Washington State Auditor's Office

December 15, 2016

Board of Commissioners
Public Utility District No. 1 of Pend Oreille County
Newport, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on Public Utility District No. 1 of Pend Oreille County's financial statements for the fiscal year ended December 31, 2015. The District contracted with the CPA firm for this audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The State Auditor's Office did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the State Auditor's Office website as a matter of public record.

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

Report of Independent Auditors
and Combined Financial Statements
with Supplemental Information

Public Utility District No. 1
of Pend Oreille County, Washington

December 31, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Commissioners
Public Utility District No. 1
of Pend Oreille County, Washington

Report on Financial Statements

We have audited the accompanying combined financial statements of Public Utility District No. 1 of Pend Oreille County, Washington (the District), which comprise the combined statements of net position as of December 31, 2015 and 2014, the individual statements of net position of the Electric, Box Canyon Production, Water, and Community Network Systems as of December 31, 2015, the related combined statements of revenues, expenses, and changes in net position and of cash flows for the years ended December 31, 2015 and 2014, and the individual statements of revenues, expenses, and changes in net position and of cash flows for the Electric, Box Canyon Production, Water, and Community Network Systems for the year ended December 31, 2015, 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.

Auditors' 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 the 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective January 1, 2014. The beginning of year net position has been restated for this change. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of proportionate share of net pension liability, and schedule of employer contributions 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of Electric System - revenue, customer, and energy statistics, Electric System - senior lien parity debt service coverage, and Box Canyon Production System - senior lien parity debt service coverage are not a required part of the basic financial statements, but are supplemental information presented for the purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Moss Adams LLP

Seattle, Washington
April 8, 2016

The financial management of Public Utility District No. 1 of Pend Oreille County, Washington (the District) offers readers of these financial statements this overview and summary analysis of the financial activities of the District for the years ended December 31, 2015 and 2014. This discussion and analysis is designed to be used in conjunction with the financial statements and notes, which follow this section.

Overview of the Financial Statements

The financial section of the annual report includes the report of independent auditors, management's discussion and analysis, basic financial statements with accompanying notes, and supplemental information (unaudited).

The financial statements of the District report the self-supporting, proprietary activities of the District funded primarily by the sale of power, water, and telecommunication services. The District reports the business-type activities in a manner similar to private-sector business enterprises, using the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

The District's reporting entity consists of four primary component units, or operating systems. The Electric System distributes electricity to residential and other consumers in Pend Oreille County. The Box Canyon Production System produces hydroelectric power from the Box Canyon Hydroelectric Project. The Water System consists of nine individual water distribution subdivisions. The Community Network System supplies wholesale broadband communication services. The financial statements are reported in a combined format, meaning that each of the primary component units is reported in a columnar approach, which are combined into a District-wide total.

The combined statements of net position present information on the District's assets and liabilities and provide information regarding the nature and amount of resource investment (assets) and obligations incurred in the pursuit of such resources. These statements also provide a vehicle for evaluating the capital structure of the District and assessing liquidity and financial flexibility of the District.

The combined statements of revenues, expenses, and changes in net position report revenues and expenses, as well as change in net position for this period. These statements provide a measurement of the District's operations, help to evaluate the level of cost recovery from charges for products and services, and can be used as a partial determinant of creditworthiness.

The combined statements of cash flows provide information concerning cash receipts and disbursements during the reporting period resulting from operational, financing, and investing activities. This information provides insight into the District's ability to generate net cash flows and meet obligations as they become due, and is an important indicator of the District's liquidity and financial strength.

The notes to the combined financial statements provide additional information that is essential to a full understanding of the financial statements, as described above, and are an integral part thereof.

Significant Events

Box Canyon Hydroelectric Project **-** In January 2015, the District commissioned the fourth and final turbine at Box Canyon Hydroelectric Project (Project), completing construction of the upgrade project. The District began construction in earnest in 2007 with the replacement and upgrade of the step-up transformers at the Project, and continued upgrading a majority of the auxiliary components to support new turbines with an increased generating capability. The District replaced the original 5-blade Kaplan style turbines with a 4-blade Kaplan style, which is intended to be more fish friendly. The nameplate capacity of the Project turbines increased from the previous 72 megawatt capacity to 90 megawatts. Total plant upgrades, including new turbines, step-up transformers, governors, plant wiring, cool water piping, and other components were funded through $143.8 million in revenue bond issuances. The District has approximately $14 million remaining in construction funds, some of which will complete final payments to the District's turbine upgrade contractor once state contract laws are met and the District and contractor agree on final payment. The District and the contractor are currently engaged in the contractually mandated dispute resolution in order to address final payments and contractual liquidated damages.

Construction of an upstream fish passage facility is included in the District's FERC license and is the next construction project to be completed. This facility will be located adjacent to the Project's powerhouse, and will collect fish in a sorting station on the powerhouse roof, allowing target species to be monitored, tagged, and eventually transported upstream. Construction of the facility is expected to begin in July 2016, and will cost approximately $36 million, and will be funded with proceeds of revenue bonds.

Sullivan Creek Cold Water Pipe Project - The District owns a water storage facility on Sullivan Lake in north Pend Oreille County. As part of the decommissioning of the facility's FERC license, in 2015 the District completed construction of a cold water pipe in Sullivan Lake, which is designed to draw cooler water from the bottom of the lake into an outlet creek, creating an attractant for fish in Seattle City Light's Boundary Hydroelectric Project reservoir, located just downstream of the District's Box Canyon Hydro Project. Seattle City Light paid half of the $4.7 million cost of the cold water pipe construction, and will pay all of the cost for the removal of Mill Pond Dam, a storage facility downstream of Sullivan Lake dam, as part of environmental mitigation obligations for Boundary Project's FERC license renewal. Funds received from the Washington State Department of Ecology Office of the Columbia River in the amount of $14 million provided funding for the remaining construction costs in exchange for prescribed increased water releases from Sullivan Lake to provide improved water availability for communities along the Columbia River for the next 30 years.

Ponderay Newsprint Company - Ponderay Newsprint Company (PNC) is the District's largest customer, consuming approximately 71% of the District's 2015 energy load. In December 2015, PNC submitted a power schedule that did not comply with the terms of contracts, between PNC and the District. The District informed PNC of the breach and afforded it the opportunity to cure per the terms of the contracts. PNC failed to timely cure the breach and filed suit against the District, denying that the contracts should be terminated. Legal proceedings continue, but in the interim the District has continued to provide power, and PNC continues to pay in full for that power under terms of the original contracts. The District and PNC are in regular communication to resolve differences.

Financial Analysis

Combined statement of net position information as of December 31:

	2015	2014 As Restated	2013
ASSETS			
Current assets	$ 87,238,853	$ 83,610,453	$ 99,597,556
Other assets	12,005,275	11,323,852	5,491,384
Net utility plant	245,511,712	249,750,757	235,885,984
Total assets	344,755,840	344,685,062	340,974,924
DEFERRED OUTFLOWS OF RESOURCES	975,597	528,701	127,409
Total assets and deferred outflows of resources	$ 345,731,437	$ 345,213,763	$ 341,102,333
LIABILITIES			
Current liabilities	$ 22,883,524	$ 29,070,445	$ 22,655,882
Other liabilities	42,430,416	29,798,200	23,490,015
Long-term debt	146,317,824	152,245,743	158,067,248
Total liabilities	211,631,764	211,114,388	204,213,145
DEFERRED INFLOWS OF RESOURCES	1,701,856	2,650,023	-
NET POSITION			
Invested in capital assets, net of related debt	112,887,459	115,484,383	109,295,771
Restricted	22,302,888	22,207,498	22,034,253
Unrestricted	(2,792,530)	(6,242,529)	5,559,164
Total net position	132,397,817	131,449,352	136,889,188
Total liabilities, deferred inflows of resources, and net position	$ 345,731,437	$ 345,213,763	$ 341,102,333

The District's working capital increased during 2015, from $54,540,008 as of December 31, 2014, to $64,355,329 as of December 31, 2015. Working capital as of December 31, 2013, was $76,941,674. Billings of $9 million for the Sullivan Creek Cold Water Pipe Project and timing of other construction payments were the main drivers in fluctuations in working capital.

Financial Analysis (continued)

The District expended $4.3 million for acquisition and construction of capital assets during 2015, and $18.6 million and $23.7 million during 2014 and 2013, respectively. The decrease in expenditures for utility plant reflects the completion of several large construction projects by the District. Net utility plant decreased in 2015 through normal depreciation, which was $9.9 million, $9.1 million, and $6.8 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Deferred outflows of resources include loss on refinancing of Electric System revenue bonds of $46,711, $82,479, and $127,409 as of December 31, 2015, 2014, and 2013, respectively. Deferred outflows of resources also include pension-related items of $928,886 and $446,222 as of December 31, 2015 and 2014, respectively, and are a result of implementing Governmental Accounting Standards Board (GASB) Statement Number 68, *Accounting and Financial Reporting for Pensions,* further discussed in Note 1 of these financial statements.

Other liabilities include an increase of $8,472,799 in unearned revenue, with a balance of $11,914,760 as of December 31, 2015, and $3,441,961 and $3,297,366 as of December 31, 2014 and 2013, respectively. The increase reflects a final receivable of $9,000,000 from the Washington State Department of Ecology Office of the Columbia River for operations and maintenance costs of the Sullivan Lake facility as discussed previously.

Other liabilities also include pension liability of $8,131,776 and $5,974,831 as of December 31, 2015 and 2014, respectively, as a result of implementing GASB Statement Number 68. The implementation of this statement also added deferred pension inflows of $1,701,856 and $2,650,023 as of December 31, 2015 and 2014, respectively.

Summary of Financial Condition

During 2015, the District's overall financial position improved. Total net position for the District increased $948,468 from $131,449,352 in 2014 to $132,397,817 in 2015.

Electric System Operating Results

	2015	2014 As Restated	2013
Electric operating revenues			
Ponderay Newsprint Company	$ 23,769,699	$ 26,598,450	$ 30,309,544
Other retail customers	14,069,985	13,334,603	13,336,214
Sales to other utilities	5,789,699	6,057,541	3,919,890
All other	871,584	965,614	1,091,979
Total operating revenues	44,500,967	46,956,208	48,657,627
Electric operating expenses			
Power costs	28,121,024	30,090,521	30,849,518
All other	16,151,123	15,421,054	14,233,669
Total operating expenses	44,272,147	45,511,575	45,083,187
Net operating revenues	228,820	1,444,633	3,574,440
NONOPERATING REVENUES (EXPENSES)	1,894,943	1,283,978	(958,656)
CHANGE IN NET POSITION	$ 2,123,763	$ 2,728,611	$ 2,615,784
DEBT SERVICE COVERAGE	1.32x	1.68x	2.91x

Operating Revenues

Ponderay Newsprint Company (PNC) is the District's largest customer, representing 71% of the District's retail energy usage in 2015 with 580,993 megawatts of consumption, compared to 675,145 and 765,225 megawatts in 2014 and 2013, respectively. Ponderay Newsprint Company's billings are based on contractually agreed actual cost of service methodology rather than under a rate schedule. Accordingly, the billings increase or decrease in direct relation to the District's power supply costs. Further, PNC receives credit for the majority of the District's wholesale power sales to other utilities; therefore, its billings decrease when sales to other utilities increase, and vice versa. Despite differences regarding breach of contract and termination clauses mentioned earlier between the District and Ponderay Newsprint Company, the operations between the two parties remain unchanged. Ponderay Newsprint Company operated at a reduced capacity through October 2015, but has been at full power consumption since November 2015.

