63,000 for 2015) for the Water System.

(Note 1 – Summary of significant accounting policies, continued)

Contributions in Lieu of Taxes

In accordance with ORS 225.270, *Use of surplus earnings*, the Electric System makes contributions in lieu of tax (CILT) payments to the City of Eugene at the rate of 6% of retail sales and a fixed component equal to \$831,000 for 2016 (\$825,000 for 2015). The fixed amount is subject to certain annual inflationary adjustments. The Board makes CILT payments to the City of Springfield at the rate of 3% of retail sales for customers within the boundaries of the City of Springfield. Total contributions in lieu of taxes for the year ended December 31, 2016 were \$13.2 million (\$13.0 million for 2015).

Environmental Expenses

Fish and plant habitat enhancements, as well as pollution prevention improvements are expensed or capitalized depending on their future economic benefits. Most pollution remediation outlays, legal obligations to address existing pollution, do not qualify for capitalization and are accrued as liabilities and expenses according to the estimated remediation costs on a current cost basis (rather than present value of future costs).

Note 2 – Power Risk Management

The Board's Power Risk Management Guidelines set forth policies, limits and control systems governing power purchase and sale activities for the Electric System. The objectives of such policies are to maximize benefits to the customers from wholesale activities while minimizing the risk wholesale activities will adversely affect retail prices. The Board does not enter into contracts for speculative purposes. During periods when resources are in excess of retail load, the Board may sell excess capacity into the wholesale markets, and is exposed to commodity price risk. The Board enters into forward contracts intended to manage the price risk associated with power sales in the wholesale market.

Derivative Financial Instruments

In accordance with policy guidelines, the Board utilizes derivative instruments to minimize its exposure to commodity price risk. Hedging derivatives are reported on the statement of net position at fair value. The fair value of an option is determined using the Black formula. The fair value of financial swaps is determined by comparing the contract prices with the forecasted market prices. Premiums on option transactions are recorded as assets and amortized as each period of exercise expires over the term of each option.

All potential hedging derivatives were evaluated for effectiveness using the consistent critical terms method. A derivative instrument is effective under criteria for consistent critical terms when the significant terms of the hedging instrument and the hedgeable item are alike. The significant terms for hedging derivatives are the time period, quantity, price index, and point of delivery.

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015

(Note 2 – Power Risk Management, continued)

As of December 31, 2016, hedging derivatives with a fair value of \$2.7 million were reported as an other asset and deferred inflow of resources (\$4.7 million in 2015). Hedging derivatives with a fair value of \$819,000 were reported as other liabilities and deferred outflow of resources in 2016 (\$895,000 in 2015). Changes in fair value are reported as an increase in other assets or other liabilities and deferred inflows or outflows of resources until the time of settlement. When hedging derivatives settle, revenue or expense is recorded as either purchased power or wholesale sales.

Investment Derivatives

Hedging derivatives found through testing to be ineffective are classified as investment derivatives. At that time, the fair value, including any fair value changes previously deferred on the statement of net position, are recorded as investment revenue and a deferred inflow or outflow. A gain of \$1.3 million was recognized in investment earnings from derivatives in 2016, and a loss of \$564,000 was recognized in investment earnings from derivatives in 2015. As of December 31, 2016 and 2015, there were no investment derivatives recorded in deferred inflows of resources. Investment derivatives with a fair value of \$1.3 million (\$0 for 2015) were recorded as a deferred outflow of resources and investment revenue.

	Options and Swaps			
	Hedging Derivatives		Investment Derivatives	
	2016	2015	2016	2015
Notional value	\$ 8,575,960	\$ 11,678,920	\$ 3,586,040	-
Fair value - asset	\$ 2,695,395	\$ 4,688,639	\$ 1,295,200	-
Fair value - liability	\$ 818,560	\$ 895,480	-	-
Cash paid	\$ 500,040	\$ 716,840	-	-
Reference rates	Mid-C index	Mid-C index	Mid-C index	-
Dates entered into	1/13 through 11/16	1/13 through 12/15	1/13 through 2/13	-
Dates of maturity	1/17 through 6/18	1/16 through 12/17	4/17 through 11/17	-

Credit Risk

The Board enters into forward purchase and sale contracts for electricity with other industry participants such as public and investor owned utilities, financial institutions, gas and oil producers and energy marketers. Through this participation, the utility is exposed to credit risk related to the possibility of non-performance by its counterparties. To limit the risk of counterparty default or non-performance, the Board uses an evaluation process assigning an internal measure of credit worthiness to the Board's counterparties and sets limits to the dollar value of business transacted with counterparties. On a case-by-case basis, the Board may require letters of credit, cash collateral, pre-payment or other forms of credit support to ensure counterparty performance. Other assurances may include accelerated invoicing or pre-payment. In addition, the Board generally establishes netting arrangements with counterparties.

(Note 2 – Power Risk Management, continued)

As of December 31, 2016, the aggregate fair value of derivative instrument assets was \$4.0 million. This represents the maximum loss that would be recognized if all three counterparties to the derivative instrument assets failed to perform as contracted. The counterparty credit ratings range from A- to BBB+. This maximum exposure is reduced by \$39 thousand of liabilities included in netting arrangements with the counterparties. Although EWEB executes derivative instruments with various counterparties, five contracts, comprising approximately 98% of the net exposure to credit risk, are held with one counterparty. That counterparty is rated A-.

Termination Risk

Hedging derivative contracts may be terminated by mutual agreement of the Board and the counterparty, or upon the occurrence of a termination event. Termination events include non-payment, non-delivery, deterioration of creditworthiness, or other material adverse changes. During the years 2016 and 2015, there were no terminations.

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015

Note 3 – Utility plant

The major classifications of utility plant in service are as follows.

Electric Utility Plant

	Balance at December 31, 2015	Increases	Decreases	Balance at December 31, 2016
Plant in service not subject to depreciation				
Land	\$ 10,252,637	\$ -	\$ -	\$ 10,252,637
Intangible assets	4,559,139	24,383	(4,371,398)	212,124
Plant in service subject to depreciation				
Steam production	10,283,972	-	-	10,283,972
Hydro production	171,027,770	6,317,669	(22,511,137)	154,834,302
Wind production	11,789,767	-	-	11,789,767
Transmission	87,272,814	347,618	(3,288,918)	84,331,514
Distribution	273,180,512	11,914,059	(2,211,987)	282,882,584
Telecommunications	18,214,065	561,869	(31,255)	18,744,679
General plant	153,166,690	1,950,531	(362,726)	154,754,495
Completed construction, not yet classified	13,115,884	13,291,326	(13,115,883)	13,291,327
Total utility plant in service	752,863,250	34,407,455	(45,893,304)	741,377,401
Accumulated depreciation	(393,797,390)	(25,231,888)	15,701,307	(403,327,971)
Plant not subject to depreciation:				
Property held for future use	827,449	-	-	827,449
Construction work in progress	5,505,140	23,686,246	(17,702,163)	11,489,223
Net utility plant	<u>\$ 365,398,449</u>	<u>\$ 32,861,813</u>	<u>\$ (47,894,160)</u>	<u>\$ 350,366,102</u>

	Balance at December 31, 2014	Increases	Decreases	Balance at December 31, 2015
Plant in service not subject to depreciation				
Land	\$ 10,252,637	\$ -	\$ -	\$ 10,252,637
Intangible assets	4,468,034	91,105	-	4,559,139
Plant in service subject to depreciation				
Steam production	10,283,972	-	-	10,283,972
Hydro production	170,643,383	384,387	-	171,027,770
Wind production	11,789,767	-	-	11,789,767
Transmission	85,061,149	2,278,730	(67,065)	87,272,814
Distribution	264,918,133	10,117,193	(1,854,814)	273,180,512
Telecommunications	18,209,984	4,081	-	18,214,065
General plant	145,471,973	8,543,386	(848,669)	153,166,690
Completed construction, not yet classified	7,151,037	13,115,884	(7,151,037)	13,115,884
Total utility plant in service	728,250,069	34,534,766	(9,921,585)	752,863,250
Accumulated depreciation	(371,953,881)	(24,724,328)	2,880,819	(393,797,390)
Plant not subject to depreciation:				
Property held for future use	827,449	-	-	827,449
Construction work in progress	10,790,207	18,297,768	(23,582,835)	5,505,140
Net utility plant	<u>\$ 367,913,844</u>	<u>\$ 28,108,206</u>	<u>\$ (30,623,601)</u>	<u>\$ 365,398,449</u>

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 3 – Utility plant, continued)

Water Utility Plant

	Balance at December 31, 2015	Increases	Decreases	Balance at December 31, 2016
Plant in service not subject to depreciation				
Land	\$ 1,435,733	\$ -	\$ -	\$ 1,435,733
Intangible assets	54,427	1,523	-	55,950
Plant in service subject to depreciation				
Source of supply	20,579,273	3,799,283	-	24,378,556
Pumping	10,305,882	484,363	-	10,790,245
Water treatment	30,555,820	6,667	-	30,562,487
Transmission & distribution	147,195,103	7,318,990	(486,318)	154,027,775
General plant	35,582,918	1,156,887	(379,441)	36,360,364
Completed construction, not yet classified	8,803,781	9,990,697	(8,803,781)	9,990,697
 Total utility plant in service	 254,512,937	 22,758,410	 (9,669,540)	 267,601,807
 Accumulated depreciation	 (105,624,389)	 (6,447,471)	 728,178	 (111,343,682)
 Plant not subject to depreciation:				
Property held for future use	1,137,570	46,864	-	1,184,434
Construction work in progress	4,040,590	12,059,156	(13,036,481)	3,063,265
 Net utility plant	 <u>\$ 154,066,708</u>	 <u>\$ 28,416,959</u>	 <u>\$ (21,977,843)</u>	 <u>\$ 160,505,824</u>
	Balance at December 31, 2014	Increases	Decreases	Balance at December 31, 2015
Plant in service not subject to depreciation				
Land	\$ 1,435,733	\$ -	\$ -	\$ 1,435,733
Intangible assets	41,926	12,501	-	54,427
Plant in service subject to depreciation				
Source of supply	20,579,273	-	-	20,579,273
Pumping	10,305,882	-	-	10,305,882
Water treatment	28,695,579	1,860,241	-	30,555,820
Transmission & distribution	139,137,282	8,937,656	(879,835)	147,195,103
General plant	33,516,978	2,065,940	-	35,582,918
Completed construction, not yet classified	3,581,708	8,803,781	(3,581,708)	8,803,781
 Total utility plant in service	 237,294,361	 21,680,119	 (4,461,543)	 254,512,937
 Accumulated depreciation	 (100,581,170)	 (5,978,443)	 935,224	 (105,624,389)
 Plant not subject to depreciation:				
Property held for future use	968,578	168,992	-	1,137,570
Construction work in progress	7,015,689	12,871,174	(15,846,273)	4,040,590
 Net utility plant	 <u>\$ 144,697,458</u>	 <u>\$ 28,741,842</u>	 <u>\$ (19,372,592)</u>	 <u>\$ 154,066,708</u>

(Note 3 – Utility plant, continued)

Capital Contributions

Contributions in Aid of Construction and System Development Charges are paid by developers and customers to cover the cost of new electric and water infrastructure (capital assets). When developers install and cover the costs of the infrastructure directly, those assets are referred to as Contributed Plant Assets.

