



Eugene Water & Electric Board

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

December 31, 2016 and 2015

## TABLE OF CONTENTS

|   |               |
|---|---------------|
| <b>Board of Commissioners and Officers .....</b>  | <b>1</b>      |
| <b>Report of Independent Auditors.....</b>  | <b>2 – 4</b>  |
| <b>Management’s Discussion and Analysis .....</b>   | <b>5 – 21</b> |
| <b>Financial Statements</b>   |               |
| 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       |
| <b>Supplementary Information</b>  |               |
| Sustainability Accounting Standards Disclosures.....  | 80 – 81       |
| Electric System long-term bonded debt and interest payment requirements,<br>including current portion (unaudited) .....   | 82 – 83       |
| Water System long-term bonded debt and interest payment requirements, including<br>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            |
| <b>Audit Comments</b>   |               |
| Report of independent auditors on compliance on internal controls over<br>financial reporting based on an audit of financial statements performed in<br>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 written in a cursive style with 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> |
|                       | 4,871,444        | 100%       |

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.

| (in thousands)        | Electric System - Net Operating Revenue |                  |                         |                                     |                                     |
|-----------------------|---|------------------|-------------------------|-------------------------------------|-------------------------------------|
|                       | 2016                                    | 2015             | <i>restated</i><br>2014 | Increase<br>(Decrease)<br>2016/2015 | Increase<br>(Decrease)<br>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.

### Electric System - Sales to Customers

| (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> |

### Electric System - Sales to Customers mWh

|                           | 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><br>2014 | Increase<br>(Decrease)<br>2016/2015 | Increase<br>(Decrease)<br>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><br>2014 | Increase<br>(Decrease)<br>2016/2015 | Increase<br>(Decrease)<br>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                 | <u>\$ 8,985</u>                                     | <u>\$ (1,827)</u> | <u>\$ (3,917)</u>       | <u>\$ 10,812</u>                    | <u>\$ 12,902</u>                    |  |

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><br>2014 | Increase<br>(Decrease)<br>2016/2015 | Increase<br>(Decrease)<br>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<br>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<br>(Decrease) | Increase<br>(Decrease) |             |
|                                 |    | 2016    | 2015       | 2014                   | 2016/2015              |             |
|                                 |    |         |            | 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><br>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><br>2014 | Increase<br>(Decrease)<br>2016/2015 | Increase<br>(Decrease)<br>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><br>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><br>2014 | Increase<br>(Decrease)<br>2016/2015 | Increase<br>(Decrease)<br>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><br>2014 | Increase<br>(Decrease)<br>2016/2015 | Increase<br>(Decrease)<br>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><br>2014 | Increase<br>(Decrease)<br>2016/2015 | Increase<br>(Decrease)<br>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<br>(Decrease)<br>2016/2015 | Increase<br>(Decrease)<br>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 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 |
|        | 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<br>(Decrease) | Increase<br>(Decrease) |
|                        |    | 2016                         | 2015      | 2014      | 2016/2015              | 2016/2014              |
| <b>(in thousands)</b>  |    |                              |           |           |                        |                        |
| 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><br>2014 | Increase<br>(Decrease)<br>2016/2015 | Increase<br>(Decrease)<br>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><br>2014 | Increase<br>(Decrease)<br>2016/2015 | Increase<br>(Decrease)<br>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             |
| <b>ASSETS</b>                                   |                 |                |                |                |                  |                  |
| <b>Capital assets</b>                           |                 |                |                |                |                  |                  |
| 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      |
| <b>Current assets</b>                           |                 |                |                |                |                  |                  |
| 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      |
| <b>Non-current assets</b>                       |                 |                |                |                |                  |                  |
| 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      |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>           |                 |                |                |                |                  |                  |
| 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                  |
| <b>LIABILITIES</b>   |                       |                       |                       |                       |                       |                       |
| 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<br>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           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>             |                 |                |               |               |                |                |
| 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     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>             |                 |                |               |               |                |                |
| 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     |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b> |                 |                |               |               |                |                |
| 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            |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>   |                 |                 |               |                |                 |                 |
| 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)    |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>  | (17,910,863)    | 11,678,049      | 974,093       | (2,596,693)    | (16,936,770)    | 9,081,356       |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>   | 67,739,265      | 56,061,216      | 16,736,319    | 19,333,012     | 84,475,584      | 75,394,228      |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>   |                 |                 |               |                |                 |                 |
| 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                 |
| <b>RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b> |                      |                      |                      |                      |                      |                      |
| 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<br>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<br>December 31,<br>2015 | Increases            | Decreases              | Balance at<br>December 31,<br>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<br>December 31,<br>2014 | Increases            | Decreases              | Balance at<br>December 31,<br>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<br>December 31,<br>2015 | Increases            | Decreases              | Balance at<br>December 31,<br>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<br>December 31,<br>2014 | Increases            | Decreases              | Balance at<br>December 31,<br>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<br>Average<br>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<br>Average<br>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<br>and Investments | Cash and Cash<br>Equivalents and<br>Short-term<br>Investments | Designated<br>Funds | Total Carrying<br>Amount<br>2016 | Total Carrying<br>Amount<br>2015 |
|---|------------------------------------|---|---------------------|----------------------------------|----------------------------------|
| <b>ELECTRIC SYSTEM</b>  |                                    |   |                     |                                  |                                  |
| 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<br>Oregon local government<br>investment pool | 2,804,072                          | 6,899,503   | 25,754,671          | 35,458,246                       | 40,424,028                       |
| Investments - US Agencies,<br>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                      |
| <b>WATER SYSTEM</b>   |                                    |   |                     |                                  |                                  |
| Cash in bank  | 2,337,302                          | 4,040,729   | -                   | 6,378,031                        | 10,484,372                       |
| Investments in the State of<br>Oregon local government<br>investment pool | 3,855,040                          | 700,176   | 6,777,165           | 11,332,381                       | 6,251,947                        |
| Investments - US Agencies,<br>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) |
| <b>Investments by fair value level</b> |                       |  |   |   |
| <b>Debt securities</b>                 |                       |  |   |   |
| 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                                     | -   |
| <b>Total debt securities</b>           | <b>\$ 151,251,276</b> | <b>\$ 18,900,866</b>   | <b>\$ 132,350,410</b>                         | <b>\$ -</b>                               |
| <b>Derivative instruments</b>          |                       |  |   |   |
| Investment derivative                  | \$ 1,295,200          | \$ -   | \$ 1,295,200                                  | \$ -                                      |
| Effective hedge-asset                  | 2,695,395             | -  | 2,695,395                                     | -   |
| Effective hedge-liability              | (818,560)             | -  | (818,560)                                     | -   |
| <b>Total derivatives</b>               | <b>\$ 3,172,035</b>   | <b>\$ -</b>  | <b>\$ 3,172,035</b>                           | <b>\$ -</b>                               |

