



Report of Independent Auditors
and Financial Statements for
Public Utility District No. 1 of
Okanogan County, Washington
December 31, 2015 and 2014

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Commissioners
Public Utility District No. 1
of Okanogan County, Washington

Report on Financial Statements

We have audited the accompanying financial statements of Public Utility District No. 1 of Okanogan County, Washington (the District), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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

Required Supplementary Information

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 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The unaudited supplementary information presented has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Matters Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Mess Adams" followed by a stylized monogram or initials.

Everett, Washington

June 3, 2016

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of Public Utility District No. 1 of Okanogan County's (the District's) financial activity, and identify changes in the District's financial position during 2015 and 2014. Please consider the information presented here in conjunction with the financial statements as a whole, including the footnotes and other supplementary information that are provided.

The District, a municipal corporation of the state of Washington, was established in 1936 and began operations in 1945. The District is governed by a three-member board of commissioners locally elected to six-year terms. The District operates both electric and telecommunications systems that are accounted for in a single proprietary fund.

Overview of the Financial Statements

The financial statements include the management's discussion and analysis and financial statements with accompanying notes. In accordance with standards issued by the Governmental Accounting Standards Board (GASB), the District's financial statements are presented on an accrual basis of accounting, which recognizes revenues when earned and expenses when incurred, regardless of when cash is received or paid.

The financial statements are presented as of and for the years ended December 31, 2015 and 2014, and consist of:

Statements of net position - The statements of net position present information on the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at year-end. These statements also provide information about the nature and amounts of investments in resources (assets) and the District's obligations to its creditors (liabilities).

Statements of revenues, expenses, and changes in net position - The statements of revenues, expenses, and changes in net position account for the year's revenue and expense transactions. These statements measure the District's operations over the past year and may be used to determine whether the District has been successful in recovering its costs through rates and other charges.

Statements of cash flows - The statements of cash flows provide information on the District's cash receipts and disbursements during the year. The statements report changes in cash resulting from operations, investing, and capital and related financing activities.

The notes to the financial statements provide additional information that is an integral part of the financial statements. This information includes the disclosure of significant accounting policies, financial activities, risks, commitments, and obligations.

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Selected Financial Information

	December 31,		
	2015	2014 as restated	2013
ASSETS			
Current and other assets	\$ 34,640,030	\$ 32,977,841	\$ 32,492,823
Net utility plant	115,043,427	110,840,366	106,028,834
Total assets	<u>149,683,457</u>	<u>143,818,207</u>	<u>138,521,657</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>1,350,479</u>	<u>1,003,758</u>	<u>620,315</u>
Total assets and deferred outflows of resources	<u>\$ 151,033,936</u>	<u>\$ 144,821,965</u>	<u>\$ 139,141,972</u>
LIABILITIES			
Current liabilities	\$ 10,512,056	\$ 9,770,233	\$ 9,416,638
Long-term debt	34,798,616	36,421,163	38,176,983
Other long-term liabilities	6,885,902	4,891,530	-
Total liabilities	<u>52,196,574</u>	<u>51,082,926</u>	<u>47,593,621</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,315,585</u>	<u>\$ 2,155,121</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	78,817,814	73,148,265	66,827,166
Restricted	7,978,922	8,147,685	8,141,401
Unrestricted	10,725,041	10,287,968	16,579,784
Total net position	<u>97,521,777</u>	<u>91,583,918</u>	<u>91,548,351</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 151,033,936</u>	<u>\$ 144,821,965</u>	<u>\$ 139,141,972</u>

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Selected Financial Information (continued)

	Years Ended December 31,		
	2015	2014 as restated	2013
REVENUE			
Operating			
Electric - retail	\$ 43,881,058	\$ 42,911,047	\$ 39,861,279
Electric - wholesale	3,189,997	4,680,273	5,132,270
Telecommunications	2,609,109	2,516,289	2,217,116
Other operating revenue	1,391,935	1,301,167	1,286,159
Total operating income	<u>51,072,099</u>	<u>51,408,776</u>	<u>48,496,824</u>
Nonoperating			
Interest income	45,244	42,574	58,695
Other nonoperating income	3,965,326	3,917,513	3,065,848
Contributed capital	1,397,164	1,294,511	990,165
Total nonoperating income	<u>5,407,734</u>	<u>5,254,598</u>	<u>4,114,708</u>
Total revenue	<u>56,479,833</u>	<u>56,663,374</u>	<u>52,611,532</u>
EXPENSES			
Operating			
Cost of power	25,369,144	24,884,068	23,534,220
Taxes	2,742,672	2,713,281	2,413,881
Depreciation and amortization	5,841,292	4,717,805	4,584,884
Other operating expenses	13,887,457	12,932,044	12,736,964
Total operating expenses	<u>47,840,565</u>	<u>45,247,198</u>	<u>43,269,949</u>
Nonoperating			
Interest expense net of AFUDC	1,050,881	1,042,910	1,555,826
Other expense	1,650,528	3,749,437	146,655
Total nonoperating	<u>2,701,409</u>	<u>4,792,347</u>	<u>1,702,481</u>
Total expenses	<u>50,541,974</u>	<u>50,039,545</u>	<u>44,972,430</u>
CHANGE IN NET POSITION	5,937,859	6,623,829	7,639,102
NET POSITION, beginning of period	<u>91,583,918</u>	<u>91,548,351</u>	<u>83,909,249</u>
ACCUMULATED EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE		(6,588,262)	
NET POSITION, beginning of period, as restated		<u>84,960,089</u>	
NET POSITION, end of period	<u>\$ 97,521,777</u>	<u>\$ 91,583,918</u>	<u>\$ 91,548,351</u>

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Highlights

During 2015, the District's overall financial position remained strong due in part to a slight increase in retail load of 0.6%. The increase in retail sales was driven by continued growth in the general service and industrial classes of customer, which more than offset a decrease in the District's load for the residential class of customers. The District also benefited from a 2.0% retail rate increase that went into effect on July 1, 2015. Unfortunately, wholesale energy revenue decreased 29.0% during 2015, due to lower volume and market prices than 2014. The District's net position increased \$5,937,859 compared with an increase in net position in 2014 of \$6,623,829.

The following is an analysis of key financial factors with an emphasis on changes between 2015 and 2014:

Cash and investments - The District had cash and investments totaling \$25,862,415, \$23,041,940, and \$22,943,554 as of December 31, 2015, 2014, and 2013, respectively. The increase of \$2,820,475 in 2015 was driven by a very positive change in net position, which was impacted by capital outlays and the timing of FEMA disaster reimbursements. As noted in Note 1 to the financial statements, investments in the amount of \$10,567,621 are considered restricted as of December 31, 2015. The funds are restricted as follows: \$288,121 for debt service payments, \$1,944,500 for bond reserve requirements, \$2,200,000 for customer deposits and compensated absences, and the remaining \$6,135,000 is restricted in a rate stabilization fund.

Utility plant - Net utility plant increased by \$4,203,061, or 3.8%, during 2015, compared with an increase of \$4,811,532, or 4.5%, during 2014. A summary of utility plant in service is included in Note 3 to the financial statements.

Long-term debt - As of December 31, 2015, the District had \$33,105,000 in revenue bonds outstanding, compared with \$34,795,000 as of December 31, 2014. During 2015, the District did not issue additional revenue bonds. The decrease in revenue bonds outstanding was a result of scheduled debt payments made during 2015.