Note 4 – Cash and investments

The Board maintains cash and investments in several fund accounts in accordance with bond resolutions and Board authorization. Descriptions of these fund account types are as follows:

Restricted Cash and Investments

- **Customer Deposits and Other**
Used to account for 1) deposits collected from retail customers and held for future refund or application to customer account balances, and 2) donations to the Customer Care Program.
- **Harvest Wind Escrow Accounts**
Funds include amounts held in escrow related to EWEB’s investment in the Harvest Wind Project, consisting of funds deposited to escrow from the receipt of federal energy grant funds in 2010, and a deposit in lieu of letter of credit with regard to the Project’s transmission contract with Klickitat PUD.
- **Construction Funds**
Used to account for legally restricted cash and investments for the purpose of construction of capital projects. Funds include proceeds from the issuance of bonds and notes.
- **System Development Charge Reserves**
Used to account for charges assessed and collected in conjunction with installation of new water services in the Water System and are restricted by State of Oregon Statutes to system enhancements and other related capital expenditures.
- **Debt Service Reserves**
Deposits held for debt service coverage pursuant to bond indentures and/or in lieu of bond sureties.
- **Investments for Bond Principal and Interest**
Used to account for cash and investments restricted by Bond Indentures of Trust for future payment of principal and interest on debt.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 4 – Cash and investments, continued)

Detailed amounts for restricted cash and investments were as follows:

	2016		2015	
	Electric System	Water System	Electric System	Water System
Debt service reserves	\$ 6,462,451	\$ 2,334,808	\$ 9,338,115	\$ 2,368,501
Customer deposit and other	1,787,504	-	1,618,064	-
Harvest Wind escrow accounts	2,064,302	-	2,070,097	-
Construction funds	10,242,347	11,192,213	18,846,308	-
System development charge reserves	-	4,306,056	-	3,133,467
Investments for bond principal and interest	6,867,942	1,729,315	10,249,219	1,640,788
Total restricted cash and investments	<u>\$ 27,424,546</u>	<u>\$ 19,562,392</u>	<u>\$ 42,121,803</u>	<u>\$ 7,142,756</u>

Designated Cash and Investments

- **Rate Stabilization Fund**
 Used to account for cash and investments the Board has designated to reserve for one time expenditures, with any allocations made at Board discretion.

- **Power Reserve**
 Used to account for cash and investments the Board has designated to reserve for fluctuations in purchased power costs, load, generation levels, or margin requirements.

- **Capital Improvement Reserve**
 Used to account for cash and investments the Board has designated to reserve for capital improvements.

- **Alternate water supply reserve**
 Used to account for cash and investments the Board has designated to reserve for costs incurred to create a secondary water source.

- **Carmen-Smith Reserve**
 Used to account for cash and investments the Board has designated to reserve for relicensing and construction costs at the Carmen-Smith Hydroelectric Project.

- **Operating Reserves**
 Used to account for cash and investments the Board has designated for payments of emergency operating costs, self-insured claims, and funds set aside for payment of the Harvest Wind bank anticipation note.

- **Pension and Medical Reserve**
 Used to account for cash and investments the Board has designated to reserve for pension and post-retirement medical costs.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 4 – Cash and investments, continued)

Detailed amounts for designated cash and investments were as follows:

	2016		2015	
	Electric System	Water System	Electric System	Water System
Rate stabilization fund	\$ 17,084,316	\$ 6,351,468	\$ 12,426,316	\$ 3,612,468
Power reserve	27,359,486	-	27,359,486	-
Capital improvement reserve	26,286,517	12,000,176	23,563,093	6,415,418
Second source reserve	-	5,237,197	-	2,884,511
Carmen-Smith reserve	15,790,304	-	15,790,304	-
Operating reserve	6,069,965	1,767,826	5,796,972	1,466,899
Pension and medical reserve	10,949,929	1,889,312	8,236,889	964,312
Total designated cash and investments	<u>\$ 103,540,517</u>	<u>\$ 27,245,979</u>	<u>\$ 93,173,060</u>	<u>\$ 15,343,608</u>

Deposits with financial institutions are comprised of bank demand deposits and money market accounts. The total bank balances, as recorded in bank records at December 31, 2016, were \$26.0 million. Of the bank balances, \$750,000 were covered by federal depository insurance and \$25.2 million were collateralized with securities.

Custodial credit risk for deposits is in the event of failure of a depository financial institution a depositor will not be able to recover deposits or will not be able to recover collateral securities in possession of an outside party. Deposits not covered by depository insurance are exposed to custodial credit risk when collateral for deposits is held by the pledging institution or its trust department or agency, but not in the name of the depositor. Within the Public Funds Collateralization Program (PFCP) in Oregon, securities pledged by financial institutions are required to be held in the name of the pool, and, therefore, cannot be in the Board's name. However, provided an entity is recognized by the PFCP administrator as an entity covered by the pool, balances in excess of FDIC are covered by the collateral of the pool.

The Board's investments during the year, which included obligations of the U.S. Government, are authorized by State of Oregon Statutes and bond resolution and by the Board's investment policy. Authorized investments include the Oregon Local Government Investment Pool (LGIP), US Treasury securities, US Government Agency securities, public funds money market accounts, corporate commercial paper and bonds, and other investments enumerated in and authorized by ORS 294.035, *Investments of surplus funds of political subdivisions*.

The LGIP is included in the Oregon Short Term Fund (OSTF), which was established by the State Treasurer. The OSTF is not subject to SEC regulation. The OSTF is subject to requirements established in Oregon Revised Statutes, investment policies adopted by the Oregon Investment Council, and portfolio guidelines established by the OSTF Board. The Governor appoints the members of the Oregon Investment Council and OSTF Board. The fair value of the Board's position in the pool is the same as the value of the pool shares. Financial statements for the OSTF may be obtained from the Oregon State Treasurer's website.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 4 – Cash and investments, continued)

As of December 31, 2016, the Board held the following investments (Electric and Water Systems combined):

Investment Type	Credit Rating	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Local Government Investment Pool	Unrated	\$ 46,790,627	0.00	23.6%
U.S. Agency Securities				
FHLB		28,816,090		14.6%
FNMA		22,784,994		11.5%
FHLMC		14,348,782		7.2%
FFCB		24,468,434		12.4%
FAMCA		9,982,400		5.0%
Other Agency		12,657,568		6.4%
Subtotal US Agency	AA	113,058,268	1.36	57.1%
U.S. Treasury Securities	AAA	18,900,866	0.84	9.5%
Municipal Bonds	AA	1,527,845	1.16	0.8%
Corporate Bonds	AA	17,764,297	1.37	9.0%
Subtotal all securities		151,251,276	1.29	76.4%
Total		\$ 198,041,903	0.99	100.0%

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 4 – Cash and investments, continued)

As of December 31, 2015, the Board held the following investments (Electric and Water Systems combined):

Investment Type	Credit Rating	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Local Government Investment Pool	Unrated	\$ 46,675,975	0.00	28.8%
U.S. Agency Securities				
FHLB		28,261,988		17.4%
FNMA		16,077,183		9.9%
FHLMC		12,659,800		7.8%
FFCB		6,082,930		3.7%
FAMCA		13,096,674		8.1%
Other Agency		8,470,691		5.2%
Subtotal US Agency	AA	84,649,266	1.21	52.1%
U.S. Treasury Securities	AAA	13,103,117	0.97	8.1%
Municipal Bonds	AA	2,466,039	0.90	1.5%
Corporate Bonds	AA	15,343,885	0.91	9.5%
Subtotal all securities		115,562,307	1.14	71.2%
Total		\$ 162,238,282	0.81	100.0%

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 4 – Cash and investments, continued)

Concentration risk is when investments are concentrated in one issuer. This concentration presents a heightened risk of potential loss. This does not apply for pooled investments or investments directly in the US government. ORS 294.035 limits investment in any single issuer of bonds to 5% of a portfolio; there is not a limit for investment in US Agencies. Many government-sponsored agency securities are not backed by the full faith and credit of the US government, including those held by the Board, although market participants widely believe the government would provide financial support to an agency if the need arose. The Board does not have a policy for investment concentration in those agencies. Regarding the LGIP, with the exception of pass-through funds, the maximum amount of pooled investments to be placed in the pool is limited by ORS 294.810, *Local governments authorized to place limited funds in pool*, to \$47.4 million as of December 31, 2016.

The “weighted average maturity in years” calculation assumes all investments are held until maturity.

As a means of limiting its exposure to fair value losses resulting from changes in interest rates, the Board’s investment policy limits at least 25% of its investment portfolio to maturities of less than 180 days. Investment maturities are limited as follows:

<u>Maturity</u>	<u>Minimum Investment</u>
Less than 180 days	25%
Less than 1 year	40%
Less than 2 years	65%
Less than 3 years	100%

Custodial credit risk for investments is in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities in the possession of an outside party because they are neither insured nor registered and they are held by the counterparty or the counterparty’s trust department or agent, but not in the investor’s name. All of the aforementioned investments, and the investments in the LGIP, which are not evidenced by securities, are held in the Board’s name by a third-party custodian.

The Board’s policy, which adheres to Oregon statutes, is to limit its investments to the top two ratings issued by nationally recognized credit rating organizations. As a general practice, and in a further effort to minimize credit risk, the Board invests primarily in U.S. agency investments and in the LGIP.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 4 – Cash and investments, continued)

Cash and investments consisted of the following:

	Restricted Cash and Investments	Cash and Cash Equivalents and Short-term Investments	Designated Funds	Total Carrying Amount 2016	Total Carrying Amount 2015
ELECTRIC SYSTEM					
Cash on hand	\$ -	\$ 13,560	\$ -	\$ 13,560	\$ 13,560
Cash in bank	7,946,929	6,409,667	-	14,356,596	27,301,677
Investments in the State of Oregon local government investment pool	2,804,072	6,899,503	25,754,671	35,458,246	40,424,028
Investments - US Agencies, Treasuries and Corp.	16,673,545	20,838,307	77,785,846	115,297,698	100,360,691
Total electric system	27,424,546	34,161,037	103,540,517	165,126,100	168,099,956
WATER SYSTEM					
Cash in bank	2,337,302	4,040,729	-	6,378,031	10,484,372
Investments in the State of Oregon local government investment pool	3,855,040	700,176	6,777,165	11,332,381	6,251,947
Investments - US Agencies, Treasuries and Corp.	13,370,050	2,114,714	20,468,814	35,953,578	15,201,616
Total water system	19,562,392	6,855,619	27,245,979	53,663,990	31,937,935
	\$ 46,986,938	\$ 41,016,656	\$ 130,786,496	\$ 218,790,090	\$ 200,037,891

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

Note 5 – Fair Value Measurement

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Board determines disclosures related to these investments only need to be disaggregated by major type because investing is not a core part of the Board’s mission. The Board has the following recurring fair value measurements:

As of December 31, 2016:

	2016	Fair Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level				
Debt securities				
US treasury securities	\$ 18,900,866	\$ 18,900,866	\$ -	\$ -
US agencies	113,058,268	-	113,058,268	-
Corporate bonds	17,764,297	-	17,764,297	-
Municipal bonds	1,527,845	-	1,527,845	-
Total debt securities	\$ 151,251,276	\$ 18,900,866	\$ 132,350,410	\$ -
Derivative instruments				
Investment derivative	\$ 1,295,200	\$ -	\$ 1,295,200	\$ -
Effective hedge-asset	2,695,395	-	2,695,395	-
Effective hedge-liability	(818,560)	-	(818,560)	-
Total derivatives	\$ 3,172,035	\$ -	\$ 3,172,035	\$ -

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 5 – Fair Value Measurement, continued)

As of December 31, 2015:

	2015	Fair Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level				
Debt securities				
US treasury securities	\$ 13,103,117	\$ 13,103,117	\$ -	\$ -
US agencies	84,649,266	-	84,649,266	-
Corporate bonds	15,343,885	-	15,343,885	-
Municipal bonds	2,466,039	-	2,466,039	-
Total debt securities	\$ 115,562,307	\$ 13,103,117	\$ 102,459,190	\$ -
Derivative instruments				
Effective hedge-asset	\$ 4,688,639	\$ -	\$ 4,688,639	\$ -
Effective hedge-liability	(895,480)	-	(895,480)	-
Total derivatives	\$ 3,793,159	\$ -	\$ 3,793,159	\$ -

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 of the fair value hierarchy are valued using various market and industry inputs, including institutional bond quotes.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using an approach considering contract prices with forecast market prices.