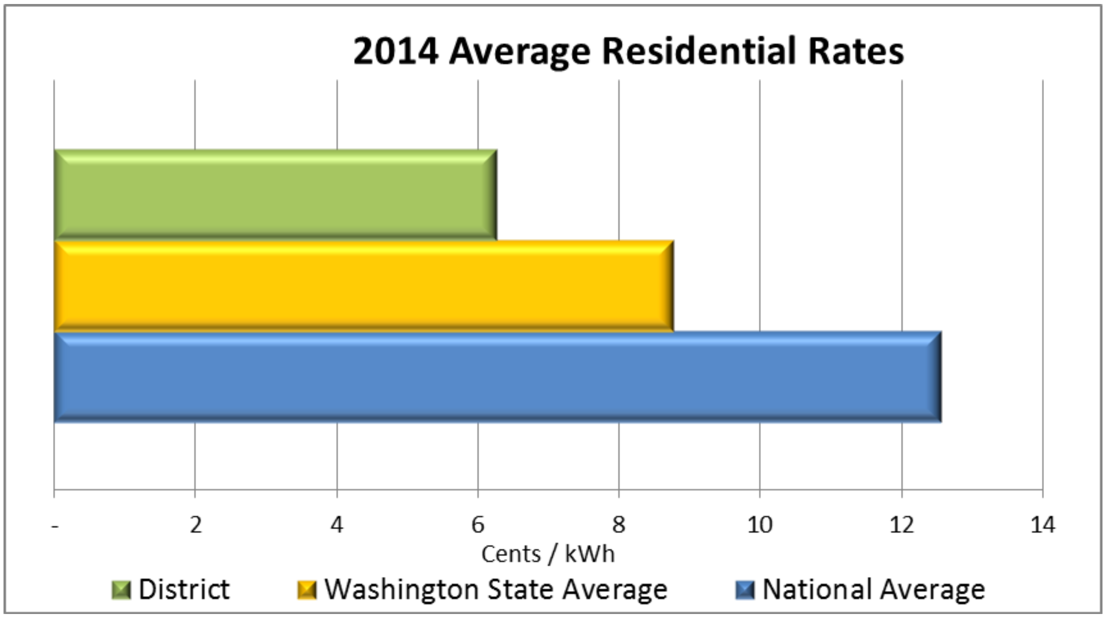
The District's second largest customer, Teck, announced in the spring of 2014 that the company would restart its Pend Oreille zinc mine, located in northern Pend Oreille County. Full production began in December 2014, increasing revenues for energy consumption to $2.0 million, up from $1.1 million for 2014 and $1.0 million for 2013.

Remaining other retail customer revenues increased in 2015, mostly due to a mid-year rate increase of approximately 2.16% for all customer classes. Retail customer load for 2015 was 240,062 megawatts, compared to 234,191 and 233,575 megawatts for 2014 and 2013, respectively. The average number of District residential energy customers grew 1% during 2015, with an average of 8,042 residential customers in 2015, 7,957 in 2014, and 7,912 in 2013. 2015's growth of 1.07% is the highest growth for the District in the last 5 years.

Electric System Operating Results (continued)

Operating Revenues (continued)

At 6.7 cents per kilowatt hour, the District's residential rates are among the lowest in the state and the nation. The following chart shows the District's retail rate compared with other utilities across the nation.



Energy Resources and Power Costs

The District's largest source of power is from the Box Canyon Hydroelectric Project. The cost of power produced from this facility has increased significantly over the last decade, due largely to debt service costs associated with the turbine upgrade project. Once funding is secured for upcoming fish passage construction, costs for the Box Canyon Hydroelectric Project are expected to remain level for several years. Additionally, power generation varies with water flows, and capacity has increased from the turbine upgrade work, both of which impact the cost of power. The cost of generating Box Canyon power averaged $33 per megawatt hour in 2015, $37 in 2014, and $41 in 2013.

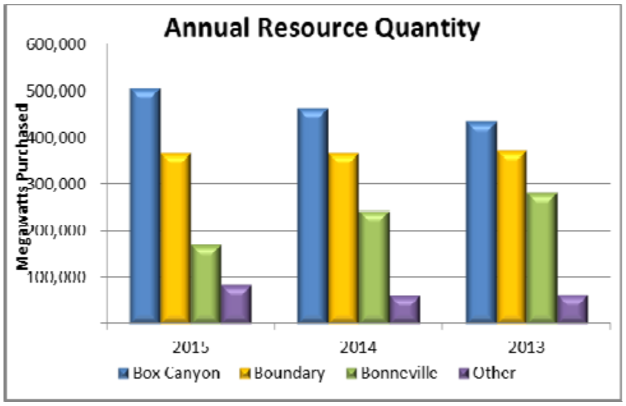
The District receives 48 megawatts of power capacity from the City of Seattle's Boundary Hydroelectric Project. At approximately $6 per megawatt hour in 2015, power received from the Boundary Hydroelectric Project is the District's most inexpensive power source and a key component of the District's low customer rates.

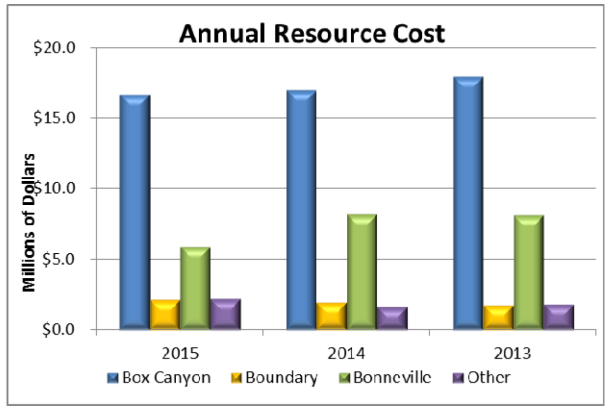
Power obtained from the Bonneville Power Administration cost $35 per megawatt hour in 2015, $34 in 2014, and $29 in 2013. The District received an average of 26 megawatts from Bonneville through September 2015, which was reduced to 5.5 megawatts beginning in October 2015. Energy is delivered in monthly block amounts that are shaped to the District's load.

Electric System Operating Results (continued)

Energy Resources and Power Costs (continued)

Other energy resources include costs to operate the Calispell Powerhouse, which produces less than 1 megawatt per hour; market power purchases necessary to balance resources to customer load; and power marketed under contract for the Kalispel Tribe.





Debt Service Coverage

The debt service coverage ratio measures cash flow from operations in comparison to annual debt service. In December 2013, the District defeased bonds set to mature in January 2015, legally removing them as an obligation of the Electric System (see Note 4), and increasing the debt coverage ratio for that year. The 2015 debt coverage ratio of 1.32 and 2014's ratio of 1.68 were well above the District's bond covenant ratio of 1.25. Increased pension expense resulting from GASB Statement Number 68 decreased the District's debt coverage ratio in 2015.

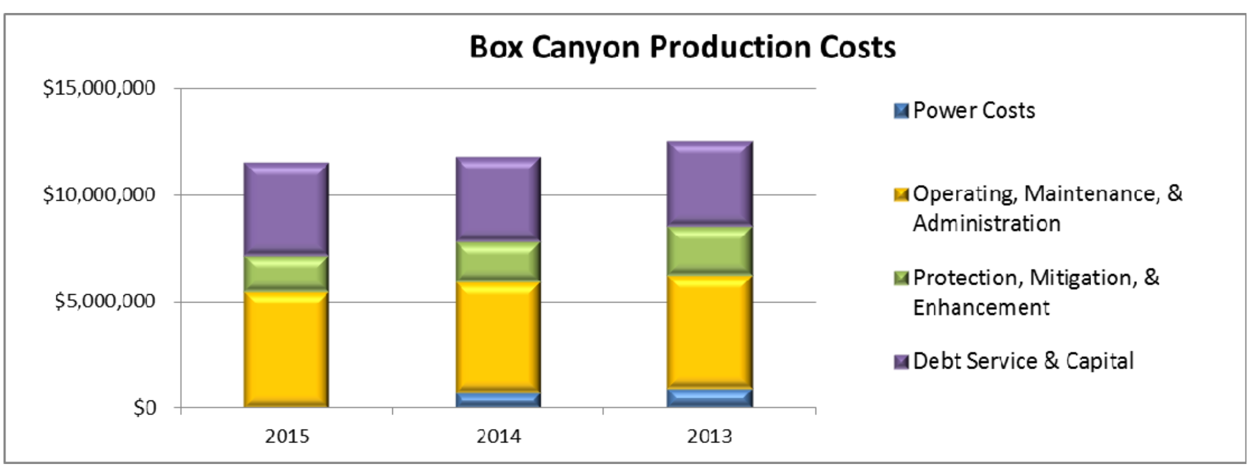
The District's bonds are currently rated by Moody's Investor Services and Fitch Ratings, which have assigned ratings to the District's bonds of A3 and A-, respectively. Both services added a negative outlook during 2015 as a result of depressed market prices and increased risk surrounding Ponderay Newsprint Company and its stability.

Box Canyon Production System Operating Results

	2015	2014 As Restated	2013
Production operating revenues			
Sales to Electric System	$ 16,887,358	$ 17,208,475	$ 18,097,510
All other	15,214	137,788	59,945
Total operating revenues	16,902,572	17,346,263	18,157,455
Production operating expenses	11,023,524	10,742,032	11,459,851
Net operating revenues	5,879,048	6,604,231	6,697,604
NONOPERATING EXPENSES	(5,094,799)	(4,334,010)	(4,421,845)
CHANGE IN NET POSITION	$ 784,249	$ 2,270,221	$ 2,275,759
DEBT SERVICE COVERAGE	1.03x	1.05x	1.05x

Operating expenses include power purchases made to firm up to contractually required levels of production. Under the Ponderay Newsprint Contracts, if Box Canyon generation is less than 453,330 megawatts during the annual water year, the District will purchase wholesale power to firm up generation to this contractual level. Firm-up power purchases vary with annual Pend Oreille River flows. Due to increased generation capabilities at Box Canyon and contractual amendments with Ponderay Newsprint Company, no firm generation power purchases were made during 2015. Power purchases totaled $716,646 and $917,434 in 2014 and 2013, respectively.

Included in operating expenses for the Production System is environmental work being performed as required by FERC licensing conditions. The type and expense of environmental work will vary from year to year, and in 2015 consisted of cultural studies, historical education, stream rehabilitation projects, recreation and wildlife projects, and water quality programs on the Pend Oreille River. Other costs, such as operations, maintenance, and administrative costs, have been relatively consistent from 2013 to 2015.



Nonoperating expenses include interest expense, net of allowance for funds used during construction (AFUDC), and capitalized interest associated with financing the Box Canyon capital project work.

Box Canyon Production System Operating Results (continued)

Because the Box Canyon Hydroelectric System receives revenue from the Electric System sufficient to cover operating costs, including debt service and a component for capital spending, the normal senior lien debt service ratio will be slightly over 1.0x. The ratio will only be significantly above 1.0 during years the District elects to finance significant capital project work through current rates as opposed to debt financing.

Water System Operating Results

	2015	2014 As Restated	2013
Water operating revenues			
Sales to retail customers	$ 423,677	$ 404,763	$ 407,931
All other	16,605	15,998	13,152
Total operating revenues	440,282	420,761	421,083
Water operating expenses	624,093	539,193	559,747
Net operating expenses	(183,811)	(118,432)	(138,664)
NONOPERATING REVENUES (EXPENSES)	(5,242)	94,319	742,205
CHANGE IN NET POSITION	$ (189,053)	$ (24,113)	$ 603,541

The District operates nine separate water systems throughout Pend Oreille County. The District is contractually obligated to maintain separate and distinct rates for each water system that reflect the individual system's costs. The majority of the variations in the preceding table are normal variations. Grant revenues of $100,468 and $749,357 are included in nonoperating revenue for 2014 and 2013, which were used to improve infrastructure.

Community Network System Operating Results

	2015	2014 As Restated	2013
Community Network operating revenue			
Sales to retail customers	$ 1,499,803	$ 1,273,072	$ 733,566
Intersystem sales	276,944	284,144	303,168
All other	158,909	17,194	63,142
Total operating revenues	1,935,656	1,574,410	1,099,876
Operating expenses	3,697,382	3,510,835	964,366
Net operating revenues (expenses)	(1,761,726)	(1,936,425)	135,510
NONOPERATING REVENUES (EXPENSES)	(8,768)	(5,163)	2,942,116
CHANGE IN NET POSITION	$ (1,770,494)	$ (1,941,588)	$ 3,077,626

Community Network System Operating Results (continued)

Prior to the receipt of an ARRA grant to build fiber to the home, the Community Network System sales were made solely to businesses. Revenues for this product in 2015, 2014, and 2013 were $934,903, $860,259, and $660,118, respectively. With the completion of the ARRA grant, standard class services began, adding $642,305, $415,813, and $73,448 to fiber revenues in 2015, 2014, and 2013, respectively. As of December 31, 2015, the District had approximately 1,485 end users of the District's fiber, served through three local retail internet service providers. Intersystem sales are services provided for the internal benefit of the District itself. Other revenue includes contributed capital and miscellaneous revenues, which can vary based on new customer service requirements.

Operating expenses include operations and maintenance to maintain the fiber optic line and related equipment, labor, and contracts for control and intertie services. Depreciation is included in operating expenses, which was $2,479,053, $2,401,643, and $261,129 for 2015, 2014, and 2013 respectively. Depreciation increased in 2014 due to the capitalization of ARRA grant assets.