In addition, in 2010, the District authorized a not-to-exceed \$3,667,855 loan with the United States Department of Agriculture (USDA) for broadband improvements (the RUS Note) related to the American Recovery and Reinvestment Act (ARRA) award. As of December 31, 2015, the RUS Note had a balance outstanding in the amount of \$3,271,027.

During 2014, the District renewed a line of credit in the aggregate principal amount not to exceed \$10,000,000, to cover operating costs and capital outlays as the need arises. As of December 31, 2015, the entire \$10,000,000 is available to the District if needed.

Net operating revenues (expenses) - The District recorded revenues from operations of \$51,072,099, which were \$3,231,534 more than operating expenses of \$47,840,565 in 2015, in comparison with 2014, when operating revenues exceeded operating expenses by \$6,161,578. In 2013, operating revenues exceeded operating expenses by \$5,226,875.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Highlights (continued)

Operating revenue - Revenues from the retail sale of electricity increased by 2.3%, from \$42,911,047 in 2014 to \$43,881,058 in 2015, compared with an increase in retail sales in 2014 of 7.7%. This increase was anticipated during 2015 due to an increase in retail energy rates of 2.0% on July 1, 2015. In addition, retail revenue also increased due to a 0.6% increase in electrical load.

During 2015, revenue from wholesale sales of electricity decreased 31.8%, from \$4,680,273 to \$3,189,997. The decrease in wholesale sales of electricity was due to lower volume and market prices than 2014. In 2014, wholesale electricity decreased 8.8% from \$5,132,270 in 2013 to \$4,680,273.

In 2015, wholesale telecommunications revenue growth of 3.7% pushed revenue to \$2,609,109, compared with \$2,516,289 in 2014 and \$2,217,116 in 2013.

Operating expenses - Operating expenses increased by \$2,593,367, or 5.7%, from \$45,247,198 in 2014 to \$47,840,565 in 2015 in comparison to a similar increase in operating expenses during 2014 of 4.6%. Almost half of the 2015 increase was due to an increase in depreciation expense. The increase in depreciation expense was due in large part to the capitalization of telecommunications infrastructure constructed during the District's broadband buildout.

Rates - During 2015, the District increased retail energy rates by 2% on July 1, 2015. 2014 was the first year without rate increases since 2009. The District also passes through increases in contracted power costs to its customers using a COPA (cost of power adjustment). The COPA was increased November 1, 2015, from 0.40¢/kWh to the current rate of 0.56¢/kWh. The most recent cost of service analysis was performed during 2013 by SAIC Energy, Environment & Infrastructure, LLC, with assistance from District staff.

Significant Capital Assets and Long-Term Debt

The District anticipates issuing new debt in the future to finance projects as discussed in the following paragraphs:

In spring 2016, the District broke ground on a project to construct an approximately 27-mile transmission line to serve the Methow Valley. The project had been held up while the District obtained a right-of-way across land owned by the State of Washington. The District has awarded a contract for the construction of the line, which is scheduled to be completed by year-end 2016. The District expects to fund the transmission line through existing rates, and reserves, and not issue additional bonds for this project.

The District continues to invest in wholesale telecommunications infrastructure. As of December 31, 2015, the District has invested a total of \$15,118,069 in wholesale telecommunications plant in service, which is an increase of \$300,115 over year-end 2014. The District's telecommunications network is connected to the Northwest Open Access Network, a fiber optic system that is member owned. The network is currently utilized by 7 retail service providers, supporting almost 2,000 end-user customers.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Significant Capital Assets and Long-Term Debt (continued)

During 2010, the District submitted for and was awarded ARRA funding to deploy a middle-mile and last-mile broadband communication system throughout the county. ARRA funding consisted of a \$5,501,782 grant and a \$3,667,855 loan. The last-mile project made available high-speed broadband to more than 6,543 premises that had lacked such access. The project placed approximately 170 access nodes and extended the fiber backbone approximately 179 miles to provide necessary redundancy to the last-mile network. The project was substantially completed during 2013 and was closed out in August of 2015.

The District is the current owner of the Enloe Hydroelectric Dam, a small hydroelectric project on the Similkameen River near Oroville, Washington. On July 9, 2013, the Federal Energy Regulatory Commission (FERC) issued the District a new 50-year operating license. The District is currently reviewing all options prior to moving forward to with final design, bidding, and construction of the project.

For the second year in a row, Okanogan County experienced record-setting wildfires. During 2014, the Carlton Complex Fire consumed more than 250,000 acres located in Okanogan County. The District's loss of infrastructure due to the fire was significant, amounting to almost \$3,000,000 in historical costs and an estimated \$14,000,000 in replacement costs. At the end of 2015, the majority of the repairs had been completed. The 2015 Okanogan Complex Fires burned over 300,000 acres located in Okanogan County. The District's loss of infrastructure due to the 2015 fires was in excess of \$1,600,000 in historical costs and an estimated \$3,900,000 in replacement costs. Repair of the damages caused during the 2015 fires is still underway. The District expects to be reimbursed up to 87.5% by the State of Washington and the Federal Emergency Management Agency (FEMA). The District plans on funding the remaining costs through reserves and future revenues, including a rate increase of 2%, which took effect July 1, 2015.

Additional information is contained in the notes to the financial statements. Please refer to Note 3 - Utility Plant and Note 4 - Long-Term Debt.

Contacting the District's Financial Management

This financial report is designed to provide the District's ratepayers, investors, and other readers with a general overview of the District's finances and to show the District's accountability for money it receives. If you have questions about this report or need additional information, contact the District's Director of Finance at Public Utility District No. 1 of Okanogan County, P.O. Box 912, Okanogan, WA 98840, or phone (509) 422-3310.



Don Coppock
Director of Finance/Auditor

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PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	2015	2014 as restated
CURRENT ASSETS		
Cash and temporary investments		
Cash and cash equivalents	\$ 12,849,948	\$ 9,571,181
Temporary investments	2,444,846	2,903,068
Accounts receivable, less allowance for doubtful accounts of \$25,000 for 2015 and 2014	2,859,947	3,238,112
Unbilled revenue	3,073,391	3,015,667
Materials and supplies	2,511,047	2,986,552
Prepayments and other	21,140	395,584
Total current assets	23,760,319	22,110,164
RESTRICTED ASSETS		
Cash equivalents and investments		
Bond reserve and debt service	2,232,621	2,232,691
Board-designated reserve	8,335,000	8,335,000
Total restricted assets	10,567,621	10,567,691
UTILITY PLANT, at cost		
Plant in service	152,285,942	149,461,139
Construction work in progress	38,180,196	30,913,419
	190,466,138	180,374,558
Less accumulated depreciation and amortization	75,422,711	69,534,192
Net utility plant	115,043,427	110,840,366
OTHER ASSETS		
Conservation loans and notes receivable	312,090	299,986
Total assets	149,683,457	143,818,207
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	880,055	458,389
Loss on refinancing of debt	470,424	545,369
Total deferred outflows of resources	1,350,479	1,003,758
Total assets and deferred outflows of resources	\$ 151,033,936	\$ 144,821,965