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015

Note 6 – Receivables

Significant receivables were as follows:

	2016		2015	
	Electric System	Water System	Electric System	Water System
Current receivables				
Accounts receivable	\$ 32,154,023	\$ 3,115,801	\$ 28,877,291	\$ 2,974,304
Allowance for doubtful accounts	(503,394)	(34,146)	(442,285)	(46,391)
Net accounts receivable	31,650,629	3,081,655	28,435,006	2,927,913
Loans to customers	1,342,872	92,113	2,372,881	368,351
Interest receivable	1,898,659	124,365	374,391	57,338
Miscellaneous receivables	320,502	-	420,756	-
Receivables, less allowances	<u>\$ 35,212,662</u>	<u>\$ 3,298,133</u>	<u>\$ 31,603,034</u>	<u>\$ 3,353,602</u>
Long-term receivables				
Incentive loans to customers	\$ 2,786,305	\$ 157,206	\$ 2,889,536	\$ 196,101
Note receivable (BPA)	-	-	49,000	-
Interest receivable (WGA)	667,401	-	2,221,944	-
Long-term receivables, conservation and other	<u>\$ 3,453,706</u>	<u>\$ 157,206</u>	<u>\$ 5,160,480</u>	<u>\$ 196,101</u>

Note 7 – Payables

Current payables were as follows:

	2016		2015	
	Electric System	Water System	Electric System	Water System
Accounts payable	\$ 3,492,960	\$ 732,364	\$ 5,311,123	\$ 918,432
Accrued purchased power	18,659,087	-	10,088,460	-
Construction payables	1,088,762	442,980	389,439	248,720
Contributions in lieu of taxes	1,378,527	-	1,252,664	-
Customer deposits	1,030,755	-	1,130,417	-
Equipment purchases	433,043	-	461,745	28,990
Miscellaneous payables	140,103	26,424	110,367	4,590
Preliminary investigations payables	68,840	-	148,378	-
Total payables	<u>\$ 26,292,077</u>	<u>\$ 1,201,768</u>	<u>\$ 18,892,593</u>	<u>\$ 1,200,732</u>

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

Note 8 – Other assets and other liabilities

Other assets and other liabilities were as follows:

	2016		2015	
	Electric System	Water System	Electric System	Water System
Other assets				
Non-utility property	\$ 7,830,500	\$ 153,888	\$ 7,830,500	\$ 153,888
Derivatives at fair value	2,695,395	-	4,688,639	-
Option premiums long-term	237,160	-	318,520	-
Joint-use equipment	16,440	6,928	28,770	12,124
Fair value of renewable energy certificates	-	-	721,995	-
Prepaid transmission expense - Harvest Wind	1,158,914	-	1,256,166	-
Regulatory assets				
Pension debits	15,537,342	3,410,634	5,946,661	1,305,364
Conservation assets	1,279,943	-	1,329,641	-
Unamortized bond issue costs	1,308,162	552,717	1,709,080	674,125
Accreted interest - capital appreciation bonds	7,726,013	-	6,922,571	-
Other assets	\$ 37,789,869	\$ 4,124,167	\$ 30,752,543	\$ 2,145,501
Other liabilities				
Derivatives at fair value	818,560	\$ -	\$ 895,480	\$ -
Accreted interest on capital appreciation bonds	7,726,013	-	6,922,571	-
Environmental clean up	484,000	-	771,806	-
Fair value of renewable energy certificates	-	-	721,996	-
Sick leave - upon retirement	967,733	232,552	1,027,628	225,577
System development charge	-	34,932	-	160,266
Other liabilities	\$ 9,996,306	\$ 267,484	\$ 10,339,481	\$ 385,843

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

Note 9 – Deferred outflows of resources and deferred inflows of resources

Deferred outflows of resources and deferred inflows of resources were as follows:

	2016		2015	
	Electric System	Water System	Electric System	Water System
Deferred outflows of resources				
Accumulated decrease in fair value of hedging derivatives	\$ 818,560	\$ -	\$ 895,480	\$ -
Accumulated increase in fair value of investment derivatives	1,295,200	-	-	-
Unamortized losses on bond refunding	11,156,922	1,957,183	987,777	689,012
Net difference between projected and actual earnings on investments	17,152,863	3,765,264	-	-
Differences between expected and actual experience	2,872,531	630,556	2,012,001	441,659
Changes of assumptions	18,517,563	4,064,831	-	-
Differences between Board contributions and proportionate share of contributions	1,883,237	413,393	1,555,227	341,391
Pension contributions subsequent to measurement date	3,327,144	730,348	3,486,142	765,251
Deferred outflows of resources	<u>\$ 57,024,020</u>	<u>\$ 11,561,575</u>	<u>\$ 8,936,627</u>	<u>\$ 2,237,313</u>
Deferred inflows of resources				
Accumulated increase in fair value of hedging derivatives	\$ 2,695,395	\$ -	\$ 4,688,639	\$ -
Net difference between projected and actual earnings on investments	-	-	7,821,244	1,716,858
Changes in proportion	4,598,526	1,009,432	-	-
Regulatory deferred inflows				
Inventory adjustment	-	-	1,222,317	230,390
Deferred inflows of resources	<u>\$ 7,293,921</u>	<u>\$ 1,009,432</u>	<u>\$ 13,732,200</u>	<u>\$ 1,947,248</u>

Note 10 – Investment in WGA

The Board is a party to an Intergovernmental Agency, which is governed equally by the Board and Clatskanie PUD. The Board was obligated to make equity investments in the Western Generation Agency (the Agency) as partial funding for the construction of the Wauna Cogeneration Project (the Project). As of December 31, 1996, the Board had made all required equity investments, totaling \$15.1 million, to the Agency. The Project agreements allow the Board to be repaid its equity investment plus a cumulative preferred dividend at 7.875% should the operating revenues of the Project be sufficient to cover operating costs, debt service, plus other reserve requirements. In October 2006, the Agency accomplished a refunding of its debt, which allowed the Board to be repaid a significant portion of its remaining equity investment (\$10.4 million was repaid in 2006). The balance of the original investment at December 31, 2006 was \$2.2 million. Repayment of the equity investment has been restricted from payment until the Agency's Series C 2006 debt is paid off, which was accomplished during 2016, however, it is further contingent upon successful operation of the Project; it is not guaranteed. Should the Project fail to generate sufficient revenues, the repayment of the equity contribution may occur only in part or not at all. At December 31, 2016, the Board had a receivable in the amount of \$667,000 (\$2.2 million at December 31, 2015) for interest on the cumulative preferred dividend on the remaining equity investment. Revenue from preferred dividends is included with investment earnings.

The investment in Western Generation Agency consists of the balance of the initial equity contribution, 50% of the Agency's net income and losses, and distributions from excess cash. Under bond agreements, distributions to the Board are limited to \$400,000 per year. During 2016, \$400,000 in distributions were received (\$200,000 in 2015). The balance of the investment as of December 31, 2016 was \$3.5 million (\$2.8 million at December 31, in 2015).

The Board is committed, through a power purchase agreement, to purchase the output from the Project through year 2021. The Board suspended its agreement with the Agency in favor of a separate purchase power agreement between the Agency and BPA, which was in effect through April 2016, after which the Board and Clatskanie PUD each purchase 50% of the output. Financial information for the Project is included in the financial statements of the Agency and may be obtained from the Agency's trustee, US Bank.

Note 11 – Investment in Harvest Wind

The Board is a party to a joint ownership agreement, whereby the Board made an equity investment in the Harvest Wind project, a 98.9 megawatt wind generating facility located in Klickitat County, Washington. The Board's ownership share of Harvest Wind is 20%. Other owners are Peninsula Light Co., 20%, Cowlitz PUD, 30%, and Lakeview Light & Power, 30%. Commercial operations began on December 15, 2009.

During 2009, the joint owners of Harvest Wind elected to classify the project as an association taxable as a corporation. At the time of the election, all project assets were treated as contributed to the corporation. The corporation received a 4% share, and the joint owners received shares in proportion to their ownership. Owners share in power output, income and expenses according to their ownership shares.

The investment in Harvest Wind consists of the Board's share of the costs to develop the project, 20% of the Project's net income and losses, and any preferred distributions. At December 31, 2016, the balance of the Board's investment in Harvest Wind was \$23.7 million (\$25.0 million at December 31, 2015) including estimated income of \$445,000 (\$334,000 in 2015) and distributions of \$1.8 million (\$1.5 million in 2015).

The Board is committed, through an energy purchase agreement, to purchase its share of the output from the Project, and pay its share of project expenses through year 2029. Additionally, the Board is committed, through a transmission service agreement and a transmission payment agreement, to subsidize the initial construction of transmission lines, deposit funds to ensure contract performance, and purchase transmission from the owner of the transmission lines through the year 2029.

Under the terms of a payment agreement, the Board deposited \$1,340,000 from 2010 distributions in an escrow account to ensure payment of its share of contingent liabilities of the corporation. If no such contingencies occur, the funds will be released from escrow.

Under the terms of a transmission agreement, the Board has \$709,000 as of December 31, 2016 (\$730,000 at December 31, 2015) on deposit in an escrow account to ensure the payment of monthly transmission interconnection expenses.

Financial information for the project is included in the financial statements of the project and may be obtained from the Board.

Note 12 – Long-term debt

On May 19, 2016, the Water System issued \$39.2 million in revenue and revenue refunding bonds with an average coupon of 4.2 percent and an all-in yield of 2.9 percent. Net proceeds of \$43.1 million plus \$3.6 million released from debt service funds were used to refund Series 2002 and 2005; to advance refund 2008, and to provide \$16 million in construction funds for capital improvements. Application of the proceeds for refunding and the released debt service funds, reduced aggregate debt service payments through year 2038 by \$5.6 million. The economic gain was \$4 million.

On August 1, 2016, the Electric System placed \$26.9 million from the sale of its Smith Creek Hydroelectric Project, and other funds on hand, in escrow to defease \$23.8 million of its Series 2012 bonds, which were issued in part to fund construction of the Smith Creek Hydroelectric Project. Although the defeasance resulted in recognition of an accounting loss of \$1.5 million for the year ended December 31, 2016, the Board eliminated nearly \$28 million in debt service for the bonds and attained a net present value savings of \$503,000.

On September 7, 2016, the Electric System issued \$115.2 million in revenue refunding bonds to refund its Series 2005 and 2006 bonds, to advance refund Series 2008, and to advance refund a portion of its Series 2011A. Net proceeds of \$134.8 million, after payment of issuance costs, together with \$3.9 million released from debt service funds and \$1.8 million in remaining construction proceeds from Series 2011A were used to reduce future debt service payments by \$19.1 million. The all-in yield on these bonds was 2.4 percent. The economic gain was \$13.2 million.