Other Significant Matters

A description of currently known facts, decisions, and conditions that are expected to have a significant effect on future financial position or results of operations follows.

Ponderay Newsprint Company - District contracts with Ponderay Newsprint Company expire in 2027. The District has no notice of any plans to cease their operations; however, the condition exists that the District has additional business risk from an unusually high concentration of sales to a single entity. The rate impact from a loss of Ponderay Newsprint Company sales could be significant to the District, cannot be accurately forecasted, and depends upon the interaction of many factors, including but not limited to then-existing cost of production of Box Canyon Project power, cost of acquisition of Bonneville power, and market or resale value of this power.

Contacting the District's Financial Management

The financial report is designed to provide interested parties with a general overview of the District's finances and to demonstrate District accountability for the money it receives. For any questions about this report, or additional or clarifying financial information, contact the District's financial department as set forth on the last page of this Annual Report under Organizational Information—Corporate Office.

April D. Owen, CPA
Director of Finance

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PUBLIC UTILITY DISTRICT NO. 1
OF PEND OREILLE COUNTY, WASHINGTON
COMBINED STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total December 31, 2015	Combined Total December 31, 2014 As Restated
CURRENT ASSETS						
Cash and cash equivalents	$ 9,280,340	$ 12,640,844	$ -	$ -	$ 21,921,184	$ 23,206,425
Restricted cash and cash equivalents	5,192,921	21,428,401	-	-	26,621,322	45,420,751
Restricted short-term investment	12,513,793	11,524,586	-	-	24,038,379	9,929,650
Receivables						
Accounts and contracts, net	1,074,762	-	21,013	221,475	1,317,250	1,172,842
Other	9,254,753	298,214	375	4,223	9,557,565	685,547
Unbilled revenue	918,290	-	-	-	918,290	886,192
Materials and supplies	1,580,699	-	39,465	812,725	2,432,889	1,823,815
Prepaid expenses and other	401,731	30,243	-	-	431,974	485,231
Due from other systems	668,685	190,130	-	-	-	-
Total current assets	40,885,974	46,112,418	60,853	1,038,423	87,238,853	83,610,453
NONCURRENT ASSETS						
Contracts and notes receivable	3,755,410	-	-	-	227	-
Nonutility plant	5,499,324	-	-	-	5,499,324	4,822,510
Licensing costs - regulatory asset	-	6,505,724	-	-	6,505,724	6,501,342
Long-term intersystem investment	-	4,687,334	-	-	-	-
Total noncurrent assets	9,254,734	11,193,058	-	-	12,005,275	11,323,852
UTILITY PLANT						
Land and land rights	3,354,650	784,295	77,304	61,721	4,277,970	4,277,970
Hydroelectric plant and equipment	1,524,491	147,230,717	-	-	148,755,208	140,540,051
Structures, buildings, and equipment	111,364,995	-	8,669,836	42,862,090	162,896,921	160,609,962
Intangible assets	590,710	13,250,547	743	-	13,842,000	13,775,821
Construction work in progress	1,556,033	5,711,891	-	180,937	7,448,861	12,825,733
	118,390,879	166,977,450	8,747,883	43,104,748	337,220,960	332,029,537
Less accumulated depreciation and amortization	56,792,430	23,390,869	3,218,265	8,307,684	91,709,248	82,278,780
Net utility plant	61,598,449	143,586,581	5,529,618	34,797,064	245,511,712	249,750,757
Total assets	111,739,157	200,892,057	5,590,471	35,835,487	344,755,840	344,685,062
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refinancing of debt	46,711	-	-	-	46,711	82,479
Deferred pension outflows	610,355	255,799	10,811	51,921	928,886	446,222
Total deferred outflows of resources	657,066	255,799	10,811	51,921	975,597	528,701
Total assets and deferred outflows of resources	$ 112,396,223	$ 201,147,856	$ 5,601,282	$ 35,887,408	$ 345,731,437	$ 345,213,763

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total December 31, 2015	Combined Total December 31, 2014 As Restated
CURRENT LIABILITIES						
Accounts payable	$ 2,465,991	$ 4,235,145	$ -	$ -	$ 6,701,136	$ 11,277,947
Accrued compensation and benefits	2,015,303	-	-	-	2,015,303	1,965,461
Accrued taxes	818,121	108,130	1,710	1,048	929,009	875,064
Customer prepayments and deposits	2,041,373	-	2,879	52,596	2,096,848	3,622,930
Accrued bond interest	482,566	3,696,964	1,126	-	4,180,656	4,269,028
Current portion of long-term debt	2,053,333	3,635,714	37,590	190,130	5,726,637	5,586,637
Current portion of licensing cost liability and unearned revenues	29,000	1,204,935	-	-	1,233,935	1,473,378
Due to other systems	-	-	101,310	567,375	-	-
Total current liabilities	9,905,687	12,880,888	144,615	811,149	22,883,524	29,070,445
OTHER LIABILITIES						
Unearned revenue	11,183,333	-	-	4,366,608	11,914,760	3,441,961
Licensing costs liability	-	6,505,724	-	-	6,505,724	6,501,342
Contract security liability	9,998,156	5,880,000	-	-	15,878,156	13,880,066
Net pension liability	5,343,259	2,239,346	94,644	454,527	8,131,776	5,974,831
Total other liabilities	26,524,748	14,625,070	94,644	4,821,135	42,430,416	29,798,200
LONG-TERM DEBT						
Revenue bonds	17,573,984	128,451,058	-	4,687,334	146,025,042	151,902,037
Other long-term debt	120,000	-	172,782	-	292,782	343,706
Due to other systems	-	-	-	120,000	-	-
Total long-term debt	17,693,984	128,451,058	172,782	4,807,334	146,317,824	152,245,743
Total liabilities	54,124,419	155,957,016	412,041	10,439,618	211,631,764	211,114,388
DEFERRED INFLOWS OF RESOURCES						
Deferred pension inflows	1,118,262	468,661	19,808	95,125	1,701,856	2,650,023
Total deferred inflows of resources	1,118,262	468,661	19,808	95,125	1,701,856	2,650,023
NET POSITION						
Net investment in capital assets	47,132,137	25,678,936	5,319,246	29,759,679	112,887,459	115,484,383
Restricted for						
Sullivan contract obligation	2,668,564	-	-	-	2,668,564	2,664,193
Debt service	4,557,428	15,076,896	-	-	19,634,324	19,543,305
Total restricted	7,225,992	15,076,896	-	-	22,302,888	22,207,498
Unrestricted	2,795,413	3,966,347	(149,813)	(4,407,014)	(2,792,530)	(6,242,529)
Total net position	57,153,542	44,722,179	5,169,433	25,352,665	132,397,817	131,449,352
Total liabilities and net position	$ 112,396,223	$ 201,147,856	$ 5,601,282	$ 35,887,408	$ 345,731,437	$ 345,213,763

PUBLIC UTILITY DISTRICT NO. 1
OF PEND OREILLE COUNTY, WASHINGTON
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total December 31, 2015	Combined Total December 31, 2014 As Restated
OPERATING REVENUES						
Sales to retail customers						
Ponderay Newsprint Company	$ 23,769,699	$ -	$ -	$ -	$ 23,769,699	$ 26,598,450
Other retail customers	14,069,985	-	423,677	1,499,803	15,993,465	15,012,438
Sales to other utilities	5,789,699	-	-	-	5,789,699	6,057,541
Intersystem sales	132,186	16,887,358	-	276,944	-	-
Contributed capital	384,024	-	5,791	139,224	529,039	526,901
Grant revenues	46,535	12,214	-	-	58,749	-
Other	308,839	3,000	10,814	19,685	111,395	237,791
Total operating revenues	44,500,967	16,902,572	440,282	1,935,656	46,252,046	48,433,121
OPERATING EXPENSES						
Power costs	28,121,024	113,560	-	-	11,347,229	13,598,692
Operations and maintenance	6,191,145	4,643,116	259,199	1,073,968	11,815,519	11,963,098
Administrative and general	3,585,673	2,454,378	99,102	92,797	5,943,783	5,708,228
Taxes	2,156,613	113,788	21,490	10,978	2,302,869	2,322,614
Pension expense	477,117	199,959	8,452	40,586	726,114	(294,332)
Depreciation and amortization	3,740,575	3,498,723	235,850	2,479,053	9,954,201	9,140,815
Total operating expenses	44,272,147	11,023,524	624,093	3,697,382	42,089,715	42,439,115
Net operating revenues (expenses)	228,820	5,879,048	(183,811)	(1,761,726)	4,162,331	5,994,006
NONOPERATING REVENUES (EXPENSES)						
Interest income	238	9,602	169	-	(1,009)	66,091
Interest on debt	(895,743)	(7,305,448)	(5,145)	(8,155)	(8,206,336)	(8,360,971)
Subsidies on debt	-	2,021,287	-	-	2,021,287	2,045,040
AFUDC interest	-	181,744	-	-	181,744	1,029,183
Grant revenues	-	-	-	-	-	100,468
Sullivan net revenue	7,192	-	-	-	7,192	47,907
Sullivan contributions in aid of construction	2,783,256	-	-	-	2,783,256	2,113,448
Other, net	-	(1,984)	(266)	(613)	-	(2,044)
Total nonoperating revenues (expenses)	1,894,943	(5,094,799)	(5,242)	(8,768)	(3,213,866)	(2,960,878)
CHANGE IN NET POSITION	2,123,763	784,249	(189,053)	(1,770,494)	948,465	3,033,128
ACCUMULATED NET POSITION						
Beginning of year	55,029,779	43,937,930	5,358,486	27,123,159	131,449,352	128,416,224
End of year	$ 57,153,542	$ 44,722,179	$ 5,169,433	$ 25,352,665	$ 132,397,817	$ 131,449,352

See accompanying notes.

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total December 31, 2015	Combined Total December 31, 2014 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 36,633,279	$ -	$ 428,620	$ 1,611,647	$ 38,673,546	$ 50,759,530
Receipts from other operating revenues	5,860,033	15,214	-	-	5,875,247	387,562
Payments to suppliers for goods and services	(17,513,688)	(5,751,708)	(164,796)	(498,697)	(23,928,889)	(22,146,149)
Payments to employees for services	(6,804,640)	(4,174,299)	(194,543)	(647,874)	(11,821,356)	(11,290,414)
Payments to (from) other systems	(17,004,095)	16,564,322	(22,760)	462,533	-	-
Net cash from operating activities	1,170,889	6,653,529	46,521	927,609	8,798,548	17,710,529
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Nonoperating asset						
Acquisition and construction of long-term asset, net	(676,814)	-	-	-	(676,814)	(4,274,801)
Receipts from Sullivan revenues and contributions in aid	(6,209,552)	-	-	-	(6,209,552)	2,172,037
Intersystem financing	16,027	(1,984)	(98)	(13,945)	-	-
Net cash from noncapital financing activities	(6,870,339)	(1,984)	(98)	(13,945)	(6,886,366)	(2,102,764)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition and construction of capital assets	(2,906,156)	(763,106)	(3,475)	(673,234)	(4,345,971)	(18,590,031)
Proceeds from sale of assets	3,750	6,787	-	-	10,537	-
Proceeds from grants	-	-	-	-	-	234,592
Change of deferred revenue	8,525,390	-	-	(49,588)	8,475,802	171,718
Payments on revenue bonds	(1,965,000)	(3,570,714)	-	(182,687)	(5,535,714)	(4,870,714)
Interest paid on revenue bonds	(1,005,789)	(5,427,786)	-	(8,155)	(6,433,575)	(8,619,422)
Scheduled payments on notes payable	(13,334)	-	(37,590)	-	(50,924)	(50,923)
Interest paid on notes payable	-	-	(5,358)	-	(5,358)	(6,222)
Net cash from capital and related financing activities	2,638,861	(9,754,819)	(46,423)	(913,664)	(7,885,203)	(31,731,002)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investments	(7,475,760)	(11,582,960)	-	-	(19,058,720)	(34,895,668)
Sales and maturities of investments	4,876,965	182,687	-	-	4,876,965	24,965,471
Loss on investment	-	-	-	-	-	-
Interest on investments, contracts, and notes	10,286	67,975	-	-	70,106	64,715
Net cash from investing activities	(2,588,509)	(11,332,298)	-	-	(14,111,649)	(9,865,482)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,649,098)	(14,435,572)	-	-	(20,084,670)	(25,988,719)
CASH AND CASH EQUIVALENTS						
Beginning of year	20,122,359	48,504,817	-	-	68,627,176	94,615,895
End of year	$ 14,473,261	$ 34,069,245	$ -	$ -	$ 48,542,506	$ 68,627,176
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES						
Accrued capital construction costs	$ -	$ -	$ -	$ -	$ -	$ 2,569,065

See accompanying notes.