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
STATEMENTS OF NET POSITION

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31,	
	2015	2014 as restated
CURRENT LIABILITIES		
Accounts payable	\$ 4,210,830	\$ 3,865,730
Accrued compensated absences	1,807,138	1,713,013
Accrued taxes	1,217,276	1,211,993
Customer deposits	639,690	559,635
Customer prepayments	597,830	456,197
Accrued bond interest	141,872	147,358
Current portion of long-term debt	1,897,420	1,816,307
Total current liabilities	10,512,056	9,770,233
LONG-TERM DEBT		
Revenue bonds	31,350,000	33,105,000
Other long-term debt	3,128,607	2,987,019
Bond issue premium	356,111	370,403
Bond issue discount	(36,102)	(41,259)
Total long-term debt	34,798,616	36,421,163
LONG-TERM LIABILITIES		
Net pension liability	6,885,902	4,891,530
Total liabilities	52,196,574	51,082,926
DEFERRED INFLOWS OF RESOURCES		
Pension deferred inflows	1,315,585	2,155,121
Total deferred inflows of resources	1,315,585	2,155,121
NET POSITION		
Net investment in capital assets	78,817,814	73,148,265
Restricted	7,978,922	8,147,685
Unrestricted	10,725,041	10,287,968
Total net position	97,521,777	91,583,918
Total liabilities, deferred inflows of resources, and net position	\$ 151,033,936	\$ 144,821,965

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

	Years Ended December 31,	
	2015	2014 as restated
OPERATING REVENUES		
Electric - retail	\$ 43,881,058	\$ 42,911,047
Electric - wholesale	3,189,997	4,680,273
Telecommunications	2,609,109	2,516,289
Other operating revenues	1,391,935	1,301,167
Total operating revenues	<u>51,072,099</u>	<u>51,408,776</u>
OPERATING EXPENSES		
Cost of power	25,369,144	24,884,068
Transmission	179,121	182,653
Distribution	5,555,223	5,535,709
Telecommunications	1,015,892	1,011,714
Customer accounts	1,521,406	1,505,387
Customer service and information	567,434	455,032
Administration and general	5,048,381	4,241,549
Depreciation and amortization	5,841,292	4,717,805
Taxes	2,742,672	2,713,281
Total operating expenses	<u>47,840,565</u>	<u>45,247,198</u>
Net operating revenues	<u>3,231,534</u>	<u>6,161,578</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	45,244	42,574
Grant revenue	3,560,701	3,509,879
Contributed capital	1,397,164	1,294,511
Interest on long-term debt	(1,925,917)	(1,980,623)
Allowance for funds used during construction	875,036	937,714
Loss on disposition of property	(1,650,528)	(3,749,437)
Other revenue	404,625	407,633
Net nonoperating revenues	<u>2,706,325</u>	<u>462,251</u>
CHANGE IN NET POSITION	5,937,859	6,623,829
ACCUMULATED NET POSITION		
Beginning of year	<u>91,583,918</u>	<u>91,548,351</u>
Accumulated effect of change in accounting principle (Note 1)		(6,588,262)
Net position, beginning of the year (as restated)		<u>84,960,089</u>
End of year	<u>\$ 97,521,777</u>	<u>\$ 91,583,918</u>

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2015	2014 as restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 51,460,492	\$ 51,431,432
Payments to suppliers and employees	(39,830,015)	(40,751,497)
Net change in cash from operating activities	11,630,477	10,679,935
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net	(11,694,883)	(13,278,771)
Proceeds from borrowings	292,467	285,905
Cash contributions in aid of construction	1,397,164	1,294,511
Proceeds from grants	3,560,701	3,509,879
Scheduled payments on debt	(1,824,766)	(1,861,284)
Interest paid on debt	(585,930)	(574,362)
Net change in cash from capital and related financing activities	(8,855,247)	(10,624,122)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(14,599,532)	(12,305,908)
Sales and maturities of investments	15,057,825	15,577,962
Interest on investments	45,244	42,574
Net change in cash from investing activities	503,537	3,314,628
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,278,767	3,370,441
CASH AND CASH EQUIVALENTS		
Beginning of year	9,571,181	6,200,740
End of year	\$ 12,849,948	\$ 9,571,181
RECONCILIATION OF NET OPERATING REVENUES TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating revenues	\$ 3,231,534	\$ 6,161,578
Adjustments to reconcile net operating revenues to net cash from operating activities		
Depreciation and amortization	5,841,293	4,717,805
Cash from changes in operating assets and liabilities		
Receivables	378,165	(450,837)
Unbilled revenue	(57,724)	412,474
Materials and supplies	475,505	(227,382)
Prepayments and other	516,077	(234,653)
Other assets	(12,104)	77,505
Accounts payable	345,100	(77,451)
Deferred pension expense	733,169	-
Accrued compensation, benefits, customer deposits, prepayments, and taxes	179,462	300,896
NET CHANGE IN CASH FROM OPERATING ACTIVITIES	\$ 11,630,477	\$ 10,679,935
SUPPLEMENTAL DISCLOSURES		
Loss on disposition of property	\$ (1,650,528)	\$ (3,749,437)
Cash paid for interest on borrowings	\$ (1,860,106)	\$ (1,914,812)
Cash received as refund on interest on Build America Bonds	\$ 404,625	\$ 407,632

See accompanying notes.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Organization - Public Utility District No. 1 of Okanogan County (the District) is a municipal corporation governed by an elected three-member board of commissioners. The District owns, operates, and maintains an electric distribution system incorporating both electrical and telecommunications facilities and equipment. Financial information for both divisions is presented as a single proprietary fund.

Reporting entity - For financial reporting purposes, the District includes activities over which it exercises oversight responsibility. As required by generally accepted accounting principles (GAAP), management has considered all potential component units in defining the reporting entity. The District has no component units.

Basis of accounting and presentation - The accounting policies of the District conform to GAAP as applicable to proprietary funds of governmental units. The District adheres to the accounting standards and pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for governmental entities and uses the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.

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.

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.

Upon implementation of this standard, the District restated beginning net position as of January 1, 2014 by \$6,588,262, and recorded activity reflecting \$458,389 in deferred outflows of resources, \$2,155,121 in deferred inflows of resources, and a net pension liability of \$4,891,530 on the 2014 statements.

Cash and cash equivalents - The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

Investments and restricted assets - The District records investments at fair value. The District's investment portfolio consists entirely of fully insured, interest-bearing institutional deposits with terms of one year or less where the redemption value equals the purchase price plus a stated rate of interest. Therefore, the District's financial statements reflect no market adjustments.

In accordance with board resolutions and bond covenants, a number of separate funds have been established, and cash and investments held in these funds are restricted for special uses as follows:

	2015	2014
Rate stabilization fund	\$ 6,135,000	\$ 6,135,000
Employee compensated absences fund	1,600,000	1,600,000
Customer deposit fund	600,000	600,000
Sinking funds - 2003 bonds	73,133	73,015
Sinking funds - 2010 bonds	214,988	215,176
Bond reserve fund	1,944,500	1,944,500
	\$ 10,567,621	\$ 10,567,691

Accounts receivable and allowance for doubtful accounts - The District renders billings for electrical consumption, sales, and services and for wholesale power and telecommunications sales and services on a monthly basis. Management reviews accounts receivable for collectibility on a regular basis, and an allowance for uncollectible accounts is established based on evaluation of specific accounts and historical experience. If the account is determined to be uncollectible, it is turned over to the local credit bureau for collection.

Materials and supplies - Materials and supplies provide for additions, maintenance, and repairs to the utility plant and are valued at weighted-average cost.

Utility plant and depreciation - See Note 3 for asset capitalization, depreciation, and retirement policies.

Unamortized loss on refunding of debt - The difference between the cost to refund outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds, using the straight-line method and recorded as deferred outflow of resources.

Compensated absences - The District accrues unpaid personal leave benefit amounts as earned. Personal leave, which may be accumulated up to 1,200 hours, is payable in full upon resignation, termination, retirement, or death.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

Net position - Net position consists of the following:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, less outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component consists of net position on which constraints are placed as to its use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation. Balances currently classified as restricted by enabling legislation include the rate stabilization fund, employee compensated absences fund, customer deposit fund, bond principal and interest (net of accrued interest) due in the upcoming year, and the debt service reserve fund.

