

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

AUDIT REPORT

Years Ended December 31, 2015, and 2014

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NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

December 31, 2015

Board of Directors

Dan Williams	2805 Three Mile Road The Dalles, Oregon	President
Clay Smith	3463 West 13th Street The Dalles, Oregon	Vice-President
Howard Gonser	391 Summit Ridge Drive E. The Dalles, Oregon	Secretary
Barbara Nagle	917 Myrtle Street West The Dalles, Oregon	Treasurer
Kenneth Leibham	1406 E. 21 st Street The Dalles, Oregon	Director

Administrative Staff

Roger Kline	General Manager
Paul Titus	Assistant General Manager and Director of Engineering
Becky Holce	Accounting & Customer Service Manager

Registered Agent

Roger Kline
2345 River Road
The Dalles, Oregon 97058-3551

INDEPENDENT AUDITOR'S REPORT

April 19, 2016

Board of Directors
Northern Wasco County People's Utility District
The Dalles, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of Northern Wasco County People's Utility District, which comprise the statements of net position as of December 31, 2015 and 2014, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Wasco County People's Utility District as of December 31, 2015 and 2014, and the results of its 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 management's discussion and analysis on pages 4 through 8 and the schedule of funding progress for retiree health plan on page 29 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 audits 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated April 19, 2016 on our consideration of Northern Wasco County People's Utility District's internal control over financial reporting and on our tests of its 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 internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section is referred to as the Management's Discussion and Analysis (MD&A). The MD&A section is meant to help the reader understand better, through the eyes of management, the financial activities based on current known facts, decisions and other conditions. Please read this with the understanding that it is a summary of the past two years' activities and some expected future conditions. Be sure to review the financial statements and accompanying notes that follow this report as well.

FINANCIAL HIGHLIGHTS

- Retired the Series 2005 bond debt in 2015.
- The District's net loss was a \$5,790 decrease in total net position reflecting virtually no change in net position from 2014.
- Energy sales to our retail electric customers and resale generation sales increased 3.9% or \$1.17 million over 2014 but were \$2.3 million less than budget due to warmer weather conditions and lower than expected primary loads. Actual kilowatt hours sold also increased by 6.4 million kWh or 1.1% for 2015. Compared to 2014, this revenue change included a 5.6% decrease in Residential; a 1.5% increase in Three Phase Service; a 2.7% decrease in Demand Service; and a 4.2% increase in Industrial Service customers' kilowatt hour sales.
- Operating expenses were \$1.56 million more than 2014. This included an increase in purchased power costs of \$1.21 million. The District's largest operating expense is the cost of purchased power, which represents \$21.68 million (or 70.2%) of the total operating costs. This year we purchased approximately 89.6% of our energy needs from BPA and the remainder was generated from the District's own resources. The next Rate Case period for BPA (BP-18) commences in summer 2016 for wholesale power and transmission rates effective October 1, 2017, through September 30, 2019. The present rates for the District are set at a level that balances the BP-16 costs with retail revenues. If the BP-18 rate case results in an increase in wholesale power rates, the District will need to review its cost of service revenue requirements, allocations and rate designs to ensure future cost recovery.
- The District's total assets decreased by \$1,740,000. Changes included a net increase in total electric plant of \$2,347,000. With the addition of an increase in accumulated depreciation of \$1,840,000 the end result was an overall increase of \$507,000 in net electric plant, (see Note 2 to the financial statements). There was also a decrease in restricted assets of \$2.5 million. Our OPEB (Other Post-Employment Benefit) reserve fund increased \$32,000, while our rate stabilization fund decreased by \$2.4 million and our Fisheries Mitigation Trust Fund decreased by \$134,000. Our current Annual OPEB cost calculation is \$69,624 (see Note 7 to the financial statements). The decrease in the rate stabilization fund resulted in a corresponding increase in unrestricted cash and investments, contributing to the \$3.1 million increase in current assets. We continue to see a decrease in other assets and deferred charges as the Bonneville Power Administration (BPA) continues to pay its obligation on the 2012 (Refunded 1993) McNary Project bonds, (See Notes 4 and 5 to the financial statements).
- In April 2015 rates for residential and irrigation classes increased. The increases scheduled for April 2015 were implemented as approved and planned. The Residential Rate (Single Phase) monthly Customer Service charge was increased by \$3.75 from \$11.25 to \$15.00. The Irrigation Schedule energy charge was increased from \$0.0407 per kWh to \$0.0480 per kWh. At the Board of Directors meeting on December 15, 2015, management was authorized to increase the Schedule 300 energy charge by 2 mills per kWh, increasing the rate from \$0.0341 per kWh to \$0.0361 per kWh for bills issued after February 1, 2016.
- Over the past nine years, the District has saved approximately 46,718,500 kWh due to energy efficiency and conservation measures. These efficiency and conservation measures, with a life up to 25 years, will continue to reduce energy consumption relative to nominal growth without these measures.
- The Bonneville Power Administration (BPA) rate case for Fiscal Years 2018 through 2019 (FY18 – FY19) will commence in April 2016. The rate case is expected to conclude in the late summer of 2017. BPA has engaged its customers in a public process called Focus 2028 to chart a course for rate stability (in real dollar costs) through 2028.

- In October 2015, the District and the joint owner of the McNary Fishway Hydro Project, Klickitat County PUD, embarked on a project to replace the defective turbine runner at the project. On November 28, 2015, a defective weld in the project's crane caused the old runner and appurtenant equipment to drop from a height of approximately 18" into the turbine pit. Parts of the damaged crane, including the sheave, also fell into the open hatch causing damage to the generator stator. The District continues to work with contractors and insurers to overcome the property damage and business interruption losses associated with the crane failure. The estimated cost of the runner replacement, damage recovery and other associated work is approximately \$7 million. Work continues on the project and the unit is expected to return to service in late 2016.
- The District helped install a mobile transformer at the request of BPA to provide capacity necessary for BPA to rebuild a section 69 kV transmission line from Maupin to Tygh Valley. The District also updated the relays. The substation was scheduled to return to normal service by November 2015, but unanticipated delays from BPA has extended this condition until the end of April 2016. Mobile transformer accommodation costs are reimbursable.
- As part of its capital improvement plan, the District awarded the Fifteen Mile Relocation project to DJ's Electric from Brush Prairie Washington. The work consists of relocating a three phase distribution line from hard to access areas down along Fifteen Mile Road. Work is to commence in late 2015 and be completed by the end of March 2016. The total award of the project is \$557,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Annual Audit Report includes Management's Discussion and Analysis, Basic Financial Statements with accompanying notes, Supplementary Information, Independent Auditor's Comments and the Independent Auditor's Report.

The financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to a private-sector business. They have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer short and long-term financial information about the District's activities.

The *Statement of Net Position* presents information on all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position*. This statement provides a measurement of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its rates and other charges and to analyze profitability and credit worthiness.