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) |
| <b>Investments by fair value level</b> |                       |  |   |   |
| <b>Debt securities</b>                 |                       |  |   |   |
| 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                                     | -   |
| <b>Total debt securities</b>           | <b>\$ 115,562,307</b> | <b>\$ 13,103,117</b>   | <b>\$ 102,459,190</b>                         | <b>\$ -</b>                               |
| <b>Derivative instruments</b>          |                       |  |   |   |
| Effective hedge-asset                  | \$ 4,688,639          | \$ -   | \$ 4,688,639                                  | \$ -                                      |
| Effective hedge-liability              | (895,480)             | -  | (895,480)                                     | -   |
| <b>Total derivatives</b>               | <b>\$ 3,793,159</b>   | <b>\$ -</b>  | <b>\$ 3,793,159</b>                           | <b>\$ -</b>                               |

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        |
| <b>Current receivables</b>                    |                      |                     |                      |                     |
| 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> |
| <b>Long-term receivables</b>                  |                      |                     |                      |                     |
| 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        |
| <b>Other assets</b>                             |                      |                     |                      |                     |
| 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            | -                   |
| <b>Regulatory assets</b>                        |                      |                     |                      |                     |
| 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            | -                   |
| <b>Other assets</b>                             | <b>\$ 37,789,869</b> | <b>\$ 4,124,167</b> | <b>\$ 30,752,543</b> | <b>\$ 2,145,501</b> |
| <b>Other liabilities</b>                        |                      |                     |                      |                     |
| 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             |
| <b>Other liabilities</b>                        | <b>\$ 9,996,306</b>  | <b>\$ 267,484</b>   | <b>\$ 10,339,481</b> | <b>\$ 385,843</b>   |

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        |
| <b>Deferred outflows of resources</b>  |                      |                      |                      |                     |
| 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> |
| <b>Deferred inflows of resources</b>   |                      |                      |                      |                     |
| 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            | -                    | -                   |
| <b>Regulatory deferred inflows</b>   |                      |                      |                      |                     |
| 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          |
|--|---------------|---------------|
| <b>Electric Utility System Revenue and Refunding Bonds</b>   |               |               |
| 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 | 211,444,317   | 246,375,868   |
| Less current portion   | 11,165,000    | 13,510,000    |
|  | 200,279,317   | 232,865,868   |
| Electric System bonds payable, net of current portion        | 200,279,317   | 232,865,868   |