Unrestricted - Unrestricted net position components are those that do not meet the definition of "restricted" or "net investment in capital assets."

Revenue recognition - The District recognizes revenue as earned on a monthly basis based on rates established by the District's board of commissioners. Because the customer meters are read and billed at various times during each month, the District estimates unbilled revenues for energy delivered to customers between their last respective cycle billing date and December 31, and it records that amount as unbilled revenue for the current year.

Revenues and expenses - The District distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses are derived directly from the provision of wholesale and retail electrical generation, transmission, and distribution sales and service and from providing wholesale telecommunications sales and service. Revenues and expenses ancillary to these purposes are treated as nonoperating.

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. These payments are recognized in nonoperating revenue as contributed capital when the associated facilities are constructed or acquired.

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state-sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Significant risk 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; fish and other Endangered Species Act issues; Environmental Protection Agency regulations; federal government regulations or orders; deregulation of the electrical industry; concentration risk in the form of Wells Hydroelectric Project (Note 11); and market risks inherent in buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

Reclassifications - Certain reclassifications have been made to balances reported in prior-year financial statements to conform to the current-year presentation.

Note 2 - Deposits and Investments

Custodial credit risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments. All District deposits and investments are either insured, registered, or held by the District or its agents in the District's name and are intended to be held until maturity.

Credit risk - Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. As required by state law, all investments of District funds are obligations of the U.S. government, bankers' acceptances, deposits in the Washington State Treasurer's Local Government Investment Pool, or deposits with Washington State banks and savings and loan institutions. All deposits are either entirely covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

Interest rate risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District manages this risk by limiting the average maturity of investments to one year or less.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 2 - Deposits and Investments (continued)

Distribution of the investment portfolio was as follows:

	<u>2015</u>	<u>2014</u>
Bank certificates of deposit	\$ 8,835,000	\$ 8,835,000
Local Government Investment Pool	<u>4,177,467</u>	<u>4,635,759</u>
	<u>\$ 13,012,467</u>	<u>\$ 13,470,759</u>

Note 3 - Utility Plant

Utility plant in service and other capital assets are recorded at cost when the historical cost is known. When historical cost is not known, assets are recorded at estimated fair value. Costs include labor, materials, overhead, capitalized interest, and related indirect costs. The District capitalizes assets with cost in excess of \$1,000. Depreciation expense is computed using the straight-line method employing useful lives of 4 to 50 years. Repairs are charged to operating expenses.

The original cost of operating property retired or otherwise disposed of and the cost of removal, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and net gain or loss on disposition is credited or charged to income.

Preliminary costs incurred for proposed projects are deferred pending construction of the asset and included in construction work in process. Costs relating to projects ultimately constructed are transferred to utility plant, whereas charges that relate to abandoned projects are expensed.

For the second straight year, the District has sustained significant infrastructure damage due to wildfire. Losses for 2015 amount to almost \$1,000,000 in historical costs and an estimated \$4,000,000 in replacement costs. The District is in the process of replacing the damaged infrastructure, including electrical distribution and transmission plant, as well as telecommunications equipment such as fiber optic cable and wireless access points. The District is expected to be partially reimbursed by the state of Washington and the Federal Emergency Management Agency (FEMA).

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 3 - Utility Plant (continued)

Capital asset activity for the years ended December 31, 2015 and 2014, was as follows:

	Balance January 1, 2015	Additions	Retirements and Transfers	Balance December 31, 2015
Intangible plant	\$ 92,297	\$ -	\$ -	\$ 92,297
Generation plant	588,394	-	-	588,394
Transmission plant	4,907,477	-	-	4,907,477
Distribution plant	99,750,723	2,561,107	(576,175)	101,735,655
General plant	28,671,752	795,060	(255,306)	29,211,506
Telecommunications plant	14,817,952	1,097,619	(797,502)	15,118,069
Acquisition adjustment	632,544	-	-	632,544
	149,461,139	4,453,786	(1,628,983)	152,285,942
Construction work in progress	30,913,419	10,406,218	(3,139,441)	38,180,196
Total utility plant	180,374,558	14,860,004	(4,768,424)	190,466,138
Accumulated depreciation	(69,534,192)	(6,148,386)	259,867	(75,422,711)
Net utility plant	<u>\$ 110,840,366</u>	<u>\$ 8,711,618</u>	<u>\$ (4,508,557)</u>	<u>\$ 115,043,427</u>
	Balance January 1, 2014	Additions	Retirements and Transfers	Balance December 31, 2014
Intangible plant	\$ 92,297	\$ -	\$ -	\$ 92,297
Generation plant	588,394	-	-	588,394
Transmission plant	4,833,962	181,598	(108,083)	4,907,477
Distribution plant	97,750,685	2,491,146	(491,108)	99,750,723
General plant	27,255,662	1,568,706	(152,616)	28,671,752
Telecommunications plant	5,186,246	9,786,959	(155,253)	14,817,952
Acquisition adjustment	632,544	-	-	632,544
	136,339,790	14,028,409	(907,060)	149,461,139
Construction work in progress	31,921,619	12,283,741	(13,291,941)	30,913,419
Total utility plant	168,261,409	26,312,150	(14,199,001)	180,374,558
Accumulated depreciation	(62,232,575)	(4,717,805)	(2,583,812)	(69,534,192)
Net utility plant	<u>\$ 106,028,834</u>	<u>\$ 21,594,345</u>	<u>\$ (16,782,813)</u>	<u>\$ 110,840,366</u>

Plant in service balances presented above include nondepreciable land of \$1,126,051 as of December 31, 2015 and 2014, respectively.

Note 4 - Long-Term Debt

In 2003, the District issued \$10,565,000 in 20-year serial bonds to finance capital construction and to refund a previous short-term debt obligation. Interest rates on the 2003 issuances range from 2.46% to 5.46%.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 4 - Long-Term Debt (continued)

During 2010, the District issued \$9,105,000 in 10-year Series A bonds with interest rates ranging from 2.00% to 4.50%, and \$23,355,000 in 30-year Series B taxable Build America Bonds with interest rates ranging between 1.095% and 6.046%. These interest rates are subject to a federal subsidy payment from the federal government, which was 32.5% of the interest rate during the prior year. From this issuance, \$5,285,000 was used to defease the 2002 bonds, which were fully repaid in 2011. The remaining \$27,175,000 of the new debt was earmarked for capital projects including, but not limited to, the new District headquarters facility constructed in 2010 and the Pateros-Twisp transmission line, now in its initial construction stage. This debt is subject to certain covenants.

In 2010, the District authorized a not-to-exceed \$3,667,855 loan with the United States Department of Agriculture (USDA) for broadband improvements related to the American Recovery and Reinvestment Act (ARRA) award granted in 2010 (Note 9). During 2011, the District began drawing funds on the loan and as of December 31, 2015 and 2014, a total of \$3,602,640 and \$3,310,173, respectively, in loan funds related to this award had been received. These funds are to be paid back over a 23-year period starting one year after the initial draw. This initial draw occurred on August 15, 2011. This direct cost of money loan will bear interest at the rate applicable to each advance of loan funds based on the average yield on outstanding marketable obligations of the United States, having a final maturity comparable to the final maturity of the advance. Interest rates as of December 31, 2015, ranged from 2.32% to 3.63%. Additional information describing this award can be found in Note 9.