The *Statement of Cash Flows* provides relevant information about the District's cash receipts and cash payments during the reporting period. This statement reports cash receipts and cash payments resulting from operating, financing and investment activities. When used with related disclosures and information, a statement of cash flows should provide insight into (a) the District's ability to generate future net cash flows; (b) the District's ability to meet its obligations as they come due; (c) the District's needs for external financing; (d) the reasons for differences between operating income and associated cash receipts and payments; and (e) the effects on the District's financial position of both its cash and its noncash investing, capital and financing transactions during the period. The changes in cash balances are an important indicator of the District's liquidity and financial condition.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. This includes, but is not limited to, significant accounting policies, significant financial statement balances and activities, material risks, commitments and obligations and subsequent events, as applicable.

FINANCIAL ANALYSIS

Condensed Statement of Net Position (\$000's)

	2015	2014	2013
Assets			
Current assets	\$ 25,883	\$ 22,814	\$ 21,922
Restricted assets	6,630	9,132	9,089
Net utility electric plant	28,603	28,095	28,716
Other assets and deferred charges	15,136	17,951	17,632
Deferred Outflows of Resources			
Unamortized loss on refunding	-	116	131
Total assets and deferred outflows of resources	<u>\$ 76,252</u>	<u>\$ 78,108</u>	<u>\$ 77,490</u>
Liabilities and Net Position			
Current liabilities	\$ 11,188	\$ 9,266	\$ 8,285
Long-term debt	14,087	17,999	19,815
Other liabilities and deferred credits	2,401	2,261	2,189
Total liabilities	<u>27,676</u>	<u>29,526</u>	<u>30,289</u>
Net Position			
Net investment in capital assets	28,602	25,575	25,940
Restricted for rate stabilization fund	4,600	7,000	7,000
Restricted for performance assurance deposit	1,020	1,520	-
Restricted for bond debt service	-	23	22
Unrestricted	<u>14,354</u>	<u>14,464</u>	<u>14,239</u>
Total net position	<u>48,576</u>	<u>48,582</u>	<u>47,201</u>
Total liabilities and net position	<u>\$ 76,252</u>	<u>\$ 78,108</u>	<u>\$ 77,490</u>

In review of the statement of net position, we look at the District's financial position at the beginning and ending of the year. Assets include electric plant, segregated funds, current assets, other assets and deferred charges. Electric plant is property owned by the District. Segregated funds are restricted assets held for a specific purpose such as rate stabilization and trust funds. Current assets include cash, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted to cash. Other assets and deferred charges include long-term prepaid expenses and future debt payments due from BPA. Liabilities include long-term debt, current liabilities, and other liabilities and deferred credits. Long-term debt represents outstanding bonds and revenue obligations with a maturity date longer than one (1) year. Current liabilities are debts of the District that should be due in less than one (1) year. Other liabilities and deferred credits are OPEB liabilities and funds held by the District for the Fisheries Mitigation Irrevocable Trust Fund. Net position, which is similar to equity, represents the District's ownership in its total assets.

In review of the liabilities and net position section of the statement of net position, comparing 2015 and 2014, we find current liabilities increased \$1,922,000. This is largely related to an increase in accounts payable of \$449 thousand and an increase in customer deposits of \$1,724 thousand. Outstanding bills related to repair work at McNary Hydro, which began in 2015, contributed to the increase in accounts payable. Additional deposit amounts received from an industrial customer contributed to the increase in customer deposits. Long-term debt decreased \$3.9 million due to scheduled debt service payments in 2015 plus the full redemption of the remaining \$2.5 million outstanding Series 2005 debt (see Note 5 to the financial statements). No new debt was issued. Other liabilities and deferred credits increased \$140,000. The District's total net position was virtually unchanged at \$48.6 million in 2015 and 2014. Net position is 64% of the total assets. Net position includes 59% investment in capital assets (e.g., land, buildings, utility plant and equipment) less that portion of related debt used to acquire those assets which is still outstanding. These capital assets are used to provide services to our customers; consequently, these assets are not available for future spending, nor can they be used to liquidate any liabilities. The investment in these assets increased \$3 million in 2015 due largely to the full redemption of the remaining outstanding Series 2005 debt.

**Condensed Statement of Revenues, Expenses
and Changes in Net Position
(\$000's)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues			
Sales of electricity to customers	\$ 29,473	\$ 28,492	\$ 26,252
Generation sales	2,106	1,912	1,774
Other	335	322	316
Investment income	111	82	175
BPA contract obligation - 2012/1993 bonds	396	411	419
Total revenues	<u>32,421</u>	<u>31,219</u>	<u>28,936</u>
Expenses			
Operating expenses	(30,871)	(29,311)	(26,527)
Interest and debt expense	(496)	(550)	(633)
Other deductions	(1,060)	23	(363)
Total expenses	<u>(32,427)</u>	<u>(29,838)</u>	<u>(27,523)</u>
Net income-(loss)	(6)	1,381	1,413
Net position - beginning of year	<u>48,582</u>	<u>47,201</u>	<u>45,788</u>
Net position - end of year	<u>\$ 48,576</u>	<u>\$ 48,582</u>	<u>\$ 47,201</u>

The statement of revenues, expenses and changes in net position provides answers as to the nature and source of these changes. Revenues include the District's sale of electricity, which increased \$981,000 due primarily to increased usage by the District's largest customer. Generation sales increased \$194,000. See Note 4 and Note 5 to the financial statements for more detail on the BPA contract obligation for the 2012A and 2012B bonds. Expenses included an increase in operating expenses of \$1,560,000. Of these operating expenses Cost of Purchased Power increased \$1,206,000 and the remainder was due to small changes in other areas.

BUDGET HIGHLIGHTS

**Budget vs Actual 2015
(\$000's)**

	Budget	Actual	over/(under)	%
Total revenues	\$ 34,788	\$ 32,052	\$ (2,736)	-7.9%
Total operations and maintenance expenses	27,105	24,626	(2,479)	-9.1%
Total operating expenses less cost of power	6,535	5,508	(1,027)	-15.7%

This year's total revenues were under budget by \$2,736,000 or 7.9%. The operating expenses were under budget by \$2,479,000, or 9.1%. Total operating expenses less cost of power was under budget by \$1,027,000, or 15.7%.

CAPITAL ASSETS

As of December 31, 2015 the District had \$64.7 million invested in capital assets. A summary of plant in service is shown in the following schedule.

Hydroelectric generation	\$25,767,600
Transmission	2,352,824
Distribution	25,918,659
General plant	10,569,944
Intangible	<u>71,081</u>
	<u>\$64,680,108</u>

The increase in Electric plant in service was \$1,056,000. This does not include the customer's contribution-in-aid of construction of \$309,000. Based on FERC accounting standards we do not capitalize contribution-in-aid of construction. Net utility electric plant (additions less retirements and depreciation) increased \$507,000, (see Note 2 to the financial statements).

LONG-TERM DEBT

Total debt of the District includes bonds with a principal payable amount of \$14,240,000, of which BPA is obligated to pay the entire amount. Total principal payable decreased \$3,945,000 including the early redemption of the remaining outstanding Series 2005 debt (see Note 5 to the financial statements and the Schedule of Future Bond Debt Service Requirements in the supplementary information section of the Audit Report, for a more detailed analysis of the District's debt).

REQUEST FOR INFORMATION

Any questions or additional information needed in regards to this report may be received by addressing Northern Wasco County PUD, Chief Financial Officer, 2345 River Road, The Dalles, Oregon 97058.