The Board defeased bonds described above by placing proceeds and other sources of cash in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements. At December 31, 2016, \$136,235,000 of Electric System bonds and \$13,190,000 of Water System bonds outstanding are considered defeased.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 12 – Long-term debt, continued)

Bonds and notes payable were as follows:

	2016	2015
Electric Utility System Revenue and Refunding Bonds		
2001 Series A, 11-15-01 issue		
Term bonds, 6.32%, due 2012-2022	\$ 16,415,000	\$ 18,160,000
Capital appreciation, 7.13% - 7.21%, due 2023-2027	4,067,556	4,067,556
2005 Series, 5-10-05 issue		
Serial bonds, 3.75% - 5.0%, due 2012-2020	-	2,855,000
Term bonds, 4.50%, due 2021 & 2025	-	3,530,000
2006 Series, 8-24-06 issue		
Serial bonds 4.00% - 4.50%, due 2012-2026	-	8,440,000
2008 Series A, 7-17-08 issue		
Serial bonds 4.00% - 5.00%, due 2012-2028	-	27,575,000
Term bonds, 5.00%, due 2029-2033	-	15,995,000
2008 Series B, 7-17-08 issue		
Serial bonds 4.00% - 5.00%, due 2012-2022	-	23,220,000
2011 Series A, 6-08-11 issue		
Serial bonds 3.00% - 5.00%, due 2013-2032 (original)	-	46,325,000
Serial bonds 1.90% - 2.85%, due 2017-2020 (after refunding)	9,190,000	-
Term bonds, 5.00%, due 2033-2040	-	14,375,000
2011 Series B, 6-08-11 issue		
Serial bonds 1.00% - 4.35%, due 2013-2023	6,165,000	6,940,000
2012 Series, 8-1-12 issue		
Serial bonds 2.00% - 5.00%, due 2013-2032	18,225,000	46,025,000
Term bonds, 5.00%, due 2033-2038	10,165,000	10,165,000
Term bonds, 3.75%, due 2039-2042	8,475,000	8,475,000
2016 Series A, 9-7-16 issue		
Serial bonds 2.00% - 5.00%, due 2017-2036	85,035,000	-
Term bonds 4.00%, due 2037-2040	8,065,000	-
2016 Series B, 9-7-16 issue		
Serial bonds .835% - 1.840%, due 2017-2022	22,050,000	-
	187,852,556	236,147,556
Add unamortized premium	23,591,761	10,228,312
	211,444,317	246,375,868
Electric System bonds payable, long-term and current portion	11,165,000	13,510,000
Less current portion	200,279,317	232,865,868
Electric System bonds payable, net of current portion		

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 12 – Long-term debt, continued)

	2016	2015
Water Utility System Revenue and Refunding Bonds		
2002 Series, 8-1-02 issue, Serial Bonds 3.25% - 4.70%, due 2012-2022	\$ -	\$ 5,220,000
2005 Series, 8-16-05 issue		
Serial bonds, 3.50% - 5.00%, due 2012-2025	-	6,135,000
Term bonds, 4.35%, due 2030	-	4,180,000
2008 Series, 7-17-08 issue		
Serial bonds, 4.00% - 5.00%, due 2012-2026	-	4,785,000
Term bonds, 4.50% - 5.25%, due 2027-2038	-	8,755,000
2011 Series, 6-29-11 issue		
Serial bonds, 2.00% - 4.25%, due 2014-2031	8,125,000	8,550,000
Term bonds, 4.50% - 5.00%, due 2032-2040	7,935,000	7,935,000
2016 Series, 5-19-16 issue		
Serial bonds, 2.00% - 5.00%, due 2017-2037	32,320,000	-
Term bonds 4.00%, due 2038-2045	6,860,000	-
Note payable - Electric		
11-15-01 issue, 6.32% - 7.21%, due 2012-2027	2,003,672	2,210,949
	57,243,672	47,770,949
Add unamortized premium	5,873,233	352,747
Less unamortized discount	-	66,791
Less inter-system payable	2,003,672	2,210,949
Water System bonds and note payable, long-term and current portion	61,113,233	45,845,956
Less current portion	1,840,000	1,920,000
Water System bonds payable, net of current portion	59,273,233	43,925,956
Total Systems long-term debt, net of current portion	\$ 259,552,550	\$ 276,791,824

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 12 – Long-term debt, continued)

The schedule of maturities for principal and interest on bonded debt and note payable is as follows:

	Electric System		Water System	
	Principal	Interest	Principal	Interest
2017	\$ 11,165,000	\$ 7,334,896	\$ 1,840,000	\$ 2,319,050
2018	10,625,000	7,372,120	2,160,000	2,282,250
2019	10,990,000	7,007,287	2,230,000	2,220,788
2020	11,400,000	6,596,471	2,325,000	2,138,413
2021	9,945,000	6,170,154	2,415,000	2,050,113
2022 - 2026	47,666,016	38,323,117	10,440,000	8,740,188
2027 - 2031	40,531,540	18,859,667	11,240,000	6,347,025
2032 - 2036	25,270,000	6,866,927	10,340,000	4,041,650
2037 - 2041	18,025,000	2,464,339	9,000,000	1,675,200
2042 - 2045	2,235,000	83,813	3,250,000	331,400
	<u>\$ 187,852,556</u>	<u>\$ 101,078,791</u>	<u>\$ 55,240,000</u>	<u>\$ 32,146,077</u>

The resolutions authorizing the issuance of revenue bonds contain various covenants, sinking fund requirements and obligations with which the Board must comply. The principal and interest requirements are reflected in the supplementary schedule “Long-Term Bonded Debt and Interest Payment Requirements.” To comply with sinking fund deposit requirements, the Board deposits monthly one-twelfth of the annual deposit requirement with the trustee, less accumulated interest earnings. The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1. At December 31, 2016 and 2015, no assets were pledged as security for the outstanding bonds of the Electric and Water Systems.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 12 – Long-term debt, continued)

Long-term debt activity for the year ended December 31, 2016 was as follows:

	Outstanding January 1, 2016	Additions	Reductions	Outstanding December 31, 2016	Due Within One Year
Electric revenue bonds - current interest	\$ 232,080,000	\$ 115,150,000	\$ (163,445,000)	\$ 183,785,000	\$ 11,165,000
Electric Revenue Bonds - Capital Appreciat	4,067,556	-	-	4,067,556	-
Total Electric System	236,147,556	115,150,000	(163,445,000)	187,852,556	11,165,000
Water revenue bonds	45,560,000	39,180,000	(29,500,000)	55,240,000	1,840,000
Total bonded debt	\$ 281,707,556	\$ 154,330,000	\$ (192,945,000)	\$ 243,092,556	\$ 13,005,000

Long-term debt activity for the year ended December 31, 2015 was as follows:

	Outstanding January 1, 2015	Additions	Reductions	Outstanding December 31, 2015	Due Within One Year
Electric revenue bonds - current interest	\$ 244,780,000	\$ -	\$ (12,700,000)	\$ 232,080,000	\$ 13,510,000
Electric Revenue Bonds - Capital Appreciation	4,067,556	-	-	4,067,556	-
Electric Note Payable	28,752,398	-	(28,752,398)	-	-
Total Electric System	277,599,954	-	(41,452,398)	236,147,556	13,510,000
Water revenue bonds	47,400,000	-	(1,840,000)	45,560,000	1,920,000
Total bonded debt	\$ 324,999,954	\$ -	\$ (43,292,398)	\$ 281,707,556	\$ 15,430,000

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

Note 13 – Intersystem receivables and payables

	2016		
	Electric System	Water System	Total Systems
Due from Water, (Due to) Electric			
<u>Current</u>			
Interest	\$ 186,857	\$ (186,857)	\$ -
Note - prepaid retirement obligation	207,277	(207,277)	-
Lease	476,522	(476,522)	-
	<u>870,656</u>	<u>(870,656)</u>	<u>-</u>
<u>Non-current</u>			
Note - prepaid retirement obligation	2,003,672	(2,003,672)	-
Lease	14,608,329	(14,608,329)	-
	<u>16,612,001</u>	<u>(16,612,001)</u>	<u>-</u>
Totals	<u>\$ 17,482,657</u>	<u>\$ (17,482,657)</u>	<u>\$ -</u>
	2015		
	Electric System	Water System	Total Systems
Due from Water, (Due to) Electric			
<u>Current</u>			
Interest	\$ 217,339	\$ (217,339)	\$ -
Note - prepaid retirement obligation	207,277	(207,277)	-
Lease	462,532	(462,532)	-
	<u>887,148</u>	<u>(887,148)</u>	<u>-</u>
<u>Non-current</u>			
Note - prepaid retirement obligation	2,210,949	(2,210,949)	-
Lease	15,055,550	(15,055,550)	-
	<u>17,266,499</u>	<u>(17,266,499)</u>	<u>-</u>
Totals	<u>\$ 18,153,647</u>	<u>\$ (18,153,647)</u>	<u>\$ -</u>

Amounts receivable and payable between the Electric and Water Systems and related interest earnings and expense are eliminated in the Total Systems columns of the financial statements.

Roosevelt Operations Center Lease

The Electric System has financed the acquisition and construction of the Board's Roosevelt Operations Center consisting of land, buildings, equipment and personal property placed into service November 2010. Both the Electric and Water Systems occupy the property. A direct financing lease beginning November 1, 2010 represents the economic substance of an arrangement whereby the Water System will repay the Electric System for the cost to create what is determined to be the Water System's share of the property, and also assume all of the economic benefits and risks of ownership. Future minimum lease payments were estimated to cover the fair value of the Water System's share of the property, and associated financing costs incurred by the Electric System without gain to the Electric System. The transaction was recorded in equal amounts as Plant in Service and a Capital Lease Obligation for the Water System, along with depreciation expense and a lease receivable for the Electric System.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 13 – Intersystem receivables and payables, continued)

Lease payments are revised for refinancing of underlying contributions made by the Electric System. The amount financed by the lease is also revised for capitalized improvements at the facility if they are financed by the Electric System. As of December 31, 2015 (and as of December 31, 2014), minimum lease payments were \$99,000 per month through year 2035, and \$13,000 per month for years 2035 through 2040 on a capitalized value of \$17.6 million. As of September 2016, the lease was revised for effects of Electric’s issuance of refunding bonds Series 2016A, which reduced the interest component of the lease by \$4.4 million over the years of 2017 through 2040, and by \$86,000 in year 2016. As of December 31, 2016, minimum lease payments were approximately \$70,000 per month (\$99,000 per month through year 2035, and \$13,000 per month for years 2035 through 2040 as of December 31, 2015) on a capitalized value of \$17.6 million.

Annual totals for lease payments (including interest) as of December 31, 2016 were as follows:

2017	840,253
2018	840,253
2019	840,253
2020	840,253
2021	840,253
2022 - 2026	4,201,265
2027 - 2031	4,201,265
2032 - 2036	4,201,265
2037 - 2040	3,080,927
	\$ 19,885,987

Note 14 – Special item

The Board expensed preliminary investigation assets of \$9.6 million for the year ended December 31, 2016. These were pre-construction costs for a fish ladder and fish screen at the Carmen-Smith Hydroelectric Project. Fish passage measures were articulated in a settlement agreement in 2008, which became an addendum to the Board’s earlier application for license from FERC.

Effective November 30, 2016, the Board has a renegotiated settlement agreement which provides trap-and-haul fish passage as an alternative to the screen and ladder. The new agreement is authoritative, and as a result, these costs no longer represent an asset expected to result in construction.