Total long-term debt principal outstanding at December 31, 2015, is \$36,376,027, for which substantially all revenues of the District are pledged as security.

The following are changes in long-term debt for the years ended December 31, 2015 and 2014:

	Balance January 1, 2015	Additions	Payments/ Amortization	Balance December 31, 2015	Current Portion
2003 revenue bonds	\$ 5,755,000	\$ -	\$ (615,000)	\$ 5,140,000	\$ 650,000
2010 revenue bonds	29,040,000	-	(1,075,000)	27,965,000	1,105,000
2011 ARRA loan	3,113,326	292,467	(134,766)	3,271,027	142,420
Unamortized bond premium	370,403	-	(14,292)	356,111	-
Unamortized bond discount	(41,259)	-	5,157	(36,102)	-
Total long-term debt	\$ 38,237,470	\$ 292,467	\$ (1,833,901)	\$ 36,696,036	\$ 1,897,420
	Balance January 1, 2014	Additions	Payments/ Amortization	Balance December 31, 2014	Current Portion
2003 revenue bonds	\$ 6,335,000	\$ -	\$ (580,000)	\$ 5,755,000	\$ 615,000
2010 revenue bonds	30,105,000	-	(1,065,000)	29,040,000	1,075,000
2011 ARRA loan	3,043,705	185,905	(116,284)	3,113,326	126,307
Unamortized bond premium	384,695	-	(14,292)	370,403	-
Unamortized bond discount	(46,417)	-	5,158	(41,259)	-
Total long-term debt	\$ 39,821,983	\$ 185,905	\$ (1,770,418)	\$ 38,237,470	\$ 1,816,307

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 4 - Long-Term Debt (continued)

During 2010, the District established a \$10 million operating line of credit with a financial institution. As of December 31, 2015 and 2014, respectively, there was no outstanding balance on that line of credit.

The annual debt service payment requirements (principal and interest) on debt outstanding as of December 31, 2015, are as follows:

	2003 Bonds		2010 Bonds		ARRA Grant		Total
	Interest	Principal	Interest	Principal	Interest	Principal	
2016	\$ 227,600	\$ 650,000	\$ 1,474,863	\$ 1,105,000	\$ 91,570	\$ 142,420	\$ 3,691,453
2017	192,109	685,000	1,447,263	1,145,000	87,454	147,392	3,704,218
2018	158,219	700,000	1,418,705	1,175,000	83,218	151,803	3,686,945
2019	130,218	730,000	1,371,705	1,220,000	78,851	156,348	3,687,122
2020	101,019	760,000	1,322,906	1,270,000	74,356	161,026	3,689,307
2021-2025	105,763	1,615,000	5,870,346	4,465,000	299,100	880,638	13,235,847
2026-2030	-	-	4,690,916	4,800,000	163,769	1,021,404	10,676,089
2031-2035	-	-	3,174,810	5,780,000	24,329	609,996	9,589,135
2036-2040	-	-	1,303,215	7,005,000	-	-	8,308,215
2041-2042	-	-	-	-	-	-	-
	<u>\$ 914,928</u>	<u>\$5,140,000</u>	<u>\$22,074,729</u>	<u>\$27,965,000</u>	<u>\$ 902,647</u>	<u>\$3,271,027</u>	<u>\$60,268,331</u>

Note 5 - Retirement and Deferred Compensation Plans

Substantially all of the District's full-time and qualifying part-time employees participate in one of the statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state legislature establishes and amends laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
 Communications Unit
 P.O. Box 48380
 Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 5 - Retirement and Deferred Compensation Plans (continued)

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions*, for the years ended December 31:

Aggregate Pension Amounts - All Plans		
	2015	2014
Net pension liability	\$ 6,885,902	\$ 4,891,530
Deferred outflows of resources	880,055	458,389
Deferred inflows of resources	1,315,585	2,155,121
Pension expense	1,546,158	1,174,404

Public Employees' Retirement System (PERS)

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 is composed of three separate pension plans for membership purposes. PERS Plans 1 and 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% 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 active status prior to the age of 65 may receive actuarially reduced benefits. 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 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. 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%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The District's actual contributions to the plan were \$2,282 and \$4,125 for the years ended December 31, 2015 and 2014, respectively.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 5 - Retirement and Deferred Compensation Plans (continued)

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the 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 benefit that 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:

- With a benefit that is reduced by 3% 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 5% 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service is earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

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 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<u>PERS Plan 2/3</u>	<u>Employer 2/3</u>	<u>Employee 2</u>
<u>Actual Contribution Rates</u>		
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		Varies

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 5 - Retirement and Deferred Compensation Plans (continued)

The District's actual contributions to the plan were \$810,707 and \$729,692 for the years ended December 31, 2015 and 2014, respectively.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for 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.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The 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.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the 2007-2012 Experience Study Report.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 5 - Retirement and Deferred Compensation Plans (continued)

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5%.

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% 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 2/3 employers, whose rates include a component for the PERS 1 liabilities). Based on these 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 7.5% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5% 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. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</u>
Fixed income	20%	1.70%
Tangible assets	5%	4.40%
Real estate	15%	5.80%
Global equity	37%	6.60%
Private equity	23%	9.60%
	<u>100%</u>	

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 5 - Retirement and Deferred Compensation Plans (continued)

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 4,181,252	\$ 3,680,691	\$ 2,992,283
PERS 2/3	9,372,203	3,205,211	(1,516,624)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, and 2014, the District reported a total pension liability of \$6,885,902 and \$4,891,530, respectively, for its proportionate share of the net pension liabilities as follows:

	Liability	
	2015	2014
PERS 1	\$ 3,680,691	\$ 3,240,705
PERS 2/3	3,205,211	1,650,825

At December 31, 2015, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.064331%	0.070364%	0.006033%
PERS 2/3	0.081669%	0.089705%	0.008036%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations*.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 5 - Retirement and Deferred Compensation Plans (continued)

The collective net pension liability was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the years ended December 31, 2015 and 2014, the District recognized pension expense as follows:

	Pension Expense	
	2015	2014
PERS 1	\$ 240,222	\$ 173,816
PERS 2/3	1,305,936	994,588

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	201,374
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	232,474	-
	<u>\$ 232,474</u>	<u>\$ 201,374</u>

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 5 - Retirement and Deferred Compensation Plans (continued)

<u>PERS 2/3</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 340,715	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	855,639
Changes of assumptions	5,164	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	258,572
Contributions subsequent to the measurement date	<u>301,702</u>	<u>-</u>
	<u><u>\$ 647,581</u></u>	<u><u>\$ 1,114,211</u></u>
<u>Combined PERS 1 and PERS 2/3</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 340,715	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	1,057,013
Changes of assumptions	5,164	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	258,572
Contributions subsequent to the measurement date	<u>534,176</u>	<u>-</u>
	<u><u>\$ 880,055</u></u>	<u><u>\$ 1,315,585</u></u>

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 5 - Retirement and Deferred Compensation Plans (continued)

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

	PERS 1	PERS 2/3	Combined
2016	\$ 78,046	\$ 308,360	\$ 386,406
2017	78,046	308,360	386,406
2018	78,046	308,360	386,406
2019	(32,763)	(156,749)	(189,512)
2020	-	-	-
Thereafter	-	-	-
	<u>\$ 201,375</u>	<u>\$ 768,331</u>	<u>\$ 969,706</u>

Deferred compensation plans - The District offers its employees two deferred compensation plan options created in accordance with Internal Revenue Code Section 457, covering all eligible employees of the District, as defined in the plan document. These plans allow employees to defer a portion of their salary until future years. Plan assets are held in trust for the exclusive benefit of the plan participants and their designated beneficiaries and are not subject to the claims of the District's general creditors. Deferred compensation funds are not available to employees until retirement, termination, death, or unforeseeable emergency.