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total December 31, 2015	Combined Total December 31, 2014 As Restated
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO CASH FLOWS FROM OPERATING ACTIVITIES						
Net operating revenues (expenses)	$ 228,820	$ 5,879,048	$ (183,811)	$ (1,761,726)	$ 4,162,331	$ 5,994,006
Adjustments to reconcile net operating revenues (expenses) to net cash from operating activities						
Depreciation and amortization	3,740,575	3,498,723	235,850	2,479,053	9,954,201	9,140,815
Changes in operating assets and liabilities				-		
				-		
Receivables	257,662	(207,049)	(1,208)	(66,061)	(16,656)	(196,001)
Unbilled revenue	(32,098)	-	-	-	(32,098)	144,865
Due to (from) other systems	(343,054)	16,316	(9,945)	330,925	(5,758)	(5,641)
Materials and supplies	116,165	-	(2,034)	(113,090)	1,041	17,332
Prepaid expenses and other current assets	12,424	40,833	-	-	53,257	1,925,799
Deferred relicensing costs	-	(242,443)	-	-	(242,443)	-
Pension	477,119	199,959	8,451	40,586	726,115	(443,497)
Accounts payable, customer deposits, and prepayments	(3,381,328)	(2,541,007)	(853)	17,959	(5,905,229)	1,240,438
Accrued compensation, benefits, and taxes	94,604	9,149	71	(37)	103,787	(107,587)
Net cash from operating activities	$ 1,170,889	$ 6,653,529	$ 46,521	$ 927,609	$ 8,798,548	$ 17,710,529

Note 1 - Organization and Significant Accounting Policies

Organization - Public Utility District No. 1 of Pend Oreille County, Washington (the District) is a municipal corporation governed by an elected three-person board of commissioners. The District's reporting entity consists of four primary component units, or operating systems.

The Electric System distributes electricity to residential and other consumers in Pend Oreille County. The Box Canyon Production System produces hydroelectric power from the Box Canyon Hydroelectric Project (the Box Canyon Project). The Water System consists of nine individual water distribution subdivisions. The Community Network System supplies wholesale broadband communication services. The District is required by various financing and contractual arrangements to report separately on each system and maintain each system as a separate entity with separate obligations.

Basis of accounting and presentation - The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements. Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Revised Code of Washington, Chapter 43.09; the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for the Electric System, Box Canyon Production System, and Community Network System; and the Uniform System of Accounts for Class C Water Utilities prescribed by the National Association of Regulatory Utility Commissioners for the Water System.

System columns presented in the financial statements do not sum to the combined totals due to the elimination of certain intersystem transactions. These transactions relate to intersystem power sales and purchases, loan balances and interest on intersystem loans, and intersystem administrative charges.

A summary of other significant accounting policies used in the preparation of the combined financial statements follows.

New accounting standards - In fiscal year 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB Statement No. 68 establishes standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Prior to implementing GASB Statement No. 68, employers participating in a cost-sharing plan recognized annual pension expense essentially equal to their contractually required contribution to the plan.

Note 1 - Organization and Significant Accounting Policies (continued)

Upon the adoption of GASB Statement No. 68, employers participating in cost-sharing plans recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation methodology. GASB Statement No. 71 amends GASB Statement No. 68 regarding the deferred outflows of resources for governments whose current-year pension contributions are reported subsequent to the measurement date.

The District adopted this statement effective January 1, 2014. The collective financial impact resulting from the implementation of GASB Statements No. 68 and 71 is the restatement of 2014 beginning net position balances by $8.5 million for the District's portion of the net pension liability incurred in prior years, which is then allocated across the business units as presented in the table below. Additional information and disclosures relating to pensions may be found in Note 6.

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined District
January 1, 2014, balances, as previously reported	$ 57,868,616	$ 44,001,013	$ 5,481,215	$ 29,538,344	$ 136,889,188
Accumulated adjustment for change in accounting principle	(5,374,047)	(2,252,250)	(95,190)	(457,145)	(8,472,964)
January 1, 2014, as restated net position	$ 52,494,569	$ 41,748,763	$ 5,386,025	$ 29,081,199	$ 128,416,224

On February 15, 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for financial reporting purposes, as well as providing guidance on applying fair value for certain investments and disclosures related to all fair value measurements. This statement is effective for financial statement periods beginning after June 15, 2015. The District is evaluating the impact of this statement on its combined financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* which is intended to improve the usefulness of information about pensions included in the financial statements. This statement is effective for financial statements for fiscal years beginning after June 15, 2016. The District is evaluating the impact of this statement on its combined financial statements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* to improve the usefulness of information about postemployment benefits other than pensions included in the financial statements. This statement is effective for financial statements for fiscal years beginning after June 15, 2017. The District is evaluating the impact of this statement on its combined financial statements.

Note 1 - Organization and Significant Accounting Policies (continued)

In June 2015, the GASB issued Statement No. 75, *Financial Reporting for Postemployment Benefits Other Than Pensions,* to improve the usefulness of information about postemployment benefits other than pensions included in the financial statements. This statement is effective for financial statements for fiscal years beginning after June 15, 2016. The District is evaluating the impact of this statement on its combined financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* which reduces the hierarchy of generally accepted accounting principles (GAAP) to two categories of authoritative GAAP. This statement is effective for financial statements for fiscal years beginning after June 15, 2015. The District is evaluating the impact of this statement on its combined financial statements.

Revenue recognition and unbilled revenue - The Electric System, Water System, and Community Network System recognize revenue as earned on a monthly basis based on rates established by the District's board of commissioners and, for the Electric System, in accordance with power sales contracts with Ponderay Newsprint Company (Note 5). The District estimates unbilled revenues for energy delivered to customers between their last respective meter reading date and December 31, and records that amount as unbilled revenue for the current year. The Box Canyon Production System recognizes revenue on a cost-of-service basis from sales to the Electric System.

Allowance for uncollectible accounts - Management reviews accounts receivable on a regular basis to determine whether any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances of customers who may be unable to meet their financial obligations, and a reserve based on historical experience.

Cash and cash equivalents - For purposes of the combined statements of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Restricted cash and investments - Restricted cash and investments are amounts designated by a third party for a specific purpose (Note 2). Examples of these assets include amounts held to pay debt service, bond funds designated for construction, and deposits made by vendors.

Investments - The District records investments at fair value based on quoted market rates, with changes in unrealized gains and losses reported as investment income.

Materials and supplies - Materials and supplies are recorded at average cost.

Note 1 - Organization and Significant Accounting Policies (continued)

Utility plant - Utility plant assets are stated at cost, including an allowance for funds used during construction (AFUDC). Betterments and major renewals over $2,000 are capitalized, whereas maintenance and repairs are charged to operations as incurred. Depreciation is determined by the straight-line method over the estimated useful lives of the related assets, which range from 5 to 50 years. Composite rates are used for asset group depreciation, and, accordingly, no gain or loss is recorded on the disposition of an asset unless it represents a large and unusual retirement.

Nonutility plant - Nonutility plant represents capital assets that do not directly relate to the District's primary business purposes (Note 8).

Contributed capital - Contributions in aid of construction are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer. The payments are initially recorded as liabilities, and then reclassified to operating revenue (contributed capital) when the associated facilities are constructed or acquired.

Licensing costs liability - Certain Box Canyon FERC licensing conditions require payments to various outside entities for projects and operating costs that will not be directed by, or controlled by, the District. The District has estimated and present valued these payments over the 50-year license and recorded them as a regulatory asset and licensing costs liability. The District has not recorded the future costs of the remaining expenses related to license implementation that will be capitalized or expensed, as may be appropriate, when incurred.

Unamortized bond discounts and premiums - Unamortized bond discounts and premiums are amortized to interest expense, using the effective interest method, over the term of the bonds (Note 4). The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized to expense over the shorter of the remaining life of the old bonds or the life of the new issue and recorded as deferred outflows of resources.

Unearned revenue - In August 2000, the District entered into an agreement with Seattle City Light concerning a cost-sharing arrangement for building fiber optic communications capability in Pend Oreille County. Among other terms and conditions, the District retained ownership of all constructed network assets with a commitment to grant Seattle City Light a 30-year right-of-use for 8 to 12 dark fiber strands along the District's network backbone. Seattle City Light made a one-time, lump-sum payment of $1,487,650 under the agreement. The District recorded this payment as unearned revenue and is amortizing the balance to Community Network System revenue on a straight-line basis over the 30-year life of the agreement. The unamortized balance was $731,428 and $781,016 as of December 31, 2015 and 2014, respectively. Also, the Community Network System unearned revenue includes an Electric System $4.25 million prepayment for future broadband services. Funds from the Electric System were used by the Community Network System as the matching cash requirement of an American Recovery and Reinvestment Act grant (Note 10). The unamortized balance associated with this payment was $3,635,180 as of December 31, 2015 and 2014, respectively.

Note 1 - Organization and Significant Accounting Policies (continued)

In June 2013, the District signed a Memorandum of Agreement between the District and the State of Washington Department of Ecology Office of Columbia River that committed the District to release water from Sullivan Lake according to predetermined periods and amounts to allow for improved water access for communities along the Columbia River. In exchange, the Office of Columbia River agreed to pay the District $14 million in installments over the first 3 years of a 30-year agreement (Note 8). The District received the first payment of $2.5 million during 2013, the second payment of $2.5 million in 2014, and the final payment of $9.0 million in February 2016. These payments were recorded as unearned revenue, and are being recognized as nonoperating revenue in an amount equal to the net cash outflow for Sullivan Project-related activities each year.

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation; borrowed monies not yet spent, as held in restricted construction and acquisition funds; and outstanding debt balances related to the purchase or construction of capital assets.

Restricted net position - Amounts presented as restricted net position are constrained by provisions imposed by external parties and cannot be used for normal operations. Balances currently classified as restricted include bond principal and interest due for the upcoming year, less unfunded accrued interest; construction and acquisition funds net of the unspent portion of debt proceeds; bond reserve funds; and deposits made by major customers net of the deposit due to these customers.

Unrestricted net position - Amounts included as unrestricted net position do not meet the definition of either net investment in capital assets or restricted net position, and are used for normal operations.

Compensated absences - Employees accrue personal leave to be used for vacation, sick, and family leave purposes. Annual leave granted to each employee varies in accordance with years of service and may be carried forward from year to year, capped at a maximum bank of 1,200 hours for employees hired before April 2011 or 700 hours for employees hired after March 2011. The District records the cost of personal leave as earned, not as taken.

Accounting estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount 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.

Note 1 - Organization and Significant Accounting Policies (continued)

Significant risks and uncertainties - The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include weather and natural-disaster-related disruptions; collective bargaining labor disputes; changing local and national economic conditions; fish and other Endangered Species Act issues; Environmental Protection Agency regulations; reliability standards issued by the North American Electric Reliability Corporation; federal government regulations or orders concerning the operation, maintenance, licensing, and license surrender of hydroelectric facilities; the financing and completion of significant capital projects; changing federal and state laws, regulations, and requirements; concentration risk in the form of sales to a major customer, Ponderay Newsprint Company, and related potential impact on District power contracts (Note 5); and market and credit risks inherent in buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

Reclassifications - Certain reclassifications may be made to the prior-year financial statement presentation to conform to the current-year presentation.

Note 2 - Cash and Investments

Cash and investments are recorded in accounts as required by the District's bond indentures. Restricted assets represent accounts that are restricted by bond covenants or third-party contractual agreements.