Note 15 – Power supply resources

Bonneville Power Administration

- **Bonneville Power Administration Contracts**

A new contract was signed on December 4, 2008 providing power to EWEB from October 1, 2011 through September 30, 2028. The Board reselected a combination of both Block and Slice System power products from those offered by Bonneville Power Administration (BPA) in the previous contract which ended September 30, 2011. While Slice and Block are still the offered products, BPA has implemented new policies on how it sells power and what it will charge to meet customer's future load growth. Under BPA's new tiered rate methodology policy, BPA has allocated the power output and operational costs of the existing low-cost federal resources into a tier 1 pool. Rates for tier 1 are the lowest cost power available from BPA. The tier 1 power was allocated to public power customers like EWEB based on each customer's 2010 actual weather-adjusted load. The allocation determines the maximum planned amount of tier 1 power that a customer is eligible to purchase in each year of the contract.

Each product provides attributes bringing different kinds of flexibility to the Board's power portfolio. The Slice product provides a percentage of BPA's resources rather than a guaranteed amount of power and in exchange the Board pays its Slice contract percentage share of BPA's costs. Slice output, in combination with the Block and other EWEB resources, may be more or less than what is needed to serve EWEB's hourly retail loads. In the spring months, available must-run water in the Columbia system is typically high due to the runoff from snow melting, and the increased power generation may require BPA to rely on spilling water as a tool to balance generation with demand. However, in order to maintain safe water conditions to protect fish, spills are limited. The risk associated with the Slice product is managing the water variability and available Slice storage to economically meet hourly load obligations and to optimally dispatch the value of the surplus portion of the Slice product.

The Slice product consists of a Slice share of BPA's Federal Base System generation. Under the new contract, the Board's initial Slice percentage share is 1.81%, compared to the historical 2.40% in the previous Requirements contract. The amount of actual power received under the Slice product will vary with seasonal water year conditions, the performance of the Columbia Generating Station (CGS) nuclear plant and the performance and availability of all other Federal Base System resources. In years of heavy water flow and lack of overall storage in the Federal System, the Board may have rights to power in excess of their needs, and in low water years the Board would need to augment its share of Slice output with its own generation, market purchases, or storage releases from EWEB's share of Slice storage.

The second BPA product purchased is the Block, which provides a fixed hourly amount for the month, and varies by month. The value of the Block product is the certainty of a fixed volume of power shaped to monthly load requirement and the monthly predictability of prices for the known quantity of power.

(Note 15 – Power supply resources, continued)

The annual amount of power the Board is entitled to under this contract is based on the actual weather adjusted load during the period between October 1, 2009 and September 30, 2010, with some adjustments specified in BPA's tiered rate methodology, is approximately 250 aMW.

- **BPA Transmission Contract**

In 2001, the Board signed the Network Integration Transmission Service contract with BPA to provide transmission for the Board's generation projects and BPA power to serve EWEB's load. The current contract term extends through September 30, 2028. EWEB has firm roll-over rights with this contract.

EWEB-Owned Resources

- **Carmen-Smith and Trailbridge Hydroelectric Project**

EWEB owns and operates the Carmen-Smith Hydroelectric Project (Carmen-Smith Project) within the McKenzie River basin. The Carmen-Smith Project includes the Carmen Power House with two generating units with a nameplate capacity of 52 MW each. The Carmen-Smith Project also includes the Trail Bridge re-regulating facility, with an additional generating unit with a nameplate capacity of 10 MW.

The federal operating license for the Carmen-Smith Project expired on November 30, 2008. The Board submitted an application to relicense the facility to the FERC in 2006, and supplemented the application with a comprehensive settlement agreement, signed by state and federal agencies, Native American tribes and non-governmental organizations, in 2008. A revised and restated Settlement Agreement was filed with the FERC in November 2016.

FERC action on EWEB's license application as amended by the revised Settlement Agreement is pending. Since 2008, EWEB has received, and will continue to receive, an annual operating license from FERC until the new license is ultimately issued. EWEB expects that the new license will be issued in 2018.

- **International Paper Industrial Energy Center Cogeneration Project**

The Board and International Paper Company jointly operate a cogeneration facility at the International Paper Springfield plant. The unit, which has a nameplate capacity of 25.4 MW (average output is approximately 20 aMW), is owned by the Board, with International Paper providing operation and fuel. Under terms of the current agreement (which expires in 2019), the project costs and output for this unit are shared equally by the parties.

(Note 15 – Power supply resources, continued)

- **Leaburg Walterville Hydroelectric Project**

The Board owns and operates the Leaburg Walterville Hydroelectric Project (L-W Project) on the McKenzie River in Lane County, Oregon. The L-W Project is comprised of two run-of-river facilities located at different points on the McKenzie River. The Leaburg facility includes a diversion dam on the McKenzie River, a canal and two generating units with a combined nameplate capacity of 15.9 MW. The Walterville facility includes a canal diverting water from the McKenzie River and one generating unit with a nameplate capacity of 8 MW. In 2001, FERC granted the Board a new hydroelectric license for the L-W Project. The new license is for a term of 40 years.

- **Stone Creek Hydroelectric Project**

The Stone Creek Project has one turbine with a peak capability of 12 MW. The facilities are on the Clackamas River approximately 45 miles southeast of Portland. The project is a run-of-the-river development located between two hydroelectric facilities that are owned and operated by PGE. The Stone Creek facility is operated and maintained for EWEB by PGE and is licensed through 2038.

- **Foote Creek I Wind Project**

The Board and PacifiCorp are the joint owners of the Foote Creek I Wind Project with the Board having a 21.21% ownership, which translates to 8.8 MW of the project capacity. The project is located along the Foote Creek Rim in Carbon County, Wyoming. EWEB has sold 26% or 2.3 MW of its share to BPA under terms of a 25 year power purchase agreement, pursuant to which BPA has committed to purchase 15.3 MW of the Project's total capacity. Net of sales to BPA, the Board receives approximately 2.5 aMW per year from the Foote Creek I Project.

- **Harvest Wind Project**

The Board, Cowlitz PUD, Lakeview Light and Power, and Peninsula Light Company are the joint owners of the Harvest Wind Project, with the Board having a 20% ownership share. The project has a nameplate capacity of 98.9 MW and is located in Klickitat County, Washington. All project assets are held by a corporation formed by the owners. The Board and other owners have committed to purchase power from the corporation in proportion to their ownership shares through December 2029.

Contract Resources

- **Stateline Wind Project**

In 2002, the Board agreed to purchase 25 MW from Phase 1 of the Stateline Wind Project (Stateline) located in Walla Walla County, Washington and Umatilla County, Oregon. The project consists of 399 wind turbines with total generating capacity of about 450 MW. The contract for this power expires on December 31, 2026.

(Note 15 – Power supply resources, continued)

- **Klondike III Wind Project**

The Board agreed to purchase 25 MW from Phase 3 of the Klondike Wind project located near the town of Wasco in Sherman County, Oregon. The project consists of 125 wind turbines with total generating capacity of about 224 MW. The Board's 25 MW share translates to about 11.2% of Klondike III total plant capability. The contract for this power expires on October 31, 2027.

- **Seneca Sustainable Energy**

On February 25, 2010, the Board entered into a Renewable Power Purchase Agreement with Seneca Sustainable Energy LLC (SSE) to purchase the output of the biomass fueled electric cogeneration facility located in Eugene, Oregon. The contract term is for 15 years commencing on the commercial date of April 5, 2011. Nameplate capacity is 19.8 MW. Expected average output is approximately 14 aMW.

- **Priest Rapids and Wanapum Hydroelectric Projects**

The Board purchases power from the Priest Rapids Project composed of the Priest Rapids Dam and the Wanapum Dam, two large hydroelectric developments on the Columbia River in Washington owned by Public Utility District No. 2 of Grant County, Washington (Grant County PUD). The most recent power purchase contract with Grant County PUD continues through October 31, 2059. Under this renewed contract, EWEB's share of purchased physical power from Grant County PUD will be 0.14% of the project output or about 1.4 aMW per year.

- **Smith Creek Hydroelectric Project**

The Smith Creek Hydroelectric Project is a run-of-the-river hydroelectric project on Smith Creek, a tributary of the Kootenai River in Northern Idaho. It is comprised of three units with a combined nameplate capacity of 38.3 MW. The Board sold this project for \$22.25 million in May of 2016, entering into a three year power purchase agreement with the new owner.

- **Energy Northwest**

Energy Northwest is a Washington municipal corporation, engaged in the construction of five nuclear generation facilities (Projects Nos. 1,2,3,4 and 5), of which EWEB purchased a 0.061 percent share of Project No 1. The Board is not a member of Energy Northwest. EWEB, Energy Northwest, and Bonneville entered into a separate Net Billing Agreement, under which EWEB purchased from Energy Northwest, and in turn, assigned to Bonneville, EWEB's share of the capability. Construction of Project No 1 was terminated in 1994. However, under the Net Billing Agreement, Bonneville is responsible for EWEB's percentage share of the total annual cost of Projects No 1, including debt service on revenue bonds issued to finance the cost of construction, whether or not the Project was completed. This has resulted in no payments by, or credits to EWEB under the Net Billing Agreement. In the event that Bonneville fails to make a payment, or the parties terminate the agreement to directly pay, the original obligations of the Net Billing Agreements would resume. Bonneville has always met all of its obligations to Energy Northwest.

(Note 15 – Power supply resources, continued)

- **Solar PV Purchases**

EWEB supports the development of Solar PV generation in Eugene through the provision of net metering rates to those customers with small systems that wish to self-generate power and standard offers for short-term power purchases at fixed rates for customers with larger systems. As of the close of 2016, EWEB had acquired net metering contracts with total capacity slightly over 3 MW and 0.37 aMW of energy and direct generation contracts with a total capacity of just over 2 MW and .29 aMW of energy.

Note 16 – Retirement benefits

1. Pension Plan

Plan Description

Board employees are provided with pensions through Oregon Public Employees Retirement System (OPERS). It is a cost sharing multiple-employer defined benefit pension plan. All Board employees are eligible to participate in OPERS after six months of employment. Oregon PERS, a component unit of the State of Oregon, issues a comprehensive annual financial report, which may be obtained from the OPERS website, www.oregon.gov/pers.

Description of Benefit Terms

All benefits of the OPERS are established by the legislature pursuant to ORS Chapters 238 and 238A.

- **Tier One/Tier Two Retirement Benefit (Chapter 238)** Tier One/Tier Two Retirement Benefit plan is closed to new members hired on or after August 29, 2003.

Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. Retirement benefits are determined as 1.67 percent of the employee's final average salary times the employee's years of retirement credit. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with the Board. General service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

(Note 16 – Retirement benefits, continued)

Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- the member was employed by a PERS employer at the time of death,
 - the member died within 120 days after termination of PERS-covered employment,
 - the member died as a result of injury sustained while employed in a PERS-covered job,
- or
- the member was on an official leave of absence from a PERS-covered job at the time of death.

Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

Benefit Changes After Retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

- **OPSRP Pension Program (OPSRP DB)**

Pension Benefits

The Pension Program (ORS Chapter 238A) provides benefits to members hired on or after August 29, 2003.

This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP Pension Program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

(Note 16 – Retirement benefits, continued)

Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation. The state of Oregon and certain schools, community colleges, and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced. The Board has elected to make lump-sum payments to OPERS, during 2007 and 2001, which has had the effect of lowering the employer contribution rate. The Board's contribution rates effective July 1, 2015 were 21.99% for Tier One/Tier Two members and 16.94% for OPSRP General service members. Employer contributions for the year ended December 31, 2016 were \$8.1 million (\$8.9 million in 2015), excluding amounts to fund employer specific liabilities.