Additionally, the District adopted a 401(a) defined contribution plan (the 401(a) Plan) effective January 1, 2000. Participation in the 401(a) Plan is open to eligible employees of the District as defined in the plan document. The District makes matching contributions to the 401(a) Plan at a rate of 50% of the employee's contribution to their 457 deferred compensation plan. The match is capped at 2% of gross wages for nonexempt employees and 6% of gross wages for exempt employees. During 2015 and 2014, the District contributed \$223,779 and \$204,427, respectively, to the 401(a) Plan.

VEBA plan - In August 2005, the District implemented a voluntary employees' beneficiary association (VEBA) plan designed to provide limited employer funding on a tax-free basis for employee medical premiums and benefits for all eligible employees of the District, as defined in the plan document. The District's current VEBA contribution rate is 2% of the employee's straight-time salary. Plan assets, although under District control, are held in trust for the exclusive benefit of the plan participants and their designated beneficiaries and are not subject to the claims of the District's general creditors. During 2015 and 2014, the District contributed \$167,100 and \$136,817, respectively, to the VEBA plan.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 6 - Other Post-Employment Benefits

The District provides partial reimbursement for health care insurance premiums for retired employees. Beginning August 1, 2005, retiring employees choosing to continue medical coverage under the District's plan became eligible to receive \$10 per service year per month toward post-employment medical premiums. The reimbursement begins at the later of the month of retirement or at age 60 and expires when the retiree reaches age 65. The dollar value of the reimbursement is set to decrease \$1 each year until it expires on August 1, 2018. Subsequently, employees retiring between August 1, 2007, and July 31, 2011, are eligible for \$8 per service year per month in reimbursement, with the eligible amount decreasing by \$1 per service year per month each year thereafter. The estimated future liability is \$44,905 and \$43,387 at December 31, 2015 and 2014, respectively. The District is funding this liability on a pay-as-you-go basis with contributions of \$0 and \$2,775 expensed in 2015 and 2014, respectively.

Note 7 - Self Insurance

The District is a member of Public Utility Risk Management Services Joint Self Insurance Fund (the Fund). Chapter 48.62 RCW authorizes the governing body of one or more governmental entities to form together into or join an organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. The Fund was formed on December 31, 1976, when certain Washington Public Utility Districts signed an agreement to pool their self-insured losses and jointly purchase insurance and administrative services. There are currently 19 active members in the Fund.

The Fund operates three separate insurance pools: the Liability Pool, the Property Pool, and the Health and Welfare Pool. Fund members may belong to one, two, or all three pools according to their insurance needs. The Liability Pool insures on a \$1,000,000 self-insured retention with a \$250 deductible. Coverage is on an occurrence basis. In addition, the Liability Pool purchases excess general liability and excess public official liability coverage. The Property Pool operates on a maximum \$500,000 self-insured retention, with a \$75,000 deductible on listed major generating units and a \$250 deductible on all other listed items of property. Coverage is on an occurrence basis and the Property Pool purchases excess property coverage above the self-insured retention level. The Health and Welfare Pool is funded by paid claims reimbursement from the member generating the claim and by pooled assessment for administration and excess stop-loss insurance coverage. In all pools, members are assessed as necessary to maintain designated minimum pool balances. Because the Fund is a cooperative program, there is joint liability among the participants of each pool. The District participates in only the Liability and Property Pools. In 2015 and 2014, the District contributed \$69,817 and \$168,294, respectively, to the Liability Pool and \$20,402 and \$60,601, respectively, to the Property Pool. Should any member terminate its affiliation with the Fund, it remains financially responsible to the Fund for any unresolved, unreported, and in-process claims for the period that it was a signatory to the agreement.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 7 - Self Insurance (continued)

Self-insured retentions are fully funded by current and former members, and claims settlements have rarely exceeded retention levels resulting in escalation to excess coverage policies. Claims are processed by Pacific Underwriters Corporation, P.O. Box 68787, Seattle, WA 98168, a private entity contracted to perform administrative, claims adjustment, and loss prevention services, and which also compiles an annual financial report for the Fund. The Fund is governed by a board of directors that consists of one designated representative from each participating member. The Fund administrator and an elected six-member administrative committee (on which a District representative currently serves) are responsible for conducting the daily business affairs of the Fund.

Note 8 - Conservation Programs

The District operates a number of energy conservation programs. These include both residential and commercial weatherization loan programs, appliance and water heater rebate programs, appliance loan programs, and residential and commercial energy audits. Loan programs will provide five-year loans of up to \$10,000 on residential dwellings and up to \$25,000 on commercial enterprises for qualifying conservation measures. The District incurred conservation program costs of \$209,806 and \$106,344 in 2015 and 2014, respectively, which were charged to operations.

Note 9 - Telecommunications

The District has recognized the necessity of a modern and reliable communications infrastructure in managing its core electric distribution function and now operates and maintains a telecommunications network providing these services for internal use. Additionally, it provides wholesale telecommunications services, in accordance with Washington State law, to qualified retail merchants who, in turn, provide services to end users in the District's service territory.

The ongoing construction and the operations of the telecommunications network are being accomplished using the District's own workforce. The District has established separate detailed accounting for wholesale telecommunications activities and has developed a financing arrangement under which the continuing construction of telecommunications infrastructure and the operations of the telecommunications network are accomplished using funds loaned from the District's electric reserves.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 9 - Telecommunications (continued)

Condensed telecom revenues and expenditures and assets and liabilities information follows:

	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 2,630,022	\$ 2,534,574
Operating expenses	(2,742,140)	(1,691,017)
Nonoperating revenues - grant	991,787	615,589
Nonoperating expenses	<u>(334,260)</u>	<u>(904,306)</u>
Change in net position	<u>\$ 545,409</u>	<u>\$ 554,840</u>
Total assets	\$ 9,306,551	\$ 8,806,668
Total liabilities	<u>(4,504,166)</u>	<u>(4,549,692)</u>
Total net position	<u>\$ 4,802,385</u>	<u>\$ 4,256,976</u>

During 2010, the District applied for and was awarded ARRA funding to further deploy broadband communication services in the underserved areas of Okanogan County. The award package consisted of \$5,501,782 in grant money and a \$3,667,855 loan. The project was designed to bring high-speed broadband to approximately 6,543 premises that previously lacked access, and called for placement of approximately 170 access nodes and 179 miles of fiber backbone. The project has been completed and as of December 31, 2015, the District had received \$5,403,960 of grant funding and \$3,602,640 in loan funding against the accumulated project expenditures.

Note 10 - Energy Northwest

ENW Nuclear Project Nos. 1, 2, and 3 - The District has entered into "net billing agreements" with Energy Northwest (ENW, formerly Washington Public Power Supply System) and the Bonneville Power Administration (BPA). Under terms of these agreements, the District has purchased a maximum of .255% and 1.042% of the capability of ENW's Nuclear Project Nos. 1 and 2, respectively, and .143% of the capability of ENW's 70% ownership share of its Nuclear Project No. 3, and has assigned this capability to BPA. BPA is unconditionally obligated to pay the District, and the District is unconditionally obligated to pay ENW, the pro rata share of the total annual costs of each project, including debt service on revenue bonds issued to finance the projects, whether or not the projects are completed, operable, or operating and notwithstanding the suspension, reduction, or curtailment of the projects' output.