As of December 31, 2015, the District held the following cash and investments:

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total December 31, 2015	2014
Cash and cash equivalents, at cost, which approximate market value						
Cash deposits	$ 9,280,340	$ 3,034,545	$ -	$ -	$ 12,314,885	$ 13,644,442
Local government investment pool	5,192,921	31,034,700	-	-	36,227,621	54,982,734
Total cash and cash equivalents	14,473,261	34,069,245	-	-	48,542,506	68,627,176
Investments						
U.S. treasuries, at market	12,513,793	11,524,586	-	-	24,038,379	9,929,650
Total investments	12,513,793	11,524,586	-	-	24,038,379	9,929,650
Total cash and investments	$ 26,987,054	$ 45,593,831	$ -	$ -	$ 72,580,885	$ 78,556,826

Note 2 - Cash and Investments (continued)

The table below reconciles the investments listed above to the combined statements of net position:

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total December 31, 2015	Combined Total December 31, 2014
Cash and cash equivalents						
Unrestricted assets						
Revenue funds	$ 9,280,340	$ 12,640,844	$ -	$ -	$ 21,921,184	$ 23,206,425
Restricted assets						
Bond principal and interest	2,522,566	7,246,010	-	-	9,768,576	9,711,677
Bond reserve	1,790	3,265	-	-	5,055	14,099,316
Construction and acquisition	-	14,179,126	-	-	14,179,126	18,875,149
Contract obligation	2,668,565	-	-	-	2,668,565	2,664,193
Contract security - money market	-	-	-	-	-	70,416
Restricted funds	5,192,921	21,428,401	-	-	26,621,322	45,420,751
Investments						
Contract security	9,998,156	-	-	-	9,998,156	9,929,650
Bond reserve	2,515,637	11,524,586	-	-	14,040,223	-
Investments	12,513,793	11,524,586	-	-	24,038,379	9,929,650
Total funds	$ 26,987,054	$ 45,593,831	$ -	$ -	$ 72,580,885	$ 78,556,826

Interest rate risk - The District's investment policy limits investment maturities to less than five years from the date of purchase unless authorized by the General Manager and Director of Finance for a specific purpose. During 2015 and 2014, investments were held in federal treasuries or in the State Treasurer's Local Government Investment Pool (LGIP), described more fully in the following paragraph.

Credit risk - In accordance with the Revised Code of Washington, District bond resolutions, and District internal investment policies, all investments are direct obligations of the U.S. government, deposits in the LGIP, or deposits with financial institutions recognized as qualified public depositories of the state of Washington. U.S. government securities are held by bank trust departments as the District's agent and in the District's name.

The District's cash deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or protected against loss by deposit with financial institutions recognized as qualified public depositories of the state of Washington under the guidelines of the Washington State Public Deposit Protection Commission (PDPC). The District intends to hold time deposits and securities until maturity.

Note 2 - Cash and Investments (continued)

Concentration of credit risk - District policies allow the entire portfolio to be invested in direct U.S. government guaranteed obligations or in the LGIP. No other investment may exceed half of portfolio market value. The LGIP, a 2a7-like pool as defined by GASB Statement No. 31 and the Securities and Exchange Commission, invests in high-quality, short-term investments and is administered by the State Treasurer. The LGIP weighted-average maturity must not exceed 90 days and no single investment may exceed 762 days in maturity. Withdrawals in excess of $10 million are available on a one-day notice. The LGIP annual report is available on the State Treasurer's website at:
http://www.tre.wa.gov/lgip/index.shtml.

Custodial credit risk - The District's deposits are held by public depositories authorized by the PDPC and are not subject to custodial credit risk because state law requires public depositories to fully collateralize their public entity deposits.

Bond principal and interest accounts - For each debt issue, the District is required by bond resolutions to maintain principal and/or sinking fund and interest accounts within the bond funds to provide for the next semi-annual interest and annual principal/sinking fund payments falling due, which are reported as current assets. All bond funds are restricted by bond resolution to the payment of debt service obligations.

Bond reserve funds - District revenue bond resolutions require that reserve accounts be maintained within the bond funds. The 2005 reserve account requirement is 10% of paramount and premium on the 2005 Series B bonds issued. The 2010 reserve accounts require a deposit equal to 125% of the average annual debt service outstanding on each respective bond. The 2009 and 2012 reserve accounts require deposits equal to the maximum amount of principal and interest falling due in any single bond year. The 2005, 2009, 2010, and 2012 deposits are currently held in federal treasuries and the LGIP.

Construction and acquisition fund - Proceeds from the 2009, 2010, and 2012 bond issuances were deposited into separate Box Canyon Production System Construction and Acquisition Funds and are restricted to expenditures for the replacement of the Box Canyon Project turbines, plant modernization efforts, and other capital improvements to the Box Canyon Production System.

Contract obligation - The District is obligated through a memorandum of Agreement to release water from Sullivan Lake. In exchange, the District has received funds from the Office of Columbia River (Note 8). Monies received are restricted to construction and operations and maintenance activities related to Sullivan Lake and associated facilities.

Contract security - As discussed in Note 5, the Ponderay Newsprint Company has elected to post a $10 million contract security in lieu of a letter of credit. The contract security is subject to contractual provisions even more stringent than the District's investment policy and, as of December 31, 2015 and 2014, was invested in a bank trust department deposit subject to PDPC protection.

Note 3 - Utility Plant

The following changes occurred in the District's utility plant for the years ended December 31, 2015 and 2014:

	2014 Balance	Additions	Retirements/ Transfers	2015 Balance
Land and land rights	$ 4,277,970	$ -	$ -	$ 4,277,970
Hydroelectric plant and equipment	140,540,051	8,387,946	(172,789)	148,755,208
Structures, buildings, and equipment	160,609,962	3,330,186	(1,043,227)	162,896,921
Intangible assets	13,775,821	66,179	-	13,842,000
Construction work in progress	12,825,733	7,061,345	(12,438,217)	7,448,861
	332,029,537	18,845,656	(13,654,233)	337,220,960
Less accumulated depreciation and amortization	82,278,780	9,954,207	(523,739)	91,709,248
Net utility plant	$ 249,750,757	$ 8,891,449	$ (13,130,494)	$ 245,511,712

	2013 Balance	Additions	Retirements/ Transfers	2014 Balance
Land and land rights	$ 4,194,498	$ 83,472	$ -	$ 4,277,970
Hydroelectric plant and equipment	113,063,922	27,513,576	(37,447)	140,540,051
Structures, buildings, and equipment	155,756,278	5,274,972	(421,288)	160,609,962
Intangible assets	13,642,183	133,638	-	13,775,821
Construction work in progress	22,565,216	26,993,235	(36,732,718)	12,825,733
	309,222,097	59,998,893	(37,191,453)	332,029,537
Less accumulated depreciation and amortization	73,336,113	9,140,813	(198,146)	82,278,780
Net utility plant	$ 235,885,984	$ 50,858,080	$ (36,993,307)	$ 249,750,757

The District capitalized to utility plant, as an intangible asset, costs associated with seeking the current Box Canyon Project FERC license, including legal fees for continuing litigation of various license conditions. The District is amortizing the balance of the intangible asset over the 50-year term of the license. Originally capitalized relicensing costs were $12,472,232, with accumulated amortization of $2,516,751 and $2,405,094 as of December 31, 2015 and 2014, respectively.

Note 4 - Long-Term Debt

Electric System - In February 2005, the Community Economic Revitalization Board (CERB) awarded the District a $200,000 loan for construction of communication infrastructure projects. This loan carries no interest, and principal payments were deferred for the first five years. Annual principal payments of $13,333 began in 2011 and will end in 2026. The loan covenants include a junior lien pledge of Electric System revenues, and, as such, this loan remains as Electric System debt; however, the associated communication infrastructure has been transferred to the Community Network System, which assumed the obligation to reimburse the Electric System for the debt service payments.

Note 4 - Long-Term Debt (continued)

In November 2005, the District issued $13,240,000 Series A (subject to alternative minimum tax) and $5,430,000 Series B (tax exempt) revenue bonds to refund bonds originally issued in 1996. The Series B bonds consist of $1,580,000 in Series bonds, maturing in annual installments from January 1, 2006, through January 1, 2014, and accruing interest at 3.25% to 4.00%; $2,420,000 maturing in annual sinking fund installments from January 1, 2015, through January 1, 2017, accruing interest at 4.35%; and $1,430,000 maturing on January 1, 2018, accruing interest at 5.25%. The District has fully paid the Series A bonds. The loss from refinancing of the Series B bonds has an unamortized balance of $34,109 and $61,100 as of December 31, 2015 and 2014, respectively, which is amortized using the effective interest method over the remaining life of these bonds. The bonds are recorded in the combined statements of net position net of unamortized premium of $24,608 and $35,447 for the Series B bonds as of December 31, 2015 and 2014, respectively.

In November 2010, the District issued $20,745,000 tax exempt Electric System revenue and refunding bonds. Proceeds from the bonds were used to repay revenue bond anticipation notes for a transmission line build, provide funds for additional Electric System capital work, fund the reserve account, and refund the 1998 Electric System revenue bonds. The net present value of the savings on refunding was approximately $264,720. The 2010 bonds consist of $9,710,000 of serial bonds that accrue interest at 4.00% to 5.00%, maturing in annual installments from January 1, 2012, through January 1, 2019, and $11,035,000 in term bonds maturing in annual sinking fund installments from January 1, 2020, to January 1, 2031. The loss from refinancing has an unamortized balance of $12,602 and $21,379 as of December 31, 2015 and 2014, respectively, which is amortized using the effective interest method over the remaining life of these bonds.

The bonds are recorded in the combined statements of net position net of unamortized premium of $144,376 and $238,695 as of December 31, 2015 and 2014, respectively.

Box Canyon Production System - In November 2008, the District issued a $1,340,000 Clean Renewable Energy Tax Credit Bond (CREB) to assist in the financing of the Box Canyon turbine upgrade project. CREB purchasers are eligible for a credit against their federal income tax. The bond carries an interest rate of 1.35% and provides for equal annual principal payments in the amount of $95,714. The bond matures in December 2021.

In October 2009, the District issued $21,295,000 Series A (tax exempt) and $49,015,000 Series B (taxable Build America Bonds - Direct Payment) Box Canyon Production System revenue bonds to provide initial financing for turbine replacement and plant upgrades for the Box Canyon Project. The Series A bonds mature in annual installments from January 1, 2011, through January 1, 2024, and accrue interest at a coupon rate of 5.00%. The true interest cost of the Series A bonds is 4.19%. The Series B bonds are term bonds maturing in annual sinking fund installments from January 1, 2025, through January 1, 2040. Interest rates on the Series B bonds range from 6.85% to 7.35%, but are subject to a subsidy payment from the federal government. This subsidy was 35% of the interest rate at the date of issuance, but has reduced to 32.60% as a result of federal sequestration, resulting in a current net interest rate of 4.62% to 4.95%. The bonds are reported in the combined statements of net position net of unamortized premium of $393,760 and $510,079 as of December 31, 2015 and 2014, respectively.

Note 4 - Long-Term Debt (continued)

In November 2010, the District issued $34,110,000 tax exempt revenue bonds to partially fund turbine capital improvements and other plant modernizations at Box Canyon Hydroelectric Project. The 2010 bonds consist of term bonds that accrue interest at 5.25% and 5.75% and mature in annual sinking fund installments from January 1, 2030, through January 1, 2041. The bonds are reported in the combined statements of net position net of unamortized discount of $380,556 and $390,833 as of December 31, 2015 and 2014, respectively.

In October 2012, the District issued $38,000,000 taxable new Clean Renewable Energy Bonds - Direct Payment to complete the funding for turbine improvements and other plant modernizations at Box Canyon Hydroelectric Project. The District receives a credit against annual interest payments, payable by the United States Treasury, equal to approximately 70% of the interest due. This credit was also reduced due to federal sequestration beginning in 2013, resulting in a credit of approximately 62%. The 2012 bonds consist of $26,550,000 in series bonds maturing in annual installments from January 1, 2013, to January 1, 2025, and an $11,450,000 term bond maturing in annual sinking fund installments from January 1, 2026, to January 1, 2030. Interest rates on the series bonds range from 0.834% to 4.571%, but with the federal subsidy result in rates from 0.000% to 1.805%. The term bond has an interest rate of 5.000%, but net of the federal subsidy is 2.234%. The bonds are reported in the combined statements of net position net of unamortized discount of $165,718 and $175,637 as of December 31, 2015 and 2014, respectively.

Water System - In 2000, the Sunvale Subdivision of the Water System received a loan for $189,607 from the State of Washington Department of Community, Trade, and Economic Development to finance the construction of new wells and distribution line. The fixed interest rate is 2.5% for a term of 20 years. Annual principal payments in the amount of $9,979 are due through October 2020.

In 2001, the State of Washington Department of Community, Trade, and Economic Development authorized a $400,070 loan to the Riverbend Subdivision of the Water System to finance system improvements, with a fixed interest rate of 2.5%. Annual principal payments in the amount of $22,018 are due through October 2020.