Pension liability, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions

At December 31, 2016, the Board reported a net pension liability of \$105,883,444 for its proportionate share of the OPERS net pension liability (\$45,501,290 in 2015). The net pension liability was measured as of June 30, 2016 and the total pension liability for each plan used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to June 30, 2016 using standard update procedures. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of contributions to the plan relative to the projected contributions for all participating employers, actuarially determined. The Board's proportionate share of the net pension asset as of June 30, 2016 was 0.70531024%.

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015

(Note 16 – Retirement benefits, continued)

For the year ended December 31, 2016, the Board’s proportionate share of system pension expense was \$18.9 million. The Board has elected to use regulatory accounting to recognize pension expense in conjunction with the required employer contribution rates. Accordingly, the Board recognized pension expense related to Tier One/Tier Two and OPSRP of \$8.1 million.

As of December 31, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments	\$ 20,918,127	\$ -
Differences between expected and actual experience	3,503,087	-
Changes in assumptions	22,582,394	-
Changes in employer proportion	-	5,607,958
Differences between employer contributions and proportionate share of contributions	2,296,630	-
Pension contributions subsequent to measurement date	4,057,492	-
	<u>\$ 53,357,730</u>	<u>\$ 5,607,958</u>

\$4.1 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are to be amortized as pension debits and pension credits as follows:

Fiscal Year	Net difference between projected and actual earnings on investments	Differences between expected and actual experience	Changes of assumptions	Changes in proportion	Differences between employer contributions and proportionate share of contributions
2017	\$ 1,689,977	\$ 931,389	\$ 5,251,720	\$ (1,360,436)	\$ 677,611
2018	1,689,977	931,389	5,251,720	(1,360,436)	677,611
2019	11,108,932	931,389	5,251,720	(1,360,436)	563,892
2020	6,429,241	596,799	5,251,720	(1,199,159)	304,118
2021	-	112,121	1,575,514	(327,491)	73,399
	<u>\$ 20,918,127</u>	<u>\$ 3,503,087</u>	<u>\$ 22,582,394</u>	<u>\$ (5,607,958)</u>	<u>\$ 2,296,631</u>

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2016 and 2015

(Note 16 – Retirement benefits, continued)

Actuarial Methods and Assumptions Used in Developing the Total Pension Liability

The total pension liability in the December 31, 2014 actuarial valuations were determined using the following actuarial assumptions.

Valuation date	December 31, 2014
Measurement date	June 30, 2016
Actuarial cost method	Entry age normal
Actuarial Assumptions:	
Discount rate	7.50%
Inflation	2.50%
Payroll growth	3.50%
Projected salary increase	3.50%
Investment rate of return	7.50%

Mortality rates for healthy retirees and beneficiaries were based on the RP-2000 Sex-distinct tables, as appropriate, with adjustments for mortality improvements based on Scale BB. Mortality rates for active members are a percentage of healthy retiree rates that vary by group, as described in the valuation. For disabled retirees, mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 generational disabled mortality sex-distinct table.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2012 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 16 – Retirement benefits, continued)

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption.

These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.31%	6.99%
Micro Cap US Equities	1.31%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Market Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equity	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	2.50%	4.64%
Hedge Fund - Event-driven	63.00%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
Assumed Inflation - Mean		2.50%

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 16 – Retirement benefits, continued)

Sensitivity of Net Pension Liability to Changes in the Discount Rate (in Millions)

As of June 30, 2016

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' Net Pension Liability			
Defined Benefit Pension Plan	\$ 170,966,457	\$ 105,883,444	\$ 51,485,432

Pension plan fiduciary net position

Detailed information about each pension plan's fiduciary net position is available in the separately issued OPERS financial reports.

Payable to the pension plan

The Board had \$425,000 in contributions payable to the pension plan for the year ended December 31, 2016.

Changes in plan provisions during the measurement period

There were no changes in plan provisions during the measurement period.

Changes in plan provisions subsequent to the measurement period

There were no changes in plan provision subsequent to the measurement period.

- **Defined contribution pension - OPSRP Individual Account Program (OPSRP IAP)**

Pension Benefits

Participants in the OPERS defined benefit pension plan also participate in the OPERS defined contribution plan. An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Recordkeeping

PERS contracts with VOYA Financial to maintain IAP participant records.

(Note 16 – Retirement benefits, continued)

Contributions

Covered employees are required to contribute 6% of their salary to the plan. The Board has chosen to pay the employees' contributions to the plan. For 2016, the Board contributed \$2.6 million for employees.

2. Postemployment Benefits Plan Other than Pensions

Plan Description

In addition to pension benefits, the Board provides postemployment health care and life insurance benefits to certain employees who retire under OPERS or OPSRP with at least 11 years of service at EWEB. The plan is administered as the Eugene Water & Electric Board Retirement Benefits Trust. It is a single-employer plan.

The life insurance benefit is a fixed amount of \$5,000 per retiree. Health care coverage is provided in the form of a subsidy toward insurance premiums. The subsidy varies with years of service and the benefits offered by the Board at the time of an employee's hire and retirement. Medicare eligible retirees choose from Medicare supplement plans offered through OPERS. The subsidy for Medicare supplement coverage is established by the Board; however, the coverage is administered by OPERS as a cost sharing plan. Early retirees receive coverage under the group plan the Board offers to its active employees. Those group benefit provisions are established by the Board, and coverage is generally 80% of eligible medical costs. Dental and/or vision benefits are offered through the group plan for retirees with earlier hire and retirement dates. The plan's latest actuarial valuation dated August 31, 2016 included 449 retirees or surviving spouses of retired employees and 389 active employees.

During 2016, a change in plan provisions was negotiated with the International Brotherhood of Electrical Workers (IBEW) for current IBEW employees hired on or after January 1, 2003. At retirement, those employees will not receive a subsidy toward health care coverage. The August 31, 2016 actuarial valuation did not include active employees who are IBEW members.

The obligation for payment of insured benefits rests with the insurance companies providing coverage. The Board does not guarantee benefits in the event of an insurance company's insolvency.

Funding Policy

Contributions required from retirees are established in the plan and may be amended by the Board. Contributions from participating retirees are either a flat rate or a percentage of premium costs and vary by participant according to the benefits in place when the participant was hired and/or retired. The Board's contributions are capped for the more recent retirees. The cap is expressed as a percentage of the Board's share of premium increases in a year. It is the Board's intent to pay the actuarially determined OPEB cost annually to the trust.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 16 – Retirement benefits, continued)

Annual OPEB Cost

The Board’s annual expense for OPEB is calculated as the annual required contribution of the employer (ARC) net of actual contributions made and amortization of the Board’s net OPEB asset. The ARC is an amount actuarially determined, based on the entry age normal method. The ARC represents level funding, that if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over an open 10-year period. Amortization is calculated as a level percentage of projected payroll using a salary scale assumption of 4.0% and a payroll growth rate of 3.5%. Actual contributions were \$1.2 million during 2015 and \$980 thousand during 2016.

The following table shows components of the Board’s OPEB cost for year 2016 including changes in the Board’s OPEB net asset. The net asset represents timing differences between the ARC and employer contributions in excess of the ARC in past years in order to fund the plan. Overall, the plan has an unfunded actuarial accrued liability.

Annual required contribution	\$ 980,298
Interest on net OPEB asset	(400,856)
Adjustment to annual required contribution	<u>776,158</u>
Annual OPEB cost	1,355,600
Contributions made	<u>(1,167,000)</u>
Decrease in net OPEB asset	188,600
Net OPEB asset - beginning of year	<u>(6,680,934)</u>
Net OPEB asset - end of year	<u><u>\$ (6,492,334)</u></u>

The most recent actuarial valuation assumes a return on investments of 6%. Health care premiums are assumed to increase by 2.5% in 2017 and 7% in 2018, 2019 and 2020, grading down by 0.5% each year to a long term rate of 4% by 2026.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and the plan members) and include types of benefits provided at the time of each valuation and 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 designed to reduce short-term volatility in accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 16 – Retirement benefits, continued)

The Board’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation or asset for 2016 and the preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation (Asset)
12/31/2014	\$ 1,535,043	100%	\$ (7,004,361)
12/31/2015	\$ 1,166,812	100%	\$ (6,680,934)
12/31/2016	\$ 980,298	100%	\$ (6,492,334)

Funding Status and Funding Progress

As of the August 31, 2016 actuarial valuation, the plan was 72% funded. The actuarial accrued liability for benefits was \$24.3 million, and the actuarial value of assets was \$17.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$6.8 million.

The following table presents a schedule of funding progress for the Board’s OPEB Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/1/2013	\$ 19,257,425	\$ 31,281,002	\$ 12,023,577	62%	\$ 42,796,406	28%
12/31/2014	\$ 19,172,194	\$ 26,579,575	\$ 7,407,381	72%	\$ 45,250,685	16%
8/31/2016	\$ 17,552,403	\$ 24,305,534	\$ 6,753,131	72%	\$ 33,748,758	20%

Covered payroll for year 2016 excludes active employees who are IBEW members.

Actuarial valuations on an ongoing plan involve estimates of the value reported 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.

Audited financial statements for the OPEB plan are obtainable by writing to the Board.

Note 17 – Deferred compensation

The Board offers all employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan permits them to defer a portion of their salary until future years. Participation in the plan is optional. Payment from the plan is not available to employees until termination, retirement, death or unforeseeable emergency.

The Board works with separate investment providers who also provide third-party administration for all deferred compensation program funds. Participating employees have several investment options with varying degrees of market risk. The Board has no liability for losses under the plan, but does have the duty to administer the plan in a prudent manner.

The Board has little administrative involvement with the plan and does not perform the investing function. Therefore, in accordance with GASB No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, the plan assets are not included in the accompanying Statements of Net Position.

Note 18 – Trojan nuclear plant

The Trojan Nuclear Plant (Project) is jointly owned by Portland General Electric Company (PGE), 67.5%; the City of Eugene, acting by and through Eugene Water & Electric Board, 30%; and Pacific Power and Light Company, 2.5%; as tenants in common. The Project ceased commercial operation in 1993 and is being decommissioned. In accordance with GASB No. 14, The Financial Reporting Entity, the Project is reported as a joint venture on the equity method of accounting.

Under the terms of Net Billing Agreements, executed in 1970, BPA is obligated to pay the Board amounts sufficient to pay all of the Board's costs related to the Project, including decommissioning and debt service, notwithstanding the termination of plant output. BPA pays those costs primarily by issuing credits against the Net Billing Participant's purchases of electricity from BPA, but in some cases also makes payments in cash. The Board is required to transfer from its Electric System Fund to the Trojan Project Fund an amount equal to all net billing credits received through this agreement. The Board is then responsible for making payments from the Trojan Project Fund to the Trojan Project for the Board's share of decommissioning costs.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 18 – Trojan nuclear plant, continued)

Since BPA is obligated to pay the Board’s share of all Trojan Project costs, and has provided the Board with legally binding written assurances of its commitment to that obligation, the Board does not expect the closure and decommissioning of the Trojan Project to have any adverse effect on the Board’s Electric or Water Systems. As such, the equity interest in the Project is zero. However, under the terms of the original agreements, if one of the tenants in common fails to perform on their obligation for decommissioning costs, the other tenants may be liable. This obligation may not be covered under the Net Billing Agreement mentioned previously. However, the Board believes this risk is minimal.

A summary of the balance sheets for EWEB’s share of the Trojan Project as of September 30, 2016 and September 30, 2015 is as follows.