FINANCIAL STATEMENTS

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Statement of Net Position

<u>Assets</u>	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Electric plant: (Notes 1 and 2)		
In service - at cost	\$64,680,108	\$63,623,929
Acquisition adjustment	1,390,337	1,390,337
Construction work in progress	<u>1,592,549</u>	<u>301,360</u>
Total electric plant	67,662,994	65,315,626
Less:		
Accumulated provision for depreciation	(37,670,135)	(35,830,005)
Accumulated provision for amortization of acquisition adjustment	<u>(1,390,337)</u>	<u>(1,390,337)</u>
Net electric plant	<u>28,602,522</u>	<u>28,095,284</u>
Segregated funds (including cash and cash equivalents totaling \$0 in 2015 and \$1,715,278 in 2014): (Notes 1 and 3)		
Rate stabilization fund	4,600,000	7,000,000
Post-employment health care benefits reserve fund	244,981	212,615
Fisheries Mitigation Irrevocable Trust Fund	<u>1,785,177</u>	<u>1,918,977</u>
Total segregated funds	<u>6,630,158</u>	<u>9,131,592</u>
Current assets:		
Cash and investments (including cash and cash equivalents totaling \$19,189,494 in 2015 and \$17,852,102 in 2014): (Notes 1 and 3)		
Unrestricted cash and investments	19,446,625	17,818,837
Segregated for payment of current debt service	-	33,265
Bond funds held by Trustee	2,229	-
Accounts receivable (net of allowance for doubtful accounts of \$86,983 in 2015 and \$77,955 in 2014)	2,497,030	1,963,446
Accrued interest	52,488	46,114
Other receivables	1,118,564	440,217
Due from the Bonneville Power Administration - current (Note 4)	1,451,250	1,434,883
Materials and supplies (Note 1)	889,194	841,902
Prepayments	<u>426,152</u>	<u>234,826</u>
Total current assets	<u>25,883,532</u>	<u>22,813,490</u>
Other assets and deferred charges:		
Due from the Bonneville Power Administration (Note 4)	14,086,509	15,637,426
Performance assurance deposit held by counterparty (Note 10)	1,020,000	1,520,000
Patronage capital	26,296	17,260
Other deferred charges	<u>2,815</u>	<u>776,339</u>
Total other assets and deferred charges	<u>15,135,620</u>	<u>17,951,025</u>
Total assets	76,251,832	77,991,391
 <u>Deferred Outflows of Resources</u>		
Unamortized loss on refunding (Notes 1 and 5)	<u>-</u>	<u>116,289</u>
Total assets and deferred outflows of resources	<u>\$76,251,832</u>	<u>\$78,107,680</u>

The accompanying notes are an integral part of this statement.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Statement of Net Position

<u>Net Position and Liabilities</u>	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Net position:		
Net investment in capital assets	\$28,602,522	\$25,575,158
Restricted for rate stabilization fund	4,600,000	7,000,000
Restricted for performance assurance deposit	1,020,000	1,520,000
Restricted for bond and revenue obligations debt service	-	22,917
Unrestricted	<u>14,353,648</u>	<u>14,463,885</u>
Total net position	<u>48,576,170</u>	<u>48,581,960</u>
Long-term debt: (Note 5)		
Bonds and revenue obligations payable, less current maturities	<u>14,086,509</u>	<u>17,998,841</u>
Current liabilities:		
Current maturities of long-term debt (Note 5)	1,410,000	1,665,000
Accounts payable	4,216,226	3,767,489
Accrued payroll and related liabilities	106,714	90,289
Customer deposits	4,955,354	3,230,883
Accrued interest	43,479	55,231
Accrued compensated absences (Note 1)	302,290	344,820
Other accruals	<u>154,371</u>	<u>112,068</u>
Total current liabilities	<u>11,188,434</u>	<u>9,265,780</u>
Other liabilities and deferred credits:		
Fisheries Mitigation Irrevocable Trust Fund	1,785,177	1,918,977
Post-employment health care benefits (Note 7)	390,002	342,122
Other deferred credits	<u>225,540</u>	<u>-</u>
Total other liabilities and deferred credits	<u>2,400,719</u>	<u>2,261,099</u>
Total net position and liabilities	<u>\$76,251,832</u>	<u>\$78,107,680</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,	
	<u>2015</u>	<u>2014</u>
Operating revenues:		
Sales of electricity	\$31,578,628	\$30,403,734
Other operating revenues	<u>335,199</u>	<u>322,096</u>
Total operating revenues	<u>31,913,827</u>	<u>30,725,830</u>
Operating expenses:		
Cost of purchased power	21,676,453	20,470,120
Power production expense	1,217,573	1,213,198
Transmission expense	18,004	59,133
Distribution expense	1,681,786	1,763,817
Customer accounts expense	628,173	601,452
Customer service and informational expense	685,173	552,996
Administrative and general expense	1,983,717	1,758,450
Depreciation and amortization of electric plant	1,864,690	1,814,267
Taxes	<u>1,115,825</u>	<u>1,077,591</u>
Total operating expenses	<u>30,871,394</u>	<u>29,311,024</u>
Net operating revenues	<u>1,042,433</u>	<u>1,414,806</u>
Nonoperating revenues-(expenses):		
Investment income	111,133	82,393
Contractual obligation from the Bonneville Power Administration	396,278	411,179
Patronage capital credits	9,831	10,651
Gain on disposition of property	2,550	12,206
Interest on debt	(602,387)	(686,996)
Amortization of debt premium and loss on refunding	106,043	136,512
Loss on sale of transmission rights	(141,970)	-
Hydroelectric generation project abandonment costs	<u>(929,701)</u>	<u>-</u>
Total nonoperating revenues-(expenses)	<u>(1,048,223)</u>	<u>(34,055)</u>
Net income-(loss)	(5,790)	1,380,751
Net position - beginning of year	<u>48,581,960</u>	<u>47,201,209</u>
Net position - end of year	<u><u>\$48,576,170</u></u>	<u><u>\$48,581,960</u></u>

The accompanying notes are an integral part of this statement.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Statement of Cash Flows

	Years Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Cash received from customers	\$ 32,426,367	\$ 31,197,807
Cash payments for purchased power	(21,599,376)	(19,214,634)
Cash payments to suppliers for goods and services	(3,514,183)	(4,176,251)
Cash payments to employees for services	(3,845,190)	(3,683,126)
Net cash received-(paid) for performance assurance deposit	500,000	(1,520,000)
Net cash provided by operating activities	<u>3,967,618</u>	<u>2,603,796</u>
Cash flows from capital and related financing activities:		
Construction and acquisition of plant	(2,526,984)	(1,538,521)
Contributions in aid of construction	308,691	344,460
Proceeds from sale of property	2,550	12,206
Amounts deposited by BPA with Trustee for payment of bond debt service	1,930,828	1,932,096
Net increase in bond funds held by Trustee	(2,229)	-
Principal payments on bonds and revenue obligations	(3,945,000)	(1,640,000)
Interest payments on bonds and revenue obligations	(614,139)	(687,971)
Net cash used in capital and related financing activities	<u>(4,846,283)</u>	<u>(1,577,730)</u>
Cash flows from investing activities:		
Net decrease in temporary cash investments with original maturities greater than three months	395,225	1,627,175
Investment income	104,759	36,279
Payments received for patronage capital credits	795	1,036
Net cash provided by investing activities	<u>500,779</u>	<u>1,664,490</u>
Net increase-(decrease) in cash and cash equivalents	(377,886)	2,690,556
Cash and cash equivalents - beginning of year	<u>19,567,380</u>	<u>16,876,824</u>
Cash and cash equivalents - end of year	<u>\$ 19,189,494</u>	<u>\$ 19,567,380</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows

	Years Ended December 31,	
	2015	2014
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenues	\$ 1,042,433	\$ 1,414,806
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation and amortization of electric plant	1,864,690	1,814,267
Decrease-(increase) in:		
Accounts receivable	(533,584)	207,604
Other receivables	(678,347)	230,691
Materials and supplies	(47,292)	(242,304)
Prepayments	(191,326)	(16,811)
Performance assurance deposit held by counterparty	500,000	(1,520,000)
Other deferred charges	(156,177)	(320,318)
Increase-(decrease) in:		
Operating accounts payable	295,102	890,690
Accrued payroll and related liabilities	16,425	9,350
Customer deposits	1,724,471	33,682
Accrued compensated absences	(42,530)	(7,473)
Other accruals	42,303	30,817
Post-employment health care benefits	47,880	78,795
Other deferred credits	83,570	-
Total adjustments	2,925,185	1,188,990
Net cash provided by operating activities	\$ 3,967,618	\$ 2,603,796
Noncash investing, capital and financing activities:		
Due from the Bonneville Power Administration	\$ (396,278)	\$ (411,179)
Income on contractual obligation from the Bonneville Power Administration	396,278	411,179
Segregated funds - Fisheries Mitigation Irrevocable Trust Fund	133,800	6,360
Other liabilities and deferred credits - Fisheries Mitigation Irrevocable Trust Fund	(133,800)	(6,360)
Unamortized debt premium	(222,332)	(151,201)
Unamortized loss on refunding	116,289	14,689
Amortization of debt premium and loss on refunding	106,043	136,512
Patronage capital	(9,831)	(10,651)
Patronage capital credits	9,831	10,651
Other deferred charges	929,701	-
Hydroelectric generation project abandonment costs	(929,701)	-
Other deferred credits	141,970	-
Loss on sale of transmission rights	(141,970)	-
Total noncash investing, capital and financing activities	\$ -	\$ -

The accompanying notes are an integral part of this statement.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General

Northern Wasco County People's Utility District is a people's utility district organized under Oregon Revised Statutes Chapter 261. The District was created by vote in 1939 and began operation in 1949. The District is a power generation and distribution utility primarily serving customers in Wasco County, and also selling electric output of the District's hydroelectric generating project at the North Fishway of The Dalles Dam to an investor-owned electric utility company. The District is governed by an elected five member Board of Directors which has the authority to set rates and charges for commodities and services furnished. Substantially all revenues are derived from the sale of electric power to residential, commercial and industrial customers and the investor-owned electric utility company.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Additionally, although the District is not subject to the regulations of the Federal Energy Regulatory Commission (FERC), its accounting policies generally conform to the accounting requirements of the FERC. Significant policies are described below.

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

Description of Reporting Entity

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

Basis of Accounting

The District uses the accrual basis of accounting for financial reporting purposes. Revenues are recognized when earned and expenses are recognized when incurred. Revenues related to the District's principal operations are considered to be operating revenues. All other revenues are considered to be nonoperating.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

Electric Plant

Electric plant is stated substantially at cost. Cost includes materials, labor, payments to contractors and indirect costs, such as transportation and construction equipment use, employee benefits and an allowance for funds used during construction. An acquisition adjustment is recorded for any difference between the cost of plant to the original user and the purchase price to the District.

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

Contributions in Aid of Construction (CIAC)

Payments are received from customers for construction costs primarily relating to the expansion of the electric system. FERC guidelines are followed in recording CIAC, which direct the reduction of utility plant assets by the amount of contributions received toward the construction of utility plant. CIAC of \$308,691 in 2015, and \$344,460 in 2014, was recorded as a reduction of utility plant assets.

Depreciation and Amortization

Provision for depreciation of electric plant is computed using annual straight-line rates over the following estimated useful lives:

Production plant	20 - 45 years
Transmission plant	20 - 33 years
Distribution plant	20 - 33 years
General plant	5 - 33 years

Investments

Investments are reported both as segregated funds and current assets and are stated at fair value.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash, demand deposits, the Oregon Local Government Investment Pool and short-term investments purchased with original maturities of three months or less are considered to be cash and cash equivalents. Bond funds held by Trustee and the Fisheries Mitigation Irrevocable Trust Fund are not considered to be cash equivalents.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

Materials and Supplies

Materials and supplies are carried at average cost.

Unamortized Debt Premium and Unamortized Loss on Refunding

Debt premium and loss on reacquired debt are being amortized over the lives of the related debt issues using the straight-line method.

Compensated Absences

Accumulated unpaid vested personal time (vacation and sick leave) is accrued as earned by employees.

Restricted Net Position

Restricted net position reported in the statement of net position represent amounts for which constraints were imposed by creditors, grantors, contributors or laws or regulations. The District's policy is to first use restricted resources when an expense is incurred for which both restricted and unrestricted net position is available.

Revenue Recognition

Utility revenues are generally recognized on the basis of cycle billings and are recorded when customers are billed.

The entire net electrical output of the District's hydroelectric generating project at the North Fishway of The Dalles Dam was sold to an investor-owned electric utility company. These sales represented approximately 6.6% and 6.2% of the District's 2015 and 2014 operating revenues, respectively. Approximately 44% and 43% of operating revenues in 2015 and 2014, respectively, were the result of sales to one customer.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

2 - ELECTRIC PLANT:

Electric plant activity for the year ended December 31, 2015 was as follows:

	Balance January 1, 2015	Increases	Decreases	Balance December 31, 2015
Electric plant not being depreciated:				
Land	\$ 570,233	\$ -	\$ -	\$ 570,233
Intangible plant	71,081	-	-	71,081
Construction in progress	301,360	2,157,896	866,707	1,592,549
Total electric plant not being depreciated	942,674	2,157,896	866,707	2,233,863
Electric plant being depreciated:				
Production	25,277,216	490,384	-	25,767,600
Transmission	2,293,595	10,190	169	2,303,616
Distribution	25,266,602	582,866	60,738	25,788,730
General	10,145,202	52,775	19,129	10,178,848
Acquisition adjustment	1,390,337	-	-	1,390,337
Total electric plant being depreciated	64,372,952	1,136,215	80,036	65,429,131
Less accumulated depreciation:				
Production	13,986,570	704,869	-	14,691,439
Transmission and distribution	16,792,772	857,231	106,823	17,543,180
General	5,050,663	403,982	19,129	5,435,516
Less accumulated provision for amortization of acquisition adjustment	1,390,337	-	-	1,390,337
Total electric plant being depreciated, net	27,152,610	(829,867)	(45,916)	26,368,659
Electric plant, net	<u>\$ 28,095,284</u>	<u>\$ 1,328,029</u>	<u>\$ 820,791</u>	<u>\$ 28,602,522</u>