In July 2003, the District executed a State of Washington Public Works Board loan agreement for the Granite Shores Subdivision of the Water System, enabling a $70,551 loan to be repaid over 20 years at 1% interest. The loan financed certain system improvements, including drilling a new well. Annual principal repayments of $3,713 began in October 2005 and will end in October 2023. Subsequently, in March 2006, the District secured an additional loan with the State of Washington Public Works Board for $35,717 to cover the remaining costs of drilling the new well. The second loan also carries a 1% interest rate. Annual principal payments in the amount of $1,880 are due through October 2026.

Community Network System - During 2010, the Box Canyon Production System loaned the Community Network System $2.5 million to provide liquidity for operations while the Community Network System expanded the broadband communications infrastructure. In 2013, this loan was refunded with a new $5.25 million loan from the Box Canyon Production System. The loan is recorded as an investment by the Box Canyon Production System and accrues interest at the monthly LGIP investment rate net of administrative fees, which was an average of .171% for the year ended December 31, 2015. Monthly principal payments began on December 31, 2013, and are due through November 30, 2033.

Note 4 - Long-Term Debt (continued)

During the years ended December 31, 2015 and 2014, the following changes occurred in the District's long-term debt:

	2014 Balance	Additions	Reductions	2015 Balance*	Due Within One Year*
Revenue bonds, face amount	$ 157,220,002	$ -	$ 5,535,717	$ 151,684,285	$ 5,675,713
Unamortized bond premium	784,218	-	221,474	562,744	-
Unamortized bond discount	(566,470)	-	(20,196)	(546,274)	-
Other long-term debt	394,630	-	50,924	343,706	50,924
Total debt	$ 157,832,380	$ -	$ 5,787,919	$ 152,044,461	$ 5,726,637

	2013 Balance	Additions	Reductions	2014 Balance*	Due Within One Year*
Revenue bonds, face amount	$ 162,090,714	$ -	$ 4,870,712	$ 157,220,002	$ 5,535,713
Unamortized bond premium	1,038,242	-	254,024	784,218	-
Unamortized bond discount	(585,622)	-	(19,152)	(566,470)	-
Other long-term debt	445,552	-	50,922	394,630	50,924
Total debt	$ 162,988,886	$ -	$ 5,156,506	$ 157,832,380	$ 5,586,637

*Intercompany debt transactions have been eliminated for combined presentation.

Scheduled maturities of principal and interest on long-term debt are as follows:

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined as of 12/31/15*
Principal					
2016	$ 2,053,333	$ 3,635,714	$ 37,590	$ 190,130	$ 5,726,637
2017	2,153,333	3,705,716	37,591	197,876	5,896,640
2018	2,813,333	3,780,714	37,591	205,938	6,631,638
2019	1,443,333	3,855,714	37,591	214,328	5,336,638
2020	708,333	3,935,714	37,591	223,060	4,681,638
2021 - 2025	4,086,668	20,900,714	20,543	1,259,251	25,007,925
2026 - 2030	5,135,000	24,185,000	1,875	1,537,541	29,321,875
2031 - 2035	1,185,000	28,275,000	-	1,049,340	29,460,000
2036 - 2040	-	36,055,000	-	-	36,055,000
2041 - 2045	-	3,910,000	-	-	3,910,000
	$ 19,578,333	$ 132,239,286	$ 210,372	$ 4,877,464	$ 152,027,991

*Intercompany debt transactions have been eliminated for combined presentation.

Note 4 - Long-Term Debt (continued)

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined as of 12/31/15*
Interest					
2016	$ 916,748	$ 7,343,597	$ 4,503	$ -	$ 8,264,848
2017	817,596	7,223,851	3,648	-	8,045,095
2018	695,038	7,091,861	2,791	-	7,789,690
2019	587,500	6,949,440	1,936	-	7,538,876
2020	534,375	6,796,314	1,081	-	7,331,770
2021 - 2025	2,101,750	31,301,325	598	-	33,403,673
2026 - 2030	963,125	25,149,260	19	-	26,112,404
2031 - 2035	29,625	17,209,787	-	-	17,239,412
2036 - 2040	-	7,022,330	-	-	7,022,330
2041 - 2045	-	103,512	-	-	103,512
	$ 6,645,757	$ 116,191,277	$ 14,576	$ -	$ 122,851,610

*Intercompany debt transactions have been eliminated for combined presentation.

Note 5 - Power Purchase Contractual Agreements

Ponderay Newsprint Company - In July 1986, the Electric System entered into power sales contracts with Ponderay Newsprint Company (PNC) to supply power to a fiber mill and paper plant. The District is obligated to provide all power necessary to operate both the fiber mill and paper plant. Power delivery under these contracts expires in 2027. In 2015, approximately 71% of Electric System retail energy deliveries and 54% of retail energy sale revenues were to PNC.

To fulfill this power commitment, the District delivers power from the Box Canyon Project and acquires power at cost from the Boundary Project as discussed later in this note. Power is also obtained from the Bonneville Power Administration (BPA) and other suppliers under various power purchase contracts. PNC is billed based upon the District's actual cost of service, as contractually defined, rather than under an industrial rate schedule.

PNC must provide the District $10 million in security, either in the form of a letter of credit or deposit, which the District may draw upon in the event that PNC defaults its obligations under the contracts. Cash deposits are in a District-held trust account, and draws may only be made at the District's request.

In December 2015, the District gave notice to PNC that it had breached its contractual obligations by submitting of an improper power schedule. PCN disagreed, eventually filing suit against the District. Legal proceedings related to the dispute are ongoing while the District continues to provide power for operations and bill PNC for power deliveries.

Note 5 - Power Purchase Contractual Agreements (continued)

In addition, during 2015, PNC and the District explored options to renegotiate the existing power contract. PNC specifically granted the District the rights to market the power resources subject to the contracts. Negotiations and marketing efforts are continuing in 2016. PNC continues to pay, and the District continues to provide power under the current contracts.

The rate impact from a loss of PNC power sales cannot be forecasted accurately; it depends upon the interaction of many factors, including but not limited to existing cost of production of Box Canyon Project power, cost of acquisition of BPA and other power resources, and market or resale value of this power.

Seattle City Light - Boundary Hydroelectric Project - Seattle City Light owns and operates Boundary Hydroelectric Project (Boundary) located in northern Pend Oreille County. In Boundary's previous FERC license, the District was granted a licensed share of the Boundary Project equal to a 48-megawatt capacity. The Boundary Project was issued a new 42-year FERC license on March 20, 2013, in which the District was no longer granted a license share. During 2014, Seattle City Light and the District entered into a new agreement that extends the same operational parameters held under the previous license, including power deliveries capped at a 48-megawatt capacity and delivered at cost. The agreement term corresponds with Boundary's FERC license and expires in 2055.

Bonneville Power Administration - Effective October 1, 2011, the District renewed power purchase contracts with BPA for a 20-year period until September 30, 2028. At that time, the District received both Shaped Block purchases and Slice of the System purchases. Shaped Block purchases are predetermined monthly levels of power delivered consistently throughout the month. The amount of power received varies from month to month, depending on the projected load levels and District power resources for each month. Slice of the System is a product wherein the District originally accepted 0.18668% of the base federal hydroelectric system, and paid equal costs thereof. In February 2013, BPA granted the District's request to make an early change to contract provisions and reduce the District's Slice of the System percentage to 0.0%, delivering all power allocation through Shaped Block purchases.

The risks and rewards associated with BPA purchases pass through to Ponderay Newsprint Company under the terms of the contracts with that customer. During 2014 and through September 2015, the District received an average of 26 megawatts of power from BPA. Due to reductions in Ponderay Newsprint Company load, beginning in October 2015, BPA reduced the amount of power to an average of 5.5 megawatts through September 2016. Future power allocations are dependent on the District's overall customer load.

Energy Northwest - The District is a participant in Energy Northwest's (formerly the Washington Public Power Supply System) Nuclear Project Nos. 1 and 3, both of which have terminated. The District purchased from Energy Northwest, and assigned to BPA, 0.087% of the capability of Project No. 1 and 0.078% of Energy Northwest's 70% ownership share of Project No. 3. Under the agreements, the District is unconditionally obligated to pay Energy Northwest its pro rata share of the total costs of the projects, including debt service, even though the projects are terminated. Under the Net Billing Agreements, BPA is responsible for assuming the District's cost obligation. The District's Electric System revenue requirements are not directly affected by the associated costs; revenue requirements are affected indirectly to the extent that the costs of the projects result in increases in BPA's wholesale power rates.

Note 6 - Pension Plans

The District is a member of the Washington State Public Employees' Retirement System (PERS) cost-sharing plan. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan description - PERS was established in 1947 and its retirement benefit provisions are contained in Revised Code of Washington (RCW) chapters 41.34 and 41.40. PERS is a cost-sharing multiple-employer retirement system consisting of three separate pension plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component. PERS members include elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes. Pursuant to RCW 41.45.060, Washington State Department of Retirement Systems (DRS) will allocate a certain portion of employer contributions from Plan 2/3 to Plan 1 in order to fund its unfunded actuarially accrued liability (UAAL).

Benefits provided - PERS provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

Note 6 - Pension Plans (continued)

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERS Plan 1 - Provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

PERS Plan 2/3 - PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's AFC times the member's years of service for Plan 2 and one percent of AFC for Plan 3. PERS Plan 2 members are vested after the completion of five years of eligible service.

The AFC is the monthly average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by a factor that varies according to age, for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to work rules

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Note 6 - Pension Plans (continued)

Contributions

PERS Plan 1 contributions - The PERS Plan 1 member contribution rate is established by statute at six percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) at the close of fiscal year 2015 were as follows:

Actual Contribution Rates	Employer	Employee
Local governmental units	9.21%	6.00%

PERS Plan 2/3 contributions - The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarial accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. The Plan 2/3 contributions related to the Plan 1 UAAL are allocated by DRS and included within the Plan 1 fiduciary net position amounts.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) at the close of fiscal year 2015 were as follows:

Actual Contribution Rates	Employer	Employee Plan 2	Employee Plan 3
Local governmental units	9.21%	4.92%	0.00%

Both the District and the employees made the required contributions during fiscal years 2015 and 2014. The District's required employer contributions for the years ended December 31 were as follows:

	2015	2014
PERS Plan 1 UAAL	$ 405,744	$ 372,964
PERS Plan 2/3	520,400	461,531
Total	$ 926,144	$ 834,495

Note 6 - Pension Plans (continued)

Pension costs

PERS Plan 1 - At December 31, 2015, the District reported a liability of $4,320,539 for its proportionate share of the PERS Plan 1 net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015. The District's proportion of the net pension liability was based on the contributions received by PERS during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers, as well as the statutorily required contributions required to fund the unfunded actuarial accrued liability. At the measurement dates of June 30, 2015, and June 30, 2014, the District's proportionate share of net pension liability was 0.082596% and 0.078204%, respectively.

For the year ended December 31, 2015, the District recognized pension expense of $347,629 for its proportionate share of PERS Plan 1 pension expense.

At December 31, 2015, the District reported its proportionate share of PERS Plan 1 deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows Resources	Deferred Inflows Resources
Differences between expected and actual economic experience	$ -	$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	(236,381)
Changes in proportion	-	(248,915)
Contributions paid to PERS subsequent to the measurement date	224,777	-
Difference between actual and proportionate employer contributions	-	-
Total	$ 224,777	$ (485,296)

Note 6 - Pension Plans (continued)

$224,777 reported as deferred outflows of resources related to pensions resulting from the District's contributions to PERS Plan 1 subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to PERS Plan 1 pensions will be recognized in pension expense as follows:

2016	$ 91,613
2017	91,613
2018	91,613
2019	(38,458)
	236,381

PERS Plan 2/3 pension costs - At December 31, 2015, the District reported a liability of $3,811,237 for its proportionate share of the PERS Plan 2/3 net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015. The District's proportion of the net pension liability was based on the District's contributions received by PERS during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers. At the measurement dates of June 30, 2015 and June 30, 2014, the District's proportionate share was 0.106666% and 0.100688%, respectively.

For the year ended December 31, 2015, the District recognized pension expense of $378,484 for its proportionate share of the PERS Plan 2/3 pension expense.