Nuclear Project Nos. 1 and 3 were approximately 63% and 75% complete, respectively, and had both been in a state of extended construction delay for many years, with all systems being maintained in condition to resume construction at any time. However, on May 13, 1994, the ENW full board of directors voted to declare termination of both projects. At this juncture, there has been no resolution concerning the final dispensation of the assets and liabilities associated therewith.

Nuclear Project No. 2 was completed and placed in operation on December 13, 1984.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 10 - Energy Northwest (continued)

The District's net billing obligations in 2015 and 2014 were as follows:

ENW Fiscal 2016 Budget Year	<u>No. 1</u>	<u>No. 2</u>	<u>No. 3</u>	<u>Total</u>
Annual budget	\$ 74,026,000	\$ 424,166,000	\$ 150,508,000	\$ 648,700,000
District's share	0.00255	0.01042	0.00143	
District's net billing obligation	188,766	4,419,810	215,226	4,823,802
 ENW Fiscal 2015 Budget Year				
Annual budget	\$ 227,532,000	\$ 540,398,000	\$ 187,367,000	\$ 955,297,000
District's share	0.00255	0.01042	0.00143	
District's net billing obligation	580,207	5,630,947	267,935	6,479,089

Hanford project - In accordance with agreements between ENW, BPA, and 76 participants and between ENW and the U.S. Department of Energy (DOE), ENW constructed the Hanford Project, which began commercial operation in 1966 with a capacity of approximately 860 MW.

Pursuant to an exchange agreement entered into between the District, ENW, and BPA, the District had purchased .424% of the output of the Hanford Project and is obligated to pay ENW the same percentage of the annual costs.

Under an exchange agreement with the other participants in the Hanford Project, BPA had acquired the capability of the Hanford Project, including the District's share, in exchange for power from BPA. A decision was made in February 1988 by the DOE to maintain the project in a "cold standby" mode of operation.

ENW has evaluated alternative energy uses for the plant to no avail. Current options include a transfer to DOE for removal and site restoration, or removal and site restoration by ENW. At this time, it is unknown what the eventual disposition of the Hanford Project will be. ENW has reduced the project's assets to net realizable value and accrued the estimated cost of removal and site restoration.

Nine Canyon Wind Project - On October 1, 2001, the District entered into a power purchase agreement with ENW for output from the Nine Canyon Wind Project. The original project consisted of 37 wind turbines, with an aggregate generating capacity of approximately 48 MW, and was launched into commercial operation in fall 2002. During 2003, a second phase of the project was completed, adding an additional 12 turbines and bringing the project capacity up to about 63.7 MW. During 2006, a third phase of the project was completed, adding an additional 14 turbines and bringing the current total project capacity up to about 96 MW.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 10 - Energy Northwest (continued)

The District is currently one of 10 public utility districts participating in the power purchase agreements for project output. The District purchased a 25% share of the generation output from Phases 1 and 2 and no output at all from Phase 3, bringing its combined share of total project output to 16.61%. The District is committed to paying its pro rata share of debt service on the Nine Canyon Wind Project Revenue Bonds issued by ENW for Phases 1 and 2. A bond refunding/reissuance process commenced in 2004 and completed in 2005, thereby establishing the District's estimated liability for project bond principal at \$23,312,500. That amount could escalate to as much as \$29,140,625 after a step-up provision that could trigger in the event that other purchasers defaulted on their contractual obligations. The District pays its share of the ongoing project operational costs through monthly power purchase agreement assessment invoices.

Note 11 - Other Power Supply Agreements

Wells Hydroelectric Project - Since the initial construction of the Wells Hydroelectric Project, the District has been a party to a power sales contract governing the apportionment of the project output. However, during the 1980s, both the District and Public Utility District No. 1 of Douglas County (Douglas PUD) contested several provisions of the 1963 agreement and sought resolution of the disputed issues in Chelan County Superior Court. Disputes between the parties were resolved with a Memorandum of Understanding signed on August 5, 1991, requiring the two Districts to negotiate a new power sale contract commencing in September 2018 and extending for an additional 50 years. Negotiations on this contract are currently in process. The District's current share of the total output from Wells Hydroelectric Project is 7.64%, which represents 35.26% and 35.58% of the District's total power purchases in 2015 and 2014, respectively.

Enloe Hydroelectric Project - For many years, the District has been pursuing the possible rehabilitation of Enloe Hydroelectric Dam on the Similkameen River near Oroville, Washington. The District is the present owner of the dam, and relicensing attempts prior to 2005 were intended to revive an existing facility with its original output of 26,000 MWh annually and installed capacity of 4,100 KW.

On March 3, 1983, the District was issued a license by FERC for renovation and resumed operation of the Enloe project. The District subsequently appealed 14 of the licensing provisions. After extensive review, on March 6, 1986, FERC repealed the license previously granted to the District and placed the license in a "License Application Pending File" until all outstanding issues were resolved. FERC dismissed the license application in December 1987.

In February 1988, the District submitted a new application for a preliminary permit on the project. FERC granted the permit on June 8, 1988, and the District began the required preliminary studies. The District then submitted a license application to FERC on June 1, 1991, and FERC prepared an environmental assessment with the possibility of issuing an operating license.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS

Note 11 - Other Power Supply Agreements (continued)

On September 13, 1996, FERC again issued a license to the District for restoration of the project. Although fish passage was not a stated requirement of the license, the licensing language left an open-ended opportunity for certain federal agencies to intervene and require fish passage at a later date. The uncertainty of this language made it impossible to accurately forecast the project costs or determine feasibility, so the District, along with several other entities, appealed the licensing conditions. A stay of the license was issued as a result of the pending listing of the Upper Columbia Steelhead under the Endangered Species Act and a determination of the Enloe project's negative impact upon them. On February 23, 2000, FERC rescinded the license because the National Marine Fisheries Service (NMFS) continued to require upstream fish passage as a condition of the license, while the British Columbia Provincial and Tribal Authorities remain opposed to any such passage requirements.

On January 21, 2005, the District again submitted a new application to FERC for a preliminary permit on the project. Using the FERC Traditional Licensing Process (TLP), the District filed the license application with FERC on August 22, 2008. The proposed configuration would approximately double the project output to 47,300 MWh of energy per year and 9,000 KW of capacity.

Since then, the District has spent the better part of a decade on environmental assessments, resource studies, permitting issues, and litigation. On August 31, 2011, FERC issued the Final Environmental Assessment for the Enloe Hydroelectric Project, and the District continued in the development of the state and local permitting processes. The District received its Section 401 Water Quality Permit in late 2012, but it was immediately appealed by various environmental groups before finally being settled by the Washington State Pollution Control Hearing Board. FERC issued the District a new 50-year operating license on July 9, 2013, and the District is now preparing for final design, financing, bidding, and construction. While the District continued its compliance with all license terms for the project, in early 2015, it was determined that the District was encountering some time constraints, so on March 19, 2015, the District submitted a request for a two-year extension of the commencement of construction deadline. The extension was subsequently granted on July 31, 2015, and on May 9, 2016, the District Board of Commissioners formally declared by Resolution #1620 their intent to construct a new power house and reenergize Enloe Dam.

Note 12 - Northwest Open Access Network

The District is a member of Northwest Open Access Network (NoaNet), a nonprofit mutual corporation formed by the District in collaboration with several other public utilities in the state of Washington. NoaNet was incorporated in February 2000 to facilitate the construction of a communications backbone to accommodate the increasing broadband needs of the member utilities and their customers. The NoaNet network began commercial operation in early 2001.