Electric plant activity for the year ended December 31, 2014 was as follows:

	Balance January 1, 2014	Increases	Decreases	Balance December 31, 2014
Electric plant not being depreciated:				
Land	\$ 570,233	\$ -	\$ -	\$ 570,233
Intangible plant	71,081	-	-	71,081
Construction in progress	280,141	936,418	915,199	301,360
Total electric plant not being depreciated	921,455	936,418	915,199	942,674
Electric plant being depreciated:				
Production	25,268,157	9,059	-	25,277,216
Transmission	2,284,966	8,915	286	2,293,595
Distribution	24,586,695	969,339	289,432	25,266,602
General	9,914,745	242,637	12,180	10,145,202
Acquisition adjustment	1,390,337	-	-	1,390,337
Total electric plant being depreciated	63,444,900	1,229,950	301,898	64,372,952
Less accumulated depreciation:				
Production	13,279,981	706,589	-	13,986,570
Transmission and distribution	16,326,592	798,142	331,962	16,792,772
General	4,653,955	416,654	19,946	5,050,663
Less accumulated provision for amortization of acquisition adjustment	1,390,337	-	-	1,390,337
Total electric plant being depreciated, net	27,794,035	(691,435)	(50,010)	27,152,610
Electric plant, net	<u>\$ 28,715,490</u>	<u>\$ 244,983</u>	<u>\$ 865,189</u>	<u>\$ 28,095,284</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

2 - ELECTRIC PLANT: (Contd)

As allowed by FERC guidelines, the District has charged depreciation expense applicable to transportation equipment totaling \$101,392 in 2015 and \$107,118 in 2014 to overhead clearing accounts.

The electric plant acquisition adjustment is the excess cost over the established value of electric plant purchased from Pacific Power and Light Company in 1976.

3 - CASH AND INVESTMENTS:

Cash and investments are comprised of the following as of December 31, 2015, and 2014:

	<u>2015</u>	<u>2014</u>
Working funds	\$ 700	\$ 700
Deposits with financial institutions	2,078,435	2,564,708
Investments:		
Held by District	23,997,648	24,418,286
Held by Trustee	<u>2,229</u>	<u>-</u>
Total cash and investments	<u>\$ 26,079,012</u>	<u>\$ 26,983,694</u>

Deposits

Deposits with financial institutions include bank demand deposits. The total bank balance, as shown on the banks' records, was \$2,985,305 at December 31, 2015, and \$2,667,224 at December 31, 2014. Insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Of these deposits, the total covered by federal depository insurance was \$258,589 at December 31, 2015, and \$268,201 at December 31, 2014, and the total covered to the extent required by law by collateral held in a shared liability pool made up of all public funds depositories in Oregon was \$2,726,716 at December 31, 2015, and \$2,399,023 at December 31, 2014.

The Oregon State Treasurer is responsible for monitoring public funds held by bank depositories in excess of FDIC insured amounts, and for assuring that public funds on deposit are collateralized against custodial credit risk to the extent required by Oregon Revised Statutes (ORS) Chapter 295. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The amount of collateral is set by the Public Funds Collateralization Program (PFCP), a multiple financial institution collateral pool created by the Office of the State Treasurer. The amount of collateral set by the PFCP is between 10% and 110% of each bank's public fund deposits based on their net worth and level of capitalization. Although the PFCP creates a shared liability structure for participating bank depositories, it does not guarantee that all funds are 100% protected.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

3 - CASH AND INVESTMENTS: (Contd)

Investments

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

The composition of the District's investments as of December 31, 2015, and 2014, follows:

	2015		2014	
	Fair Value	Percent	Fair Value	Percent
Corporate bonds:				
JP Morgan Chase	\$ 757,753	3.2%	\$ 1,210,551	4.9%
GE Capital Corp.	703,383	2.9%	700,115	2.9%
HSBC	-	0.0%	751,507	3.1%
Bank of America	707,337	3.0%	1,175,601	4.8%
Toronto-Dominion Bank	706,398	2.9%	-	0.0%
Bank of Nova Scotia	-	0.0%	701,100	2.9%
Wells Fargo & Co.	976,552	4.1%	958,463	3.9%
Canadian Imperial Bank	501,096	2.1%	-	0.0%
Westpac Banking Corp.	749,593	3.1%	-	0.0%
Investment in Oregon Local Government				
Investment Pool	18,895,536	78.7%	18,920,949	77.5%
Other - cash held by Trustee	2,229	0.0%	-	0.0%
Total investments	<u>\$ 23,999,877</u>	<u>100.0%</u>	<u>\$ 24,418,286</u>	<u>100.0%</u>

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

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

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

3 - CASH AND INVESTMENTS: (Contd)

Investments (Contd)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Oregon Short-Term Fund manages this risk by limiting the maturity of the investments held by the fund. Weighted average maturities of investments in the Oregon Short-Term Fund at December 31, 2015 were: 73% mature within 93 days, 11% mature from 94 days to one year, and 16% mature from one to three years. Weighted average maturities of investments in the Oregon Short-Term Fund at December 31, 2014 were: 72% mature within 93 days, 10% mature from 94 days to one year, and 18% mature from one to three years.

As of December 31, 2015, and 2014, maturities for the District's other investments are as follows:

	2015		2014	
	Less than One Year	One to Two Years	Less than One Year	One to Two Years
Corporate bonds	\$4,394,775	\$ 707,337	\$5,497,337	\$ -
Other - cash held by Trustee	2,229	-	-	-
	<u>\$4,397,004</u>	<u>\$ 707,337</u>	<u>\$5,497,337</u>	<u>\$ -</u>

The District's investments in corporate bonds are rated A- or higher by Standard & Poor's and/or A3 or higher by Moody's.

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

Cash and investments as of December 31, 2015, and 2014, are presented on the statement of net position as follows:

	2015	2014
Segregated funds:		
Rate stabilization fund	\$ 4,600,000	\$ 7,000,000
Post-employment health care benefits reserve fund	244,981	212,615
Fisheries Mitigation Irrevocable Trust Fund	1,785,177	1,918,977
Unrestricted cash and investments	19,446,625	17,818,837
Segregated for payment of current debt service	-	33,265
Bond funds held by Trustee	2,229	-
	<u>\$26,079,012</u>	<u>\$26,983,694</u>
Total cash and investments		

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

3 - CASH AND INVESTMENTS: (Contd)

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

The District, acting as both the trustor and trustee, established the Fisheries Mitigation Irrevocable Trust Fund for the purpose of providing compensation for unmitigatable losses to juvenile anadromous fish caused by McNary Dam. This trust fund is being held by the District as the trustee and is being disbursed solely as directed by the Fishery Compensation Committee after it has reviewed and selected mitigation activities.

4 - DUE FROM THE BONNEVILLE POWER ADMINISTRATION:

On February 15, 1995, the District received Notice to Cease and Desist Work on the McNary Dam Fishway Hydroelectric Project from the Bonneville Power Administration (BPA) and on March 16, 1995, the District suspended construction after completing certain work necessary to rewater the fish ladder. Subsequently, the District and the BPA negotiated a termination of a Power Purchase Agreement pursuant to a Settlement and Termination Agreement (Settlement Agreement) dated April 25, 1995. Except as provided in the Settlement Agreement for demobilization and site restoration, the BPA declined to allow the District to use Series 1993 Bond proceeds to complete the McNary Project.