At December 31, 2015, the District reported its proportionate share of the PERS Plan 2/3 deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows Resources
Differences between expected and actual economic experience	$ 405,135	$ -
Changes in actuarial assumptions	6,141	-
Difference between projected and actual investment earnings	-	(1,017,420)
Changes in proportion	-	(199,140)
Contributions paid to PERS subsequent to the measurement date	292,833	-
Difference between actual and proportionate employer contributions	-	-
Total	$ 704,109	$ (1,216,560)

Note 6 - Pension Plans (continued)

The $292,833 reported as deferred outflows of resources related to pensions resulting from the District's contributions to the PERS Plan 2/3 subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to the PERS Plan 2/3 will be recognized in pension expense as follows:

2016	$ 326,019
2017	326,019
2018	326,019
2019	(172,773)
	805,284

Actuarial assumptions - The total pension liability (TPL) for each of the plans was determined using the most recent actuarial valuation completed in 2014 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of Office of State Auditor's (OSA) 2007-2012 Experience Study.

Additional assumptions for the subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.00% per year
Active Member Payroll Growth	3.75% per year
Investment Rate of Return	7.50%
Discount Rate	7.50%

Inflation rate - Salary increases were based on a base 3.75% salary inflation assumption and are also expected to grow by promotions and longevity. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 report's Combined Healthy Table and Combined Disabled Table. The Society of Actuaries published the document. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning that each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

Note 6 - Pension Plans (continued)

The long-term expected rate of return on pension plan investments was determined using a building block method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs).

The CMAs contain three pieces of information for each class of assets WSIB currently invests in:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times.

The long-term expected rate of return of 7.50% approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or dampen any short-term changes to WSIB's CMAs that aren't expected over the entire 50-year measurement period.

Estimated rates of return by asset class - Best estimates of arithmetic real rates of return for each major class included in the pension plans' target asset allocation as of June 30, 2015, are summarized in the following table.

The inflation component used to create the table is 2.2% percent and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	% Long-Term Expected Real Rate of Return Arithmetic
Fixed income	0.80%
Tangible assets	4.10%
Real estate	5.30%
Global equity	6.05%
Private equity	9.05%

Discount rate - The discount rate used to measure the total pension liability was 7.50% for PERS Plans 1 and 2/3. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.70% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements (all plans use 7.70%).

Note 6 - Pension Plans (continued)

Consistent with the long-term expected rate of return, a 7.50% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS Plans 2 and 3).

Based on those assumptions, the pension plans' 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 of 7.50% was used to determine the total liability.

Pension liability sensitivity - The following table presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Proportionate share of the PERS Plan 1 net pension liability (asset)	$ 5,260,267	$ 4,320,539	$ 3,512,458
Proportionate share of the PERS Plan 2/3 net pension liability (asset)	11,176,254	3,811,237	(1,803,380)

The pension liability has been allocated to the operating systems based on a percentage of total payroll charged to each system. The total pension liability for each system as of December 31, 2015, is as follows:

	Proportionate Share of the PERS Plan 1 Net Pension Liability	Proportionate Share of the PERS Plan 2/3 Net Pension Liability	Total
Electric System	$ 2,838,956	$ 2,504,303	$ 5,343,259
Box Canyon Production System	1,189,800	1,049,546	2,239,346
Water System	50,286	44,358	94,644
Community Network System	241,497	213,030	454,527
	$ 4,320,539	$ 3,811,237	$ 8,131,776

Pension plan fiduciary net position - Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued DRS 2015 CAFR. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Note 6 - Pension Plans (continued)

Savings plans - In addition to PERS, the District maintains a deferred compensation plan, as well as two defined contribution plans, in accordance with the Internal Revenue Code Sections 457 and 401(a), respectively. All District employees are eligible to participate in the 457 plan and one of the two available 401(a) plans. The 401(a) plans provide for an employer match of 50% of eligible employee deferral of employee straight-time wages, capped at a 2% employer match on a 4% employee deferral.

Employer contributions for 2015 and 2014 were $157,342 and $155,953, respectively. All plan assets have been placed into trust for the exclusive benefit of plan participants and their beneficiaries and are, therefore, not reflected in the combined statements of net position.

The District maintains a Health Reimbursement Arrangement for employees. Non-bargaining-unit employees receive 3.5% of employee base wage paid into individual employer-sponsored medical savings accounts to pay for eligible medical expenses, tax-free, whether incurred while employed or after retirement. Bargaining unit employees are eligible for a $150 monthly contribution if they participate in District-sponsored wellness programs.

Other post-employment benefits - The District provides limited reimbursement for health care insurance premiums for retired employees. Previously retiring employees who chose to continue medical coverage under the District's plan did so primarily at their own cost, but were eligible to receive between $10 and $4 per year of service, per month, toward postemployment medical premiums if they retired prior to December 31, 2014. Effective January 1, 2015, medical insurance is no longer offered for retirees under the District's plan, and the subsidy was replaced by a contribution to the employee's Health Reimbursement Arrangement account, the amount of which is based on essentially the same formula as the subsidy. The estimated liability for this benefit as of December 31, 2015 and 2014, is $21,199 and $65,910, respectively. The District has elected to finance this plan under a pay-as-you-go method, disbursing $38,627 and $178 for the years ended December 31, 2015 and 2014, respectively. There is no past service cost to be realized in future years.

Note 7 - Self-Insurance

Public Utility Risk Management Services - The District, along with 16 other public utility districts and one joint operating agency, is a member of the Public Utility Risk Management Services (PURMS) self-insurance fund. The program provides members with various liability, property, and health insurance coverages in three separate pools.

The District is a participant in the liability pool, which maintains a base self-insured retention level of $1 million, funded reserves ranging from $2.5 million to $3 million, and individual member deductibles of $250. The liability pool provides the District with shared excess coverage of $60 million general liability, $10 million professional liability, and $35 million directors and officers liability.

Note 7 - Self-Insurance (continued)

The District is also a participant in the property pool, which maintains a self-insured retention level of $250,000, funded reserves ranging from $500,000 to $750,000, and varying deductibles of $250 on most property and $75,000 on the Box Canyon, Sullivan, and Calispell Hydroelectric Projects. The property pool provides the District with $200 million shared excess coverage, attaching at the self-insured retention level for all property risks excepting flood and earthquake, which attach at 2% of total insured value. Any gap between the self-insured level and excess insurance is funded half by the property pool and half by the affected member.

As a member, the District is subject to assessments based on claims submitted by all members. The following assessments were charged during the years ended December 31:

	Liability		Property	
	2015	2014	2015	2014
Electric System	$ 39,656	$ 181,455	$ 115,338	$ 45,817
Box Canyon Production System	166,159	66,113	49,665	194,379
Water System	3,287	3,371	2,641	3,842
Community Network System	598	14,337	9,568	750
	$ 209,700	$ 265,276	$ 177,212	$ 244,788

Central Washington Public Utilities - The District, with six other public utility districts, is a member of the Central Washington Public Utilities Unified Insurance Program and Trust, which is a self-insurance program providing medical, dental, life insurance, disability insurance, and similar benefits to member employees and families. Formed by a Declaration of Trust and an Interlocal Agreement under RCW Chapter 39.34, the trust is administered by a board of trustees consisting of an appointed trustee from each of the seven member districts. Further information may be obtained by contacting the District's financial department as set forth on the last page of this Annual Report under Organizational Information—Corporate Office.

Note 8 - Commitments and Contingencies

Box Canyon Project license - The Federal Energy Regulatory Commission 50-year license for the District's Box Canyon Project expires on July 1, 2055. The license contains several conditions, including environmental studies and projects initiated by state and federal agencies and the Kalispel Tribe of Indians. All projects and studies are related to Box Canyon Dam and its reservoir and include the protection, mitigation, and enhancement of fish, wildlife, recreation, erosion, and cultural preservation. Required capital projects include replacement of Box Canyon Dam turbines, alteration of spillway gates for total dissolved gas abatement, and fish passage facilities. Costs for these projects will be capitalized at the time of completion. District-directed projects that are noncapital in nature, which are expensed as incurred, include improvement of wildlife and fish habitat, water quality monitoring, erosion mitigation, and environmental studies. The license also requires payments to agencies that are used at the discretion of the receiving party, and are intended primarily for recreation and erosion although the District has no control over the final disposition of the funds. These costs have been estimated over the life of the license and recorded as a regulatory asset and licensing costs liability (Note 1).

Note 8 - Commitments and Contingencies (continued)

The District finished installation of the fourth and final new four-blade Kaplan style turbine at Box Canyon in 2015. Also completed were generator rewinds, upgrades, or replacement of auxiliary equipment related directly to each turbine and plant modernization for the upgrade in electrical capacity. The District also completed construction to modify Box Canyon's spillway gates in 2015 to mitigate total dissolved gas. The installation of hydraulic lifts for spillway gates will allow gate leaves to be raised together rather than individually, reducing the height at which water spills over the gate, ultimately reducing the plunge of water and the entrapment of oxygen in the water, which is harmful for fish. The District issued $143,760,000 in revenue bonds to complete construction and upgrade of these and other projects related to license implementation. Approximately $14 million of construction funds remain in the District's restricted cash, subject to final payment to the District's contractor.

Included in the District's FERC license is construction of an upstream fish passage for the Box Canyon Project. Construction is expected to begin in July 2016. Initial cost estimates of the project are $36 million.

The license includes language authorizing the District to use lands in the Kalispel Indian Reservation. Under a contract signed in 2007, payment to the Kalispel Tribe for use of their lands is based on costs to produce power at Box Canyon Dam. The Kalispel Tribe receives their payment in electrical energy, the amount of which is based on a formula using Box Canyon Dam production costs. The Kalispel Tribe chooses on an annual basis, in advance of the calendar year, to use the energy, require the District to sell the energy to a third party on the Kalispel Tribe's behalf at market prices, or require the District to purchase the power at cost of production. For 2015 and 2014, the Kalispel Tribe chose to have the District purchase the power at generation cost. Power sales on the Kalispel Tribe's behalf totaled $233,495 and $215,028 in 2015 and 2014, respectively.

Sullivan Creek Project - The Electric System's Sullivan Creek Project consists of two dams, an abandoned conduit, a forebay, and an empty powerhouse. Using the project for energy generation is not currently thought to be economically feasible within the in-stream flow operating criteria imposed by the Washington State Department of Ecology and the United States Forest Service (USFS); therefore, the project is used solely for water storage.

Note 8 - Commitments and Contingencies (continued)

The Sullivan Creek Project's 50-year FERC license expired in September 2008. In 2010, the District concluded a negotiated license surrender process with several agencies, including USFS, Department of Ecology, Washington State Department of Fish and Wildlife, United States Fish and Wildlife, several other organizations, and local citizens. The resultant settlement agreement outlines continued operation of the Sullivan Dam as a water storage facility. The agreement also outlines various environmental projects to protect and enhance fish and wildlife habitat. Through an Interlocal Agreement between Seattle City Light and the District, Seattle City Light has agreed to pay the full cost to remove the Mill Pond Dam and perform other restoration and environmental work as part of the relicensing conditions for Boundary Dam. Seattle City Light also agreed to pay half of the cost of construction of a cold water pipe, which drafts cooler water from the bottom of Sullivan Lake in an effort to lower the water temperature of an outlet creek. Once the terms and conditions of the negotiated agreement and FERC Surrender Order are met and approved by FERC, which is expected in 2020, the District will become eligible to receive a 30-year USFS permit to continue to operate Sullivan Dam as a water storage facility.

Concurrent with the license surrender process, the District applied to the Department of Ecology to sell certain Sullivan-related water rights to the state of Washington through the Department of Ecology Office of Columbia River, Columbia River Water Management Program. In exchange for the release of water from Sullivan Lake at designated times and amounts over the expected USFS permit 30-year life, the Department of Ecology Office of Columbia River agreed to fund the District $14 million. The District received the first payment of $2.5 million in 2013, an additional payment of $2.5 million in 2014, and the final payment of $9.0 million in February 2016. Proceeds are expected to finance Sullivan Creek Project capital and operating, maintenance, and environmental expenditures for the entirety of the USFS 30-year license term. The proceeds are recorded as unearned revenue and being amortized annually in an amount equal to the net cash outflow for Sullivan Project-related activities each year. The monies are restricted to use for Sullivan Creek Project-related expenditures and reflected on the statement of net position within the contract security liability category.

Because there is no operating value for the District in owning the Sullivan Project assets, the District reports the net revenues and expenses as nonoperating. Asset values, including construction costs for the cold water pipe, are recorded net of accumulated depreciation as nonutility plant. The District reports no remaining license surrender liability. Although considered unlikely, the District retains risk that the associated parties will fail to perform their agreed-upon obligations and the District will incur a considerable liability associated with the license surrender.

Rental agreement - In 1997, the District entered into a rental agreement with the Pend Oreille County Port District for use of their railroad right-of-way related to a 115-kilovolt transmission line project. Under this agreement, the District agreed to pay a consumer price index-adjusted $125,000 per year for a 20-year period commencing January 1, 1997, subject to termination by the District with a year's notice. The District paid $193,293 and $190,202 under the terms of this agreement for 2015 and 2014, respectively.