In July 2001, NoaNet issued \$27 million in Telecommunications Network Revenue Bonds (taxable) to finance the repayment of startup funds advanced by founding members and the initial costs of construction and commissioning. The outstanding balance of \$5,510,000 as of December 31, 2014, was paid in full during the 2015 year.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 12 - Northwest Open Access Network (continued)

In 2012, NoaNet established a nonrevolving line of credit in the amount of \$5 million for capital financing of sale opportunities. In September 2014, NoaNet established an additional line of credit in the amount of \$1 million on which an additional draw in the amount of \$1 million was taken during the year, bringing the total balance to \$2 million. Both the 2012 and 2014 lines of credit were subsequently refinanced through a \$13 million line of credit established in December 2014, which had a balance outstanding of \$6,295,837 and \$5,771,729 as of December 31, 2015 and 2014, respectively.

The District's ownership interest in NoaNet was 8.04% as of December 31, 2015 and 2014. During 2015, NoaNet incurred a net loss from operations of \$3,953,883. This operating loss, partially offset by interest revenue but increased by interest expense, reduced net position of \$87,441,885 in 2014 to \$83,190,094 in 2015. NoaNet financial results for 2015 are estimated; however, any variance will not have a material impact on the District's financial position.

Financial and operating information regarding NoaNet may be obtained from the NoaNet Financial Center, 5802 Overlook Ave NE, Tacoma, WA 98422.

Note 13 - Pending Litigation

Pateros-Twisp transmission line - For many years, the District has sought to construct a second transmission line into the Methow Valley. This project, along with a proposed new substation, would alleviate the current issues of both marginal electrical capacity and reliability. A coalition of local citizens and environmental groups has been consistently opposing the project and challenged the validity of the District's Final Environmental Impact Statement (FEIS) on grounds of various alleged deficiencies. On November 22, 2006, a ruling by an Okanogan County Superior Court judge upheld the validity of the FEIS; however, that decision was appealed by the plaintiffs to the Washington State Court of Appeals and spent the entire year of 2007 undergoing further review. On May 1, 2008, the appellate court upheld Okanogan County Superior Court's ruling on all counts. The plaintiffs then filed a petition for review with the Washington State Supreme Court on June 5, 2008, which was subsequently denied on December 2, 2008.

During 2009, the District started the process of acquiring right-of-way easements and various other permits required for construction. Condemnation proceedings were initiated against two landowners, one being a private individual and one being a state entity, to obtain the remaining easements necessary to complete the route. In 2010, Okanogan County Superior Court granted "public use and necessity" against the two landowners. The condemnation process moved to the appraisal stage and a court date was set for July 5, 2011, to determine values for the take. This hearing date was subsequently stayed when the Washington State Department of Natural Resources (DNR) appealed to the Washington State Supreme Court for review of the District's authority and ability to exercise condemnation authority against a State Agency. The Washington State Supreme Court heard the case on February 25, 2014, and on January 29, 2015, issued a ruling upholding the District's condemnation authority. Throughout the latter half of 2015, fair compensation was negotiated and access to the route has been obtained. On April 1, 2015, groundbreaking for the project took place near Gold Creek. Construction is underway and is expected to be complete in late 2016.

Other litigation - The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material adverse impact on its financial position or results of operations.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN 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)	0.070364%	0.089705%	0.064331%	0.081669%
Employer's proportionate share of the net pension liability	\$ 3,680,691	\$ 3,205,211	\$ 3,240,704	\$ 1,650,825
Employer's covered employee payroll	\$ 8,006,489	\$ 8,006,489	\$ 7,097,362	\$ 7,097,362
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.97%	40.03%	45.66%	23.26%
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.

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
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	\$ 2,282	\$ 810,707	\$ 4,125	\$ 729,692
Contributions in relation to the statutorily or contractually required contributions	(2,282)	(810,707)	(4,125)	(729,692)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employer payroll	\$ 7,898,131	\$ 7,898,131	\$ 7,967,610	\$ 7,967,610
Contributions as a percentage of covered employee payroll	0.03%	10.26%	0.05%	9.16%

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

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

To the Commissioners
 Public Utility District No. 1
 of Okanogan County, Washington
 Okanogan, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of net position as of December 31, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows and related footnotes to the financial statements of Public Utility District No. 1 of Okanogan County, Washington (the District) as of and for the year ended December 31, 2015, and have issued our report thereon dated June 3, 2016.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Mess Adams LLP".

Everett, Washington
June 3, 2016

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

To the Commissioners
Public Utility District No. 1
of Okanogan County, Washington
Okanogan, Washington

Report on Compliance for the Major Federal Program

We have audited Public Utility District No.1 of Okanogan County, Washington's (the District's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2015. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts, and the terms and conditions of its federal award applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001, that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Everett, Washington
June 3, 2016

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? Yes No

Identification of Major Programs

CFDA Numbers	Name of Federal Program or Cluster	Type of Auditor's Report Issued on Compliance for Major Federal Program
97.036	U.S. Department of Homeland Security: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<i>Unmodified</i>

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

FINDING - 2015-001 - Suspension and Debarment

Criteria or specific requirement - OMB Circular A-110 required institutions to have internal controls in place to restrict contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance.

Condition - We noted during our testing of the District's major program that there was no evidence or documentation being maintained showing that vendors are being checked for suspension or debarment on the EPLS/SAM website.

Questioned costs - None.

Cause/Effect - Adequate policies and procedures have not been developed or implemented to ensure appropriate internal controls are in place to ensure the vendors are not prohibited from receiving payments from federal awards. The District could enter into a contract or agreement with a suspended or debarred vendor.

Recommendation - We recommend that the District develop and implement policies to ensure that prior to entering into a contract with a vendor they check the EPLS/SAM website to ensure that the vendor is not suspended or debarred and that documentation of the verification is maintained.

Management Response: The District will review its policies and procedures relating to contracting with vendors. Policies will be developed or changed to ensure that prior to entering into a contract with a vendor a review will be performed that ensures that the vendor is not suspended or debarred.

SUPPLEMENTARY INFORMATION

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Public Utility District #1 of Okanogan County
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2015

<u>Federal Grant or Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Homeland Security		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 1,293,734
Total expenditures of federal awards		<u>\$ 1,293,734</u>

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Public Utility District #1 of Okanogan County (the District) under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirement of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Funds Related to a Prior Period

The balance of \$1,293,734 on the 2015 SEFA relates to federal FEMA awards granted during the 2014 year.

Note 4 - Relationship to the Financial Statements

Federal awards are reported in the financial statements as an increase in value of electric plant assets and grant revenue.

SUPPLEMENTARY INFORMATION (Unaudited)

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
COMPARATIVE RESULTS OF OPERATIONS AND DEBT SERVICE COVERAGE (Unaudited)

	Years Ended December 31,				
	2015	2014	2013	2012	2011
OPERATING REVENUES					
Electric - retail	\$ 43,881,058	\$ 42,911,047	\$ 39,861,279	\$ 35,588,404	\$ 33,355,835
Electric - wholesale	3,189,997	4,680,273	5,132,270	3,531,677	6,741,527
Telecommunications	2,609,109	2,516,289	2,217,116	2,096,256	1,955,276
Other operating revenue	1,391,935	1,301,167	1,286,159	1,412,834	1,041,958
Total operating revenues	51,072,099	51,408,776	48,496,824	42,629,171	43,094,596
OPERATING EXPENSES					
Cost of power	25,369,144	24,884,068	23,534,220	23,198,810	24,860,599
Electric operations and maintenance	