Following termination of the McNary Project by the BPA, the District solicited interest from other utilities in developing all or part of the McNary Project. As a result of this process, the District and Klickitat County Public Utility District entered into a series of agreements to jointly pursue the McNary Project with each utility having a 50 percent ownership share. In October 1995, both the District and Klickitat issued bonds to fund completion of the McNary Project and construction was restarted on October 23, 1995.

Agreements with the Bonneville Power Administration do not change the BPA's obligation to pay debt service on the Series 2012A and Series 2012B Bonds which refunded the Series 1993 Bonds. Accordingly, the amount due from the Bonneville Power Administration at December 31, 2015, and 2014, represents the principal amount payable on the outstanding bonds, plus unamortized bond premium and accrued interest, less amounts held by the Trustee. The BPA deposits amounts directly into a bond trust account and these amounts are used to pay principal and interest on the bonds.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

5 - LONG-TERM DEBT:

Bonds and Obligations Payable

Bonds and obligations principal and interest transactions for 2015 are as follows:

	Principal Transactions			Outstanding 12/31/2015	Interest Matured and Paid
	Outstanding 1/1/2015	2015 Issues	2015 Retirements		
Series 2005 Revenue Obligations	\$ 2,555,000	\$ -	\$ 2,555,000	\$ -	\$ 75,540
Series 2012A Bonds	7,520,000	-	-	7,520,000	376,000
Series 2012B Bonds	8,110,000	-	1,390,000	6,720,000	162,599
Total	<u>\$ 18,185,000</u>	<u>\$ -</u>	<u>\$ 3,945,000</u>	<u>\$ 14,240,000</u>	<u>\$ 614,139</u>

Bonds and obligations principal and interest transactions for 2014 are as follows:

	Principal Transactions			Outstanding 12/31/2014	Interest Matured and Paid
	Outstanding 1/1/2014	2014 Issues	2014 Retirements		
Series 2005 Revenue Obligations	\$ 2,815,000	\$ -	\$ 260,000	\$ 2,555,000	\$ 135,875
Series 2012A Bonds	7,520,000	-	-	7,520,000	376,000
Series 2012B Bonds	9,490,000	-	1,380,000	8,110,000	176,096
Total	<u>\$ 19,825,000</u>	<u>\$ -</u>	<u>\$ 1,640,000</u>	<u>\$ 18,185,000</u>	<u>\$ 687,971</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

5 - LONG-TERM DEBT: (Contd)

Bonds and Obligations Payable (Contd)

At December 31, 2015, and 2014, bonds and obligations payable consist of the following:

	<u>2015</u>	<u>2014</u>
Bonds and obligations payable:		
Series 2005	\$ -	\$ 2,555,000
Series 2012A	7,520,000	7,520,000
Series 2012B	<u>6,720,000</u>	<u>8,110,000</u>
Total principal payable	14,240,000	18,185,000
Unamortized premium - Series 2012A	1,256,509	1,397,426
Unamortized premium - Series 2005	<u>-</u>	<u>81,415</u>
Net long-term debt	15,496,509	19,663,841
Less current maturities of principal	<u>1,410,000</u>	<u>1,665,000</u>
Due after one year	<u>\$14,086,509</u>	<u>\$17,998,841</u>

Series 2005 Electric System Revenue Refunding Obligations - These obligations were used to defease \$9,445,000 of Series 1995 Bonds. Principal was payable annually on December 1. Interest at 4.50% - 5.00% per annum was payable semi-annually on June 1 and December 1 of each year. All outstanding Series 2005 Obligations were redeemed on July 10, 2015 at par plus accrued interest.

Series 2012A (tax-exempt) and Series 2012B (taxable) McNary Dam Fishway Hydroelectric Project Revenue Refunding Bonds - In April 2012, the District issued 2012 Series A (tax-exempt) and Series B (taxable) McNary Dam Fishway Hydroelectric Project Revenue Refunding Bonds in the amounts of \$7,520,000 and \$12,215,000, respectively, the proceeds of which, along with the bond premium of \$1,773,205, were used to currently refund \$20,645,000 of Series 1993 Bonds plus accrued interest on May 24, 2012 and to pay bond issuance costs. Principal on the Series 2012B Bonds is payable annually on December 1 through 2020. Principal on the Series 2012A Bonds is payable annually on December 1 beginning in 2020. Interest on the Series 2012A Bonds, at 5% per annum, is payable semi-annually on June 1 and December 1 of each year. Interest on the Series 2012B Bonds, at 1.518% - 2.962% per annum, is payable semi-annually on June 1 and December 1 of each year. The Series 2012A and Series 2012B Bonds are not subject to early redemption.

The Series 2012A and Series 2012B Bonds are special limited obligations of the District, payable from and secured by a lien and charge on the Bonneville payments to be made by the Bonneville Power Administration pursuant to the Bonneville Agreement. The Bonneville payments are defined as the amounts required to pay bond principal, interest and any redemption premium.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

5 - LONG-TERM DEBT: (Contd)

Bonds and Obligations Payable (Contd)

Until the District and the Bonneville Power Administration entered into a Settlement and Termination Agreement (Settlement Agreement) (See Note 4) negotiating termination of a Power Purchase Agreement, the Series 1993 Bonds were being used to finance the McNary Dam Fishway Hydroelectric Project. Under the Power Purchase Agreement executed as of August 27, 1993, the District had agreed to sell the net output of the project to the BPA for a term of thirty years following the completion date of the project. In return, the BPA had agreed to pay during each operating year an amount equal to the annual debt service on the Series 1993 Bonds.

Scheduled maturities of bonds payable for all outstanding issues are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,410,000	\$ 521,753	\$ 1,931,753
2017	1,435,000	500,349	1,935,349
2018	1,460,000	473,543	1,933,543
2019	1,490,000	441,408	1,931,408
2020	1,535,000	403,399	1,938,399
2021-2024	<u>6,910,000</u>	<u>884,500</u>	<u>7,794,500</u>
Totals	<u>\$ 14,240,000</u>	<u>\$ 3,224,952</u>	<u>\$ 17,464,952</u>

The unamortized loss on refunding at December 31, 2014, shown in deferred outflows of resources represents the excess of the unamortized reacquisition price of defeased debt over its carrying value for the Series 1995 Bond issue which was refunded. The remaining unamortized loss on reacquired debt was recognized as expense in 2015 due to the redemption of all outstanding Series 2005 Obligations.

6 - RETIREMENT PLAN:

The District provides pension benefits for all of its qualified employees through a defined contribution plan (Internal Revenue Code Section 401(k)) administered by the District.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. For employees choosing to opt out of the District's Post-Employment Health Care Benefits Plan, the PUD agrees to contribute to the 401(k) plan an amount equal to the employee's voluntary contribution to either or both the 401(k) plan and a IRC 457 Plan up to a maximum amount of 12% of the employee's straight time wage. For employees that elect to retain the Post-Employment Health Care Benefits Plan, the District matches employee contributions to the IRC 401(k) plan and an IRC 457 plan up to a maximum of 10% of the straight-time wage for each eligible employee with the District match going into the 401(k) plan. Contributions for each employee (and earnings allocated

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

6 - RETIREMENT PLAN: (Contd)

to the employee's account) are fully vested after fifty months of continuous service. Contributions for, and earnings forfeited by, employees who leave employment before fifty months of service are used to reduce the District's current-period contribution requirement.