Note 8 - Commitments and Contingencies (continued)

NoaNet - The District guaranteed certain NoaNet debt obligations and participates in assessments (Note 9).

Other contingencies - The District is subject to various claims, possible legal actions, and other matters arising out of the normal course of business. When it is possible to make a reasonable estimate of the District's liability with respect to probable claims, an appropriate provision is made. Although the ultimate outcome of litigation against the District cannot be determined, management intends to continually defend all claims against the District and believes the District is adequately reserved for all known events.

Note 9 - Broadband Services

Community Network System - The District owns a fiber optic backbone extending from Spokane north past Metaline Falls and includes fiber into all District substations. The District built this system primarily for Electric System operation and control, but allowed others to use the system and thereby help local businesses, as well as develop revenues to offset infrastructure costs.

With the acceptance of a federal grant, the District expanded its broadband services to the residents of Pend Oreille County, changing the scope of the utility services offered by the Community Network System. The Community Network System operates in accordance with state wholesale laws, which authorize the District to build infrastructure and enable open-access use of that infrastructure to internet service providers and entities authorized to provide retail telecommunications services within the state of Washington, who may then, in turn, provide retail services to customers.

Northwest Open Access Network - The District, along with nine other Washington public utility districts and Energy Northwest, is a member of Northwest Open Access Network (NoaNet), a Washington nonprofit mutual corporation. NoaNet uses a high-speed fiber optic transmission system, largely located within Washington State, to provide Ethernet and other advanced telecommunications services on a wholesale basis to its members and retail telecommunications companies. NoaNet has first right-of-refusal to lease four strands, designated as public purpose, from fiber optic lines the BPA owns on transmission lines.

NoaNet members have guaranteed a $27 million revenue bond issuance, which accrues interest at rates varying from 5.05% to 7.09% and matures in annual and sinking fund installments through December 2016. The District's 3.91% guarantee share of the $2,790,000 outstanding as of December 31, 2015, is $109,089, with a maximum exposure of $136,361 in the event that other members fail to honor their guarantees.

In December 2014, NoaNet established a $13 million variable rate, junior lien, nonrevolving line of credit and transferred the balances of two previous lines of credit to the new note. During 2015, NoaNet withdrew $2 million for capital expenditures. The balance of the line as of December 31, 2015, was $6,254,827.

Note 9 - Broadband Services (continued)

In 2015, NoaNet reported a net operating loss of $3,953,883, $297,909 of nonoperating expense, and a total decrease in net position of $4,251,792.

The District's Electric System reports no investment or liability account balance reflecting NoaNet membership.

A NoaNet annual report may be obtained by writing to Northwest Open Access Network, 3511 Norfolk Court, Olympia, WA 98501. NoaNet's website is available at www.noanet.net.

Note 10 - Grants

The District reports most grant revenue as nonoperating. Occasionally, grant proceeds are received in reimbursement for operating expenses. In such cases, the grant revenue is classified as operating.

United States Department of Agriculture, Forest Service - The District has an ongoing program to address milfoil in the Pend Oreille River as a requirement of its Box Canyon Project FERC license. In 2011, the U.S. Forest Service awarded the District a $47,500 grant to aid the milfoil work. The District recorded $12,214 in grant revenue in 2015. A total of $28,591 has been recorded in grant revenue since 2011.

Washington State Department of Health - In 2012, the Washington State Department of Health awarded a $900,000 Jobs Now Act Grant to replace approximately 7,000 feet of water transmission main line and related support structures for the Metaline Falls water system. The project was completed in early 2014 and the District realized $100,468 in costs and associated revenue during 2014.

REQUIRED SUPPLEMENTAL INFORMATION

PUBLIC UTILITY DISTRICT NO. 1
OF PEND OREILLE COUNTY, WASHINGTON
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30

	2015		2014	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Employer's proportion of the net pension liability (asset)	0.082596%	0.106666%	0.078204%	0.100688%
Employer's proportionate share of the net pension liability	$ 4,320,539	$ 3,811,237	$ 3,939,563	$ 2,035,268
Employer's covered employee payroll	$ 9,465,740	$ 9,465,740	$ 8,618,199	$ 8,618,199
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.64%	40.26%	45.71%	23.62%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	89.20%		

* As this is a newly adopted standard, information is only available for the last two years.

SCHEDULE OF EMPLOYER CONTRIBUTIONS AS OF DECEMBER 31

	2015		2014	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Statutorily or contractually required contributions	$ 405,744	$ 520,400	$ 372,964	$ 461,531
Contributions in relation to the statutorily or contractually required contributions	(405,744)	(520,400)	(372,964)	(461,531)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered employer payroll	$ 9,298,257	$ 9,298,257	$ 9,241,367	$ 9,241,367
Contributions as a percentage of covered employee payroll	4.36%	5.60%	4.04%	4.99%

* As this is a newly adopted standard, information is only available for the last two years.

SUPPLEMENTAL INFORMATION (Unaudited)

ELECTRIC SYSTEM - REVENUE, CUSTOMER, AND ENERGY STATISTICS (Unaudited)

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
Average number of customers					
Residential	8,042	7,957	7,912	7,896	7,921
Commercial	842	841	836	838	836
Industrial	8	8	8	8	8
Other	77	77	62	38	37
Total District customers	8,969	8,883	8,818	8,780	8,802
Sales for resale	2	2	2	2	7
Total	8,971	8,885	8,820	8,782	8,809
Revenues from sale of energy (000s)					
Residential	$ 8,899	$ 8,963	$ 9,052	$ 8,461	$ 8,392
Commercial	2,401	2,391	2,434	2,297	2,242
Industrial	26,500	28,541	32,122	32,048	28,466
Other	40	39	38	38	35
Total District customers	37,840	39,934	43,646	42,844	39,135
Intersystem sales	132	140	142	153	161
Sales for resale	5,790	6,057	3,920	2,645	4,674
Total energy sales	43,762	46,131	47,708	45,642	43,970
Other operating revenues	739	825	950	528	558
Total	$ 44,501	$ 46,956	$ 48,658	$ 46,170	$ 44,528
Energy (MWh)					
Residential	133,059	143,037	143,077	138,253	149,656
Commercial	44,696	43,806	47,340	46,462	48,462
Industrial	643,009	719,194	808,082	814,788	793,722
Other	291	299	301	301	308
Total District customers	821,055	906,336	998,800	999,804	992,148
Intersystem sales	2,867	3,229	3,534	4,063	5,130
Sales for resale	282,410	202,618	131,358	131,968	202,317
Total sales	1,106,332	1,112,183	1,133,692	1,135,835	1,199,595
Peak demand (MW)	145	162	153	149	159
Energy requirements (MWh)					
Ponderay Newsprint Company	580,993	675,145	765,225	774,568	755,387
All other retail customers	242,929	237,420	237,109	229,299	241,891
Total retail sales	823,922	912,565	1,002,334	1,003,867	997,278
Sales for resale	282,410	202,618	131,358	131,968	202,317
Total sales	1,106,332	1,115,183	1,133,692	1,135,835	1,199,595
Electric System losses	19,761	16,345	16,790	12,177	10,332
Total energy requirements	1,126,093	1,131,528	1,150,482	1,148,012	1,209,927
Energy resources (MWh)					
Box Canyon Project	505,850	462,530	433,381	460,771	451,790
Boundary Project	366,005	366,993	372,221	369,284	366,025
Bonneville and other sources	254,238	302,005	344,880	317,957	392,112
Total energy resources	1,126,093	1,131,528	1,150,482	1,148,012	1,209,927

ELECTRIC SYSTEM - SENIOR LIEN PARITY DEBT SERVICE COVERAGE (Unaudited)

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
Operating revenues (000s)					
Energy sales	$ 43,762	$ 46,131	$ 47,708	$ 45,642	$ 43,970
Other	739	825	950	528	558
Total operating revenues	44,501	46,956	48,658	46,170	44,528
Operating expenses (1)					
Power costs	28,121	30,090	30,849	28,233	27,685
Operations and maintenance	6,191	6,433	5,287	5,115	4,548
Administrative and general	3,586	3,385	3,066	3,309	3,484
Taxes	2,157	2,190	2,394	2,320	2,016
Pension Expense	477	(193)	-	-	-
Total operating expenses	40,532	41,905	41,596	38,977	37,733
Investment income (2)	-	18	110	126	122
Net revenue available for debt service	3,969	5,069	7,172	7,319	6,917
Senior lien debt service	3,005	3,011	2,461	4,359	4,234
Net revenue available for capital	$ 964	$ 2,058	$ 4,711	$ 2,960	$ 2,683
Debt service coverage ratio (3)	1.32x	1.68x	2.91x	1.68x	1.63x

(1) Total operating expenses exclude depreciation for purposes of determining parity debt service coverage ratios.

(2) Investment income varies depending on many factors, including unrealized gains and losses on long-term investments.

(3) Debt service coverage ratio on senior lien debt service.

BOX CANYON PRODUCTION SYSTEM -
SENIOR LIEN PARITY DEBT SERVICE COVERAGE (Unaudited)

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
Operating revenues (000s)					
Energy sales					
Electric System	$ 16,669	$ 16,993	$ 17,883	$ 17,068	$ 14,690
Tribal use of lands	219	215	215	190	158
All other (1)	15	138	59	7	1,448
Total operating revenues	16,903	17,346	18,157	17,265	16,296
Operating expenses (2)					
Power costs	114	717	917	1,533	896
Operations and maintenance	4,643	4,582	5,365	5,651	5,600
Administrative and general	2,454	2,510	2,249	2,174	2,192
Taxes	114	105	99	105	103
Pension	200	(81)	-	-	-
Total operating expenses	7,525	7,833	8,630	9,463	8,791
Investment income	10	59	125	126	141
Other nonoperating (3)	2,021	2,045	2,049	1,431	1,225
Net revenue available for debt service (4)	11,409	11,617	11,701	9,359	8,871
Senior lien debt service (5)	11,039	11,069	11,095	8,386	7,565
Junior lien debt service	-	-	-	-	-
Net revenue available for capital	$ 370	$ 548	$ 606	$ 973	$ 1,306
Debt service coverage ratio (6)	1.03x	1.05x	1.05x	1.12x	1.17x

(1) "All Other" includes miscellaneous revenue such as logging activities on project properties. The 2011 balance includes a negotiated settlement from a contractor associated with the turbine upgrade project.

(2) Excludes depreciation for purposes of determining senior lien debt service coverage.

(3) Internal Revenue Service interest reimbursement for 2009 Series B, Taxable Build America Bonds, and 2012 Taxable Clean Renewable Energy Bonds - Direct Payment.

(4) The District controls net revenue available by adjusting the power sales transfer price to the Electric System based on Box Canyon Production System cash flow requirements for debt service and capital investment. 2010 and subsequent net revenue reflect the funding associated with higher debt service requirements.

(5) Senior lien debt service includes the 2008 line of credit, the 2008 CREB bonds, the 2009 bonds, the 2010 bonds, and 2012 CREB bonds.

(6) Debt service coverage ratio on senior lien debt service.

ORGANIZATIONAL INFORMATION

Date of organization	November 1936
Nature of business	A municipal corporation supplying public utility services in Pend Oreille County, Washington
Board of Commissioners	
President	Richard A. Larson
Vice President	Daniel L. Peterson
Secretary	Curt J. Knapp
Key District Management	
General Manager	F. Colin Willenbrock
Director of Finance/Auditor	April D. Owen
Treasurer/Customer Service Manager	Sarah L. Holderman
Director, Regulatory and Environmental Affairs	Mark J. Cauchy
Director, Information Technology	Rhonda Thomas
Director, Distribution, Engineering, and Operations	Christopher Jones
Director, Power and Risk Management	Kimberly Gentle
Power Production Manager	Mark Cleveland
Systems	
Electrical power distribution	Electric System
Hydroelectric power generation at Box Canyon Project	Box Canyon Production System
Water distribution in residential subdivisions and the town and vicinity of Metaline Falls	Water System
Wholesale broadband communications services	Community Network System
Corporate Office	P.O. Box 190 130 N. Washington Newport, Washington 99156 (509) 447-3137 Telephone (509) 447-5824 Facsimile www.popud.org
Paying Agent and Registrar Information	U.S. Bank National Association 111 Fillmore Avenue East St. Paul, Minnesota 55107-1402