	Unaudited September 30, 2016	Unaudited September 30, 2015
<u>Assets</u>		
Current assets	\$ 1,897,266	\$ 813,938
Long-term receivable, BPA, net	35,624,924	37,864,426
Total assets	<u>\$ 37,522,190</u>	<u>\$ 38,678,364</u>
<u>Liabilities</u>		
Current liabilities	\$ 1,603,242	\$ 1,461,999
Accumulated provision for decommissioning costs	35,918,948	37,216,365
Total liabilities	<u>\$ 37,522,190</u>	<u>\$ 38,678,364</u>

The Trojan Nuclear Plant financial statements can be obtained from the Board.

Note 19 – Commitments and contingencies

Electric Projects

- **Construction**

Contractual commitments for rebuild of the Holden Creek Substation, powerhouse upgrades at Carmen-Smith, and fleet acquisition at December 31, 2016 were \$5.6 million (\$10 million for repair of Leaburg dam roll gates, powerhouse upgrades at Carmen-Smith, and acquisition of distribution assets at December 31, 2015).

- **Carmen-Smith Relicensing**

Preconstruction contracts for wildlife related services were approximately \$100,000 at December 31, 2016 (\$300,000 for preconstruction engineering of fish passage at December 31, 2015).

An arrangement with the US Forest Service is to provide for maintenance and enhancement measures on the National Forest Service land where the project is located. The Board expects to make annual payments of varying, prescheduled amounts to the Forest Service in accordance with settlement provisions. The payments are to total approximately \$1.5 million before inflation indexing over a maximum 50-year license.

A revised settlement agreement effective November 30, 2016 contains interim measures to accomplish while the license application is under review by FERC. The Board has agreed to install gravel at fish passage and spawning areas and to construct recreational improvements at campsites and a parking area during years 2017 and 2018.

Water Projects

Construction contracts for alternative water source property acquisition and improvements at the filtration plant were \$1.8 million at December 31, 2016 (\$4.8 million for relocation of water mains, improvements at the filtration plant and a reservoir at December 31, 2015).

Other Projects

Contractual commitments for advanced metering infrastructure were \$2.5 million at December 31, 2016 (\$4.2 million at December 31, 2015).

The Board pledged to match funds up to \$500,000 raised by the McKenzie River Trust as part of a funding campaign in November 2017 to support the Trust's acquisition of the 269-acre Finn Rock property located near Blue River. The Board has an interest in protecting water quality as well as wildlife habitat along the waterway where it operates hydro projects. At December 31, 2015 the Board pledged \$250,000 for the property acquisition, which was paid out to the Trust in April 2016.

NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2016 and 2015

(Note 19 – Commitments and contingencies, continued)

Self-Insurance

The Board is exposed to various risks of loss because of the Board’s self-insurance retention, up to the first \$2,000,000 of exposure, per occurrence. Excess liability coverage protects the Board after the Board’s self-insured limit is exhausted. However, public entities are also protected under State of Oregon tort limits ORS 30.260 – 30.300, *Tort actions against public bodies*, which reduce the liability to any single claimant to approximately \$110,000 for property damage and approximately \$700,000 for personal injury. Consequently, except in extreme cases, the Board’s exposure is mitigated by law. The limit is subject to change by State of Oregon legislation.

Claims liabilities recorded in the financial statements are based on the estimated ultimate loss as of the Statement of net position date, adjusted from current trends through a case-by-case review of all claims, including incurred but not reported claims. Non-incremental claims adjustment costs such as salaries are not included in the claims estimates. At December 31, 2016, a total claims liability of approximately \$69,510 is reported in the financial statements. All prior and current-year claim liabilities were fully reserved and have not been discounted.

		Liability Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Liability Balance at End of Year
2014	General Liability	\$ 126,734	\$ 112,241	\$ (108,975)	\$ 130,000
2015	General Liability	130,000	(65,780)	(54,720)	9,500
2016	General Liability	9,500	264,521	(207,511)	69,510

Claims and Other Legal Proceedings

The Board is involved in various litigations. In the opinion of management, the ultimate outcome of these claims will not have a material effect on the Board’s financial position beyond amounts already accrued as of December 31, 2016.

Required Supplementary Information

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2016
LAST TEN YEARS*

	2014	2015	2016
Proportion of the net pension asset	0.86138989%	0.79250364%	0.70531024%
Proportionate share of the net pension asset/(liability)	\$ 19,525,251	\$ (45,501,290)	\$ (105,883,444)
Covered - employee payroll	\$ 41,130,143	\$ 45,250,685	\$ 44,141,193
Proportionate share of the net pension asset/(liability) as percentage of covered-employee payroll	47%	101%	240%
Plan's fiduciary net position	\$ 65,401,492,664	\$ 64,923,626,094	\$ 62,082,059,102
Plan fiduciary net position as a percentage of the total pension liability	103.60%	91.90%	80.50%

*10 year trend information will be presented prospectively.

**SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2016
LAST TEN YEARS***

	2014		2015		2016
Contractually required contribution (actuarially determined)	\$ 9,544,586	\$	9,734,173	\$	8,189,904
Contributions in relation to the actuarially determined contribution	\$ 9,544,586	\$	9,734,173	\$	8,189,904
Contribution deficiency (excess)	\$ -	\$	-	\$	-
Covered employee payroll	\$ 41,130,143	\$	45,250,685	\$	44,141,193
Contributions as a percentage of covered-employee payroll	23.21%		21.51%		18.55%

Notes to Schedule

Valuation date: 12/31/2012, rolled forward to June 30, 2014 12/31/2013, rolled forward to June 30, 2015 12/31/2014, rolled forward to June 30, 2016

Methods and assumptions used to determine contribution rates:

Single and agent employers example	Entry age normal	Entry age normal	Entry age normal
Experience study report	2012, published September 18, 2013	2012, published September 18, 2013	2014, published September 23, 2015
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Remaining amortization period	Tier one/tier two - 20 year; OPSRP - 16 years	Tier one/tier two - 20 year; OPSRP - 16 years	Tier one/tier two - 20 year; OPSRP - 16 years
Asset valuation method	Market value of assets	Market value of assets	Market value of assets
Inflation	2.75%	2.75%	2.50%
Salary increases	3.75%	3.75%	3.50%
Investment rate of return	7.75%	7.75%	7.50%
Retirement age	55 for Tier 1/Tier 2; 65 for OPSRP	55 for Tier 1/Tier 2; 65 for OPSRP	55 for Tier 1/Tier 2; 65 for OPSRP
Mortality	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables
Discount rate	7.75%	7.75%	7.50%

*10 year trend information will be presented prospectively.

Supplementary Information

Sustainability Accounting Standards Disclosures (Unaudited)
 Year ended December 31, 2016

The following metrics are standardized disclosures recommended by the Sustainability Accounting Standards Board for electric and water utilities. The disclosures are voluntary and are not meant to demonstrate compliance with laws or regulations.

Electric System

Topic	Metric	Result
Greenhouse Gas Emissions & Energy Resource Planning	Number of customers served in markets subject to renewable portfolio standards (RPS). (All retail customers)	92,000
	RPS target before exemptions	354,265 MWh
	Percentage fulfillment of RPS target	Greater than 100%
Water Management	Number of incidents of non-compliance with water quality and/or quantity permits, standards, and regulations	None
Workforce Health & Safety	Total recordable injury rate	3.36
	Fatality rate	0
End-Use Efficiency	Customer electricity savings from efficiency measures (In total across all customer types)	127,941 MWh 4.7 MW reduction in peak demand
Grid Resiliency	System Average Interruption Duration Index (SAIDI), per customer	64.01 minutes
	System Average Interruption Frequency Index (SAIFI), per customer	.51 outages
	Customer Average Interruption Duration Index (CAIDI), per outage	125.74 minutes

RPS compliance information above is preliminary. Final information is published to eweb.org annually by June 1.

Savings from efficiency measures are calculated based on the Regional Technical Forum of the Northwest Power and Conservation Council as adopted by Bonneville Power Administration for its regional resource acquisitions.

During December 2016, there was a significant ice storm affecting approximately 22,500 customers, requiring up to 8 days to restore service to some customers. Interruption results above are consistent with Institute of Electrical and Electronics Engineers (IEEE) standard 1336.2003, whereby 7 of the storm days were above the major event threshold and were excluded from the indices.

Sustainability Accounting Standards Disclosures (Unaudited)
 Year ended December 31, 2016

Water System

Topic	Metric	Result
Water Scarcity	Total fresh water sourced from regions with high or extremely high baseline water stress	None
	Fresh water purchased from a third party	None
	Volume of recycled water delivered	None
Drinking Water Quality	Number of acute health-based, non-acute health-based, and non-health-based drinking water violations	None
Distribution Network Efficiency	Water pipe replacement rate	.2% of 804 miles or 1.7 miles
Network Resiliency & Impacts of Climate Change	Water treatment capacity located in FEMA Special Flood Hazard Areas	Treatment plant is outside of flood zone, intake is within
	Number of service disruptions, population affected, and average duration	340 1,996 customers 134 minutes

Water pipe is distribution pipe for potable water measuring 2 inches to 60 inches in diameter. Replacements do not include new construction. Total miles for these pipelines is all pipe including new construction.

ELECTRIC SYSTEM (Unaudited)
 Long-term bonded debt and interest payment requirements, including current portion
 Year ended December 31, 2016

	Revenue, including Capital Appreciation 2001A Series 11-15-01		Revenue and Revenue Refunding 2011 A Series 6-8-11		Revenue Refunding 2011B Series 6-29-11	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 1,990,000	\$ 1,037,428	\$ 2,155,000	\$ 413,200	\$ 790,000	\$ 239,720
2018	2,255,000	911,660	2,225,000	327,000	815,000	215,625
2019	2,545,000	769,144	2,335,000	215,750	840,000	188,323
2020	2,860,000	608,300	2,475,000	99,000	875,000	155,983
2021	3,200,000	427,548	-	-	915,000	120,983
2022	3,565,000	225,308	-	-	945,000	83,010
2023	867,106	3,097,894	-	-	985,000	42,848
2024	839,611	3,305,389	-	-	-	-
2025	814,720	3,520,280	-	-	-	-
2026	789,579	3,740,421	-	-	-	-
2027	756,540	3,913,460	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
	<u>20,482,556</u>	<u>21,556,832</u>	<u>9,190,000</u>	<u>1,054,950</u>	<u>6,165,000</u>	<u>1,046,492</u>
Less current portion	<u>1,990,000</u>	<u>-</u>	<u>2,155,000</u>	<u>-</u>	<u>790,000</u>	<u>-</u>
	<u>\$ 18,492,556</u>	<u>\$ 21,556,832</u>	<u>\$ 7,035,000</u>	<u>\$ 1,054,950</u>	<u>\$ 5,375,000</u>	<u>\$ 1,046,492</u>

ELECTRIC SYSTEM (Unaudited)
 Long-term bonded debt and interest payment requirements, including current portion
 Year ended December 31, 2016