The total employer contribution was \$256,745 in 2015, and \$252,871 in 2014, equal to the required employer contribution.

7 - POST-EMPLOYMENT HEALTH CARE BENEFITS:

Plan Description

The District administers a single-employer defined benefit healthcare plan. The plan provides post-employment benefits options for medical insurance to eligible retirees. Benefit provisions are established through District policy. The criteria to determine eligibility includes employee age and years of service. The District's post-employment healthcare plan does not issue a publicly available financial report. The District follows the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Funding Policy

Contribution requirements are established through District policy. Eligible retirees are required to pay set premiums established by the insurer equal to 100% of the premium cost up to age 65. Starting at age 65, the District will reimburse eligible retirees for the premium cost of coverage obtained outside of the District up to a maximum of \$350, prorated based on retirement age plus years of service (increased annually by 3%). Funding is on a pay-as-you-go basis. During 2015 and 2014, the District contributed \$21,744 and \$21,110, respectively, to the plan.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over the 30 year average life expectancy of covered employees. The following table shows the components of the District's annual OPEB cost for the year, amounts actually contributed to the plan, and changes in the District's net OPEB obligation:

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

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

Annual OPEB Cost and Net OPEB Obligation (Contd)

Annual required contribution	\$ 70,778
Interest on net OPEB obligation	10,264
Adjustment to annual required contribution	<u>(11,418)</u>
Annual OPEB cost	69,624
Contributions made	<u>(21,744)</u>
Increase in net OPEB obligation	47,880
Net OPEB obligation - beginning of year	<u>342,122</u>
Net OPEB obligation - end of year	<u><u>\$ 390,002</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015, 2014 and 2013 were as follows:

<u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/2015	\$ 69,624	31.2%	\$ 390,002
12/31/2014	\$ 99,905	21.1%	\$ 342,122
12/31/2013	\$ 39,820	64.7%	\$ 263,327

Funded Status and Funding Progress

As of December 31, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$994,858 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$994,858. The covered payroll (annual payroll of active employees covered by the plan) was \$1,200,000 for 2013 and the ratio of the UAAL to the covered payroll was 83%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

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

Methods and Assumptions

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

In the valuation conducted as of December 31, 2013, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll over the 30 year average life expectancy of covered employees on an open basis. Life expectancies were based on the most recent mortality tables published by the National Center for Health Statistics. Non-group specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid. Based on the historical and expected returns of the District's short-term investment portfolio, a discount rate of 3% was used. The expected long-term payroll growth rate of 3% was used. The expected rate of increase in health care insurance premiums was set at 3%, which is based on the Board approved policy for annual increases.

8 - RISK MANAGEMENT:

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

9 - INCOME TAX STATUS:

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

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

10 - POWER PURCHASE AGREEMENTS:

The District executed a Power Sales Agreement with the Bonneville Power Administration (BPA) for the purchase of power for the period October 1, 2011 through September 30, 2028. The agreement is for Load Following service coupled with a Tiered Rate Methodology (TRM). The TRM established an initial Contract High Water Mark (CHWM) load that qualifies for service at BPA's lower cost power (Tier 1) from the Federal Base System (FBS). Any requirement above the CHWM load is known as Above High Water Mark (AHWM) load. The AHWM load obligation for each year is established in advance of each two year rate period based upon load forecasts and projected FBS capability. The AHWM load can be served with non-federal resources or purchased from BPA as Tier 2 power. Tier 2 power purchased from BPA is expected to be priced at or around market. The District has elected to serve AHWM load requirements with non-federal resources.

During 2014, the District executed Power Sale Contracts with another utility under a Western Systems Power Pool (WSPP) Agreement for the purchase of various quantities of firm power for the period October 1, 2015 through September 30, 2017 at contract prices totaling \$13,269,005. During 2015, the District executed a Power Sale Contract with another utility under a Western Systems Power Pool (WSPP) Agreement for the purchase of firm power for the period October 1, 2017 through September 30, 2020 at contract prices totaling \$25,069,782. All power purchased under these contracts will be resold to one customer. Contracts executed under a WSPP Agreement contain early termination provisions whereby the power can be sold back to the seller at market prices with any resulting difference from the contract amounts becoming due from, or payable to, the original buyer as a Termination Payment. Under the terms of a Collateral Annex to the WSPP Agreement, the District may, from time to time, be required to deliver Performance Assurance amounts consisting of cash deposits, letters of credit, or a combination of both, when market conditions create performance risk exposure for the counterparty. Further changes in market conditions may allow the release of Performance Assurance amounts held by the counterparty. As of December 31, 2015, the District had placed \$1,020,000 with the counterparty as a Performance Assurance Deposit and secured letters of credit from two different financial institutions totaling \$7,000,000 under this Collateral Annex. A letter of credit for \$2,000,000 was secured by the District from National Rural Utilities Cooperative Finance Corporation and a letter of credit for \$5,000,000 was secured by the District from Bank of the West during 2015. As of December 31, 2014, the District had placed \$1,520,000 with the counterparty as a Performance Assurance Deposit under this Collateral Annex.

During 2015, the District executed a Resource Agreement with Northwest Intergovernmental Energy Supply for the purchase of a fixed quantity of firm power for the period October 1, 2017 through September 30, 2019 at contract prices totaling \$599,009.

The District generates electricity from The Dalles Dam North Fishway which it sells to an investor-owned electric utility company, and generates electricity from McNary Dam North Fishway which it sells to its residential, commercial and industrial customers.

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
December 31, 2015, and 2014

11 - SUBSEQUENT EVENTS:

In February 2016, the District reduced the amount of the letter of credit secured from National Rural Utilities Cooperative Finance Corporation from \$2,000,000 to \$1,000,000. In March 2016, the District increased the amount of the letter of credit secured from Bank of the West from \$5,000,000 to \$10,000,000. As a result, the District's collateral deposit with the counterparty described in Note 10 was \$0 as of April 19, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Funding Progress for Retiree Health Plan

	Actuarial Valuation Date		
	12-31-13	12-31-10	12-31-08
Actuarial value of assets (a)	\$ -	\$ -	\$ -
Actuarial accrued liability (b)	<u>994,858</u>	<u>819,914</u>	<u>614,336</u>
Unfunded actuarial accrued liability (b-a)	<u>\$ 994,858</u>	<u>\$ 819,914</u>	<u>\$ 614,336</u>
Funded ratio (a/b)	<u>0%</u>	<u>0%</u>	<u>0%</u>
Covered payroll (c)	<u>\$ 1,200,000</u>	<u>\$ 1,122,811</u>	<u>\$ 1,015,229</u>
Unfunded actuarial accrued liability as a percentage of covered payroll ((b-a)/c)	<u>83%</u>	<u>73%</u>	<u>61%</u>