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

*(Note 12 – Long-term debt, continued)*

|   | 2016           | 2015           |
|---|----------------|----------------|
| <b>Water Utility System Revenue and Refunding Bonds</b>                 |                |                |
| 2002 Series, 8-1-02 issue, Serial Bonds 3.25% - 4.70%,<br>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      |
| <br>  |                |                |
| 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      |
| <br>  |                |                |
| Water System bonds payable, net of current portion                      | 59,273,233     | 43,925,956     |
| <br>  |                |                |
| 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<br>January 1, 2016 | Additions             | Reductions              | Outstanding<br>December 31,<br>2016 | Due Within<br>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                      | <u>236,147,556</u>             | <u>115,150,000</u>    | <u>(163,445,000)</u>    | <u>187,852,556</u>                  | <u>11,165,000</u>      |
| Water revenue bonds                        | 45,560,000                     | 39,180,000            | (29,500,000)            | 55,240,000                          | 1,840,000              |
| Total bonded debt                          | <u>\$ 281,707,556</u>          | <u>\$ 154,330,000</u> | <u>\$ (192,945,000)</u> | <u>\$ 243,092,556</u>               | <u>\$ 13,005,000</u>   |

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

|   | Outstanding<br>January 1, 2015 | Additions   | Reductions             | Outstanding<br>December 31,<br>2015 | Due Within<br>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                         | <u>277,599,954</u>             | <u>-</u>    | <u>(41,452,398)</u>    | <u>236,147,556</u>                  | <u>13,510,000</u>      |
| Water revenue bonds                           | 47,400,000                     | -           | (1,840,000)            | 45,560,000                          | 1,920,000              |
| Total bonded debt                             | <u>\$ 324,999,954</u>          | <u>\$ -</u> | <u>\$ (43,292,398)</u> | <u>\$ 281,707,556</u>               | <u>\$ 15,430,000</u>   |

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](http://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<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Net difference between projected and actual earnings on<br>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<br>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<br>between projected<br>and actual earnings<br>on investments | Differences between<br>expected and actual<br>experience | Changes of<br>assumptions | Changes in proportion | Differences between<br>employer<br>contributions and<br>proportionate share<br>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<br>Return<br>(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<br>(6.5%) | Current<br>Discount<br>Rate (7.5%) | 1% Increase<br>(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<br>Year Ended | Annual OPEB<br>Cost (ARC) | Percentage<br>of ARC<br>Contributed | Net OPEB<br>Obligation<br>(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<br>Valuation Date | Actuarial Value<br>of Assets | Actuarial<br>Accrued<br>Liability (AAL) | Unfunded AAL<br>(UAAL) | Funded Ratio | Covered<br>Payroll | UAAL as a<br>Percentage of<br>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<br>September 30,<br>2016 | Unaudited<br>September 30,<br>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<br>Balance at<br>Beginning of<br>Year | Current Year<br>Claims and<br>Changes in<br>Estimates | Claim<br>Payments | Liability<br>Balance at End<br>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).<br>(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<br>(In total across all customer types)                   | 127,941 MWh<br>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](http://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<br>1,996 customers<br>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<br>2001A Series<br>11-15-01 |                      | Revenue and Revenue Refunding<br>2011 A Series<br>6-8-11 |                     | Revenue Refunding<br>2011B Series<br>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<br>2012 Series<br>8-01-12 |                      | Revenue Refunding<br>2016 A Series<br>9-7-16 |                      | Revenue and Revenue Refunding<br>2016 B Series<br>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             |
|                      | 187,852,556                    | 101,078,791           | \$ 288,931,347        |
| 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<br>2011 Series<br>6-29-11 |                      | Revenue and Revenue Refunding<br>2016 Series<br>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         | \$ 4,159,050         |
| 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<br>Principal & Interest | Debt Service<br>Reserve | Construction<br>Funds | Customer & Escrow<br>Deposit Reserve | Total<br>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  | 22,173,720                                   | 15,277                  | 143,644               | 405,739                              | 22,738,380         |
| 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                                       | 25,554,997                                   | 2,890,942               | 8,747,605             | 242,093                              | 37,435,637         |
| 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<br>Investment Pool | -  | -                       | 2,547,681             | 1,030,755                            | 3,578,436          |
| Ending balance - December 31, 2016                  | \$ 6,867,942                                 | \$ 6,462,450            | \$ 10,242,347         | \$ 3,851,807                         | \$ 27,424,546      |

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

|   | Investments for Bond<br>Principal & Interest | Debt Service<br>Reserves | SDC Reserves | Construction<br>Funds | Total<br>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<br>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](http://www.eweb.org)