	Revenue and Revenue Refunding 2012 Series 8-01-12		Revenue Refunding 2016 A Series 9-7-16		Revenue and Revenue Refunding 2016 B Series 9-7-16	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 2,835,000	\$ 1,592,219	\$ 590,000	\$ 3,772,530	\$ 2,805,000	\$ 279,799
2018	430,000	1,450,469	1,605,000	4,179,900	3,295,000	287,466
2019	450,000	1,433,269	1,275,000	4,147,800	3,545,000	253,001
2020	470,000	1,415,269	900,000	4,109,550	3,820,000	208,369
2021	485,000	1,396,469	1,215,000	4,073,550	4,130,000	151,604
2022	515,000	1,377,069	2,345,000	4,024,950	4,455,000	81,972
2023	1,810,000	1,351,319	6,300,000	3,931,150	-	-
2024	1,040,000	1,278,919	6,625,000	3,616,150	-	-
2025	1,085,000	1,237,319	6,875,000	3,284,900	-	-
2026	1,135,000	1,183,069	6,675,000	2,941,150	-	-
2027	1,195,000	1,126,319	6,000,000	2,607,400	-	-
2028	1,255,000	1,066,569	6,400,000	2,307,400	-	-
2029	1,315,000	1,003,819	6,615,000	1,987,400	-	-
2030	1,360,000	962,725	6,945,000	1,656,650	-	-
2031	1,400,000	918,525	7,290,000	1,309,400	-	-
2032	1,445,000	873,025	6,935,000	1,017,800	-	-
2033	1,495,000	826,063	5,175,000	740,400	-	-
2034	1,570,000	751,313	1,685,000	533,400	-	-
2035	1,650,000	672,813	1,755,000	466,000	-	-
2036	1,730,000	590,313	1,830,000	395,800	-	-
2037	1,815,000	503,813	1,900,000	322,600	-	-
2038	1,905,000	413,063	1,975,000	246,600	-	-
2039	2,005,000	317,813	2,050,000	167,600	-	-
2040	2,080,000	242,625	2,140,000	85,600	-	-
2041	2,155,000	164,625	-	-	-	-
2042	2,235,000	83,813	-	-	-	-
	<u>36,865,000</u>	<u>24,232,626</u>	<u>93,100,000</u>	<u>51,925,680</u>	<u>22,050,000</u>	<u>1,262,211</u>
Less current portion	<u>2,835,000</u>	<u>-</u>	<u>590,000</u>	<u>-</u>	<u>2,805,000</u>	<u>-</u>
	<u>\$ 34,030,000</u>	<u>\$ 24,232,626</u>	<u>\$ 92,510,000</u>	<u>\$ 51,925,680</u>	<u>\$ 19,245,000</u>	<u>\$ 1,262,211</u>

ELECTRIC SYSTEM (Unaudited)

Long-term bonded debt and interest payment requirements, including current portion

Year ended December 31, 2016

	Total Electric System Payments		
	Principal	Interest	Totals
2017	\$ 11,165,000	\$ 7,334,896	\$ 18,499,896
2018	10,625,000	7,372,120	17,997,120
2019	10,990,000	7,007,287	17,997,287
2020	11,400,000	6,596,471	17,996,471
2021	9,945,000	6,170,154	16,115,154
2022	11,825,000	5,792,309	17,617,309
2023	9,962,106	8,423,211	18,385,317
2024	8,504,611	8,200,458	16,705,069
2025	8,774,720	8,042,499	16,817,219
2026	8,599,579	7,864,640	16,464,219
2027	7,951,540	7,647,179	15,598,719
2028	7,655,000	3,373,969	11,028,969
2029	7,930,000	2,991,219	10,921,219
2030	8,305,000	2,619,375	10,924,375
2031	8,690,000	2,227,925	10,917,925
2032	8,380,000	1,890,825	10,270,825
2033	6,670,000	1,566,463	8,236,463
2034	3,255,000	1,284,713	4,539,713
2035	3,405,000	1,138,813	4,543,813
2036	3,560,000	986,113	4,546,113
2037	3,715,000	826,413	4,541,413
2038	3,880,000	659,663	4,539,663
2039	4,055,000	485,413	4,540,413
2040	4,220,000	328,225	4,548,225
2041	2,155,000	164,625	2,319,625
2042	2,235,000	83,813	2,318,813
	<u>187,852,556</u>	<u>101,078,791</u>	<u>\$ 288,931,347</u>
Less current portion	11,165,000	-	11,165,000
	<u>\$ 176,687,556</u>	<u>\$ 101,078,791</u>	<u>\$ 277,766,347</u>

WATER SYSTEM (Unaudited)
 Long-term bonded debt and interest payment requirements, including current portion
 Year ended December 31, 2016

	Revenue 2011 Series 6-29-11		Revenue and Revenue Refunding 2016 Series 5-19-16		Total Water System Payments		
	Principal	Interest	Principal	Interest	Principal	Interest	Totals
	2017	\$ 435,000	\$ 678,050	\$ 1,405,000	\$ 1,641,000	\$ 1,840,000	\$ 2,319,050
2018	445,000	669,350	1,715,000	1,612,900	2,160,000	2,282,250	4,442,250
2019	455,000	659,338	1,775,000	1,561,450	2,230,000	2,220,788	4,450,788
2020	470,000	647,963	1,855,000	1,490,450	2,325,000	2,138,413	4,463,413
2021	480,000	633,863	1,935,000	1,416,250	2,415,000	2,050,113	4,465,113
2022	495,000	619,463	2,030,000	1,319,500	2,525,000	1,938,963	4,463,963
2023	510,000	603,375	1,340,000	1,218,000	1,850,000	1,821,375	3,671,375
2024	530,000	585,525	1,415,000	1,151,000	1,945,000	1,736,525	3,681,525
2025	550,000	566,975	1,470,000	1,094,400	2,020,000	1,661,375	3,681,375
2026	570,000	546,350	1,530,000	1,035,600	2,100,000	1,581,950	3,681,950
2027	590,000	524,975	1,610,000	959,100	2,200,000	1,484,075	3,684,075
2028	610,000	501,375	1,690,000	878,600	2,300,000	1,379,975	3,679,975
2029	635,000	476,975	1,770,000	794,100	2,405,000	1,271,075	3,676,075
2030	660,000	451,575	1,860,000	705,600	2,520,000	1,157,175	3,677,175
2031	690,000	423,525	1,125,000	631,200	1,815,000	1,054,725	2,869,725
2032	720,000	394,200	1,175,000	586,200	1,895,000	980,400	2,875,400
2033	755,000	358,875	1,225,000	539,200	1,980,000	898,075	2,878,075
2034	795,000	321,975	1,270,000	490,200	2,065,000	812,175	2,877,175
2035	830,000	283,250	1,320,000	439,400	2,150,000	722,650	2,872,650
2036	875,000	241,750	1,375,000	386,600	2,250,000	628,350	2,878,350
2037	920,000	198,000	1,430,000	331,600	2,350,000	529,600	2,879,600
2038	965,000	152,000	1,485,000	274,400	2,450,000	426,400	2,876,400
2039	1,010,000	103,750	680,000	215,000	1,690,000	318,750	2,008,750
2040	1,065,000	53,250	710,000	187,800	1,775,000	241,050	2,016,050
2041	-	-	735,000	159,400	735,000	159,400	894,400
2042	-	-	765,000	130,000	765,000	130,000	895,000
2043	-	-	795,000	99,400	795,000	99,400	894,400
2044	-	-	830,000	67,600	830,000	67,600	897,600
2045	-	-	860,000	34,400	860,000	34,400	894,400
	-	-	-	-	-	-	-
	16,060,000	10,695,727	39,180,000	21,450,350	55,240,000	32,146,077	87,386,077
Less current portion	435,000	-	1,405,000	-	1,840,000	-	1,840,000
	<u>\$ 15,625,000</u>	<u>\$ 10,695,727</u>	<u>\$ 37,775,000</u>	<u>\$ 21,450,350</u>	<u>\$ 53,400,000</u>	<u>\$ 32,146,077</u>	<u>\$ 85,546,077</u>

ELECTRIC SYSTEM (Unaudited)
 Analysis of certain restricted cash and investments for debt service
 Year ended December 31, 2016

	Investments for Bond Principal & Interest	Debt Service Reserve	Construction Funds	Customer & Escrow Deposit Reserve	Total All Funds
Ending balance - December 31, 2015	\$ 10,249,219	\$ 9,338,115	\$ 18,846,308	\$ 3,688,161	\$ 42,121,803
Deposits from general fund	22,173,938	-	-	205,002	22,378,940
Investment earnings	(218)	15,277	143,644	25,610	184,313
Other transfers	-	-	-	175,127	175,127
Receipts	<u>22,173,720</u>	<u>15,277</u>	<u>143,644</u>	<u>405,739</u>	<u>22,738,380</u>
Principal payments	13,510,000	-	-	-	13,510,000
Interest payments	11,079,808	-	-	-	11,079,808
Refunding of bonds	965,186	2,890,942	1,800,000	-	5,656,128
Transfers to general fund	3	-	6,947,605	242,093	7,189,701
Other transfers	-	-	-	-	-
Disbursements	<u>25,554,997</u>	<u>2,890,942</u>	<u>8,747,605</u>	<u>242,093</u>	<u>37,435,637</u>
U.S. securities, at market	6,863,039	-	7,694,666	1,341,476	15,899,181
Cash in bank	4,903	6,462,450	-	1,479,576	7,946,929
State of Oregon Local Government Investment Pool	-	-	2,547,681	1,030,755	3,578,436
Ending balance - December 31, 2016	<u>\$ 6,867,942</u>	<u>\$ 6,462,450</u>	<u>\$ 10,242,347</u>	<u>\$ 3,851,807</u>	<u>\$ 27,424,546</u>

WATER SYSTEM (Unaudited)
 Analysis of certain restricted cash and investments for debt service
 Year ended December 31, 2016

	Investments for Bond Principal & Interest	Debt Service Reserves	SDC Reserves	Construction Funds	Total All Funds
Ending balance - December 31, 2015	\$ 1,640,788	\$ 2,368,501	\$ 3,133,467	\$ -	\$ 7,142,756
Deposits from general fund	4,098,091	-	1,145,700	-	5,243,791
Bond proceeds	-	46,513	-	16,006,626	16,053,139
Investment earnings	(2,844)	3,223	26,889	41,624	68,892
Receipts	4,095,247	49,736	1,172,589	16,048,250	21,365,822
Principal payments	425,000	-	-	-	425,000
Interest payments	1,680,808	-	-	-	1,680,808
Transfers to general fund	26	83,429	-	4,856,037	4,939,492
Refunding of bonds	1,900,886	-	-	-	1,900,886
Other transfers	-	-	-	-	-
Disbursements	4,006,720	83,429	-	4,856,037	8,946,186
U.S. securities, at market	1,726,821	-	3,234,967	8,408,262	13,370,050
Cash in bank	2,494	2,334,808	-	-	2,337,302
State of Oregon Local Government Investment Pool	-	-	1,071,089	2,783,951	3,855,040
Ending balance - December 31, 2016	\$ 1,729,315	\$ 2,334,808	\$ 4,306,056	\$ 11,192,213	\$ 19,562,392

Audit Comments

(Disclosures and comments required by state regulations)

Oregon Administrative Rules 162-10-050 through 162-10-320, *the Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required financial statements and schedules are set forth in preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth following.

This page intentionally left blank

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH OREGON AUDIT STANDARDS

Board of Commissioners
Eugene Water & Electric Board

We have audited the individual and combined financial statements of the Eugene Water & Electric Board (the "Board") as of and for the year ended December 31, 2016 and have issued our report thereon dated March 10, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *OREGON AUDIT STANDARDS* (continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance of 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to:

- The accounting records and related internal control structure.
- The use of various depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption, and execution of the annual budgets.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

In connection with our testing nothing came to our attention that caused us to believe the Board was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

Purpose of this Report

This report is intended solely for the information of the Board of Commissioners, management, and the State of Oregon and is not intended to be and should not be used by anyone other than those specified parties.



Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
March 10, 2017

Rely on us.



Eugene Water & Electric Board
500 East 4th Avenue
Eugene OR 97401

www.eweb.org