OTHER SUPPLEMENTARY INFORMATION

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Revenues and Expenses

	Years Ended December 31,	
	2015	2014
Operating revenues:		
Sales of electricity:		
Residential	\$ 8,545,484	\$ 8,632,110
Commercial and industrial	20,499,832	19,453,890
Irrigation	170,293	147,127
Public street and highway lighting	252,827	252,332
Other sales	4,706	5,873
The Dalles Dam Hydroelectric	2,105,486	1,912,402
Other operating revenues	335,199	322,096
Total operating revenues	<u>31,913,827</u>	<u>30,725,830</u>
Operating expenses:		
Cost of purchased power	<u>21,676,453</u>	<u>20,470,120</u>
Power production expenses:		
License and permit costs	95,854	94,440
Operation and maintenance	910,837	823,589
Transmission	210,882	295,169
Total power production expenses	<u>1,217,573</u>	<u>1,213,198</u>
Transmission expenses:		
Maintenance of station equipment	1,881	8,668
Maintenance of overhead lines	16,123	50,465
Total transmission expenses	<u>18,004</u>	<u>59,133</u>
Distribution expenses:		
Meter expenses	126,491	152,650
Miscellaneous distribution expenses	223,088	240,549
Rents	10,560	9,715
Maintenance of station equipment	60,435	132,636
Maintenance of overhead lines	1,086,379	1,041,905
Maintenance of underground lines	118,884	117,171
Maintenance of line transformers	7,571	14,959
Maintenance of street lighting and signal systems	22,258	25,363
Maintenance of meters	11,796	13,892
Maintenance of miscellaneous distribution plant	14,324	14,777
Maintenance of communication equipment	-	200
Total distribution expenses	<u>1,681,786</u>	<u>1,763,817</u>
Customer accounts expenses:		
Meter reading expenses	184,437	187,703
Customer records and collection expenses	424,804	394,934
Uncollectible accounts	18,000	18,000
Miscellaneous customer accounts expenses	932	815
Total customer accounts expenses	<u>628,173</u>	<u>601,452</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Revenues and Expenses

	Years Ended December 31,	
	2015	2014
Operating expenses: (Contd)		
Customer service and informational expenses:		
Customer assistance	\$ 511,523	\$ 436,631
Informational	173,650	116,365
Total customer service and informational expenses	<u>685,173</u>	<u>552,996</u>
Administrative and general expenses:		
Administrative and general salaries	877,115	952,659
Office supplies and expenses	75,834	63,500
Outside services employed	359,174	148,541
Property insurance	186,162	187,571
Injuries and damages	21,035	29,458
Miscellaneous general expenses	464,397	376,721
Total administrative and general expenses	<u>1,983,717</u>	<u>1,758,450</u>
Depreciation and amortization of electric plant	<u>1,864,690</u>	<u>1,814,267</u>
Taxes	<u>1,115,825</u>	<u>1,077,591</u>
Total operating expenses	<u>30,871,394</u>	<u>29,311,024</u>
Net operating revenues	<u>1,042,433</u>	<u>1,414,806</u>
Nonoperating revenues-(expenses):		
Investment income	111,133	82,393
Contractual obligation from the Bonneville Power Administration	396,278	411,179
Patronage capital credits	9,831	10,651
Gain on disposition of property	2,550	12,206
Interest on debt	(602,387)	(686,996)
Amortization of debt premium and loss on refunding	106,043	136,512
Loss on sale of transmission rights	(141,970)	-
Hydroelectric generation project abandonment costs	(929,701)	-
Total nonoperating revenues-(expenses)	<u>(1,048,223)</u>	<u>(34,055)</u>
Net income-(loss)	<u>\$ (5,790)</u>	<u>\$ 1,380,751</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Bond and Revenue Obligations Debt Service Transactions
Year Ended December 31, 2015

	Principal Transactions			Outstanding 12/31/2015
	Outstanding 1/1/2015	2015 Issues	2015 Retirements	
Series 2005 Revenue Obligations	\$ 2,555,000	\$ -	\$ 2,555,000	\$ -
Series 2012A Bonds	7,520,000	-	-	7,520,000
Series 2012B Bonds	8,110,000	-	1,390,000	6,720,000
Totals	<u>\$ 18,185,000</u>	<u>\$ -</u>	<u>\$ 3,945,000</u>	<u>\$ 14,240,000</u>

	Interest Transactions			Matured 12/31/2015
	Matured 1/1/2015	2015 Maturities	2015 Payments	
Series 2005 Revenue Obligations	\$ -	\$ 75,540	\$ 75,540	\$ -
Series 2012A Bonds	-	376,000	376,000	-
Series 2012B Bonds	-	162,599	162,599	-
Totals	<u>\$ -</u>	<u>\$ 614,139</u>	<u>\$ 614,139</u>	<u>\$ -</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Future Bond Debt Service Requirements
December 31, 2015

Year	Series 2012A Bonds			Series 2012B Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ -	\$ 376,000	\$ 376,000	\$ 1,410,000	\$ 145,753	\$ 1,555,753
2017	-	376,000	376,000	1,435,000	124,349	1,559,349
2018	-	376,000	376,000	1,460,000	97,543	1,557,543
2019	-	376,000	376,000	1,490,000	65,408	1,555,408
2020	610,000	376,000	986,000	925,000	27,399	952,399
2021	1,605,000	345,500	1,950,500	-	-	-
2022	1,685,000	265,250	1,950,250	-	-	-
2023	1,765,000	181,000	1,946,000	-	-	-
2024	1,855,000	92,750	1,947,750	-	-	-
Totals	<u>\$ 7,520,000</u>	<u>\$ 2,764,500</u>	<u>\$ 10,284,500</u>	<u>\$ 6,720,000</u>	<u>\$ 460,452</u>	<u>\$ 7,180,452</u>

NORTHERN WASCO COUNTY PEOPLE'S UTILITY DISTRICT

Schedule of Future Bond Debt Service Requirements
December 31, 2015

Total Future Requirements		
<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$ 1,410,000	\$ 521,753	\$ 1,931,753
1,435,000	500,349	1,935,349
1,460,000	473,543	1,933,543
1,490,000	441,408	1,931,408
1,535,000	403,399	1,938,399
1,605,000	345,500	1,950,500
1,685,000	265,250	1,950,250
1,765,000	181,000	1,946,000
<u>1,855,000</u>	<u>92,750</u>	<u>1,947,750</u>
<u>\$ 14,240,000</u>	<u>\$3,224,952</u>	<u>\$ 17,464,952</u>

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

INDEPENDENT AUDITOR'S COMMENTS
REQUIRED BY OREGON STATE REGULATIONS

April 19, 2016

Board of Directors
Northern Wasco County People's Utility District
The Dalles, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Northern Wasco County People's Utility District as of and for the year ended December 31, 2015, and have issued our report thereon dated April 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northern Wasco County People's Utility District'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 Northern Wasco County People's Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern Wasco County People's Utility District'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 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 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.

Compliance

As part of obtaining reasonable assurance about whether Northern Wasco County People's Utility District'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 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

In connection with our testing nothing came to our attention that caused us to believe Northern Wasco County People's Utility District was not in substantial compliance with certain provisions of laws, regulations, contracts and grant agreements, 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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

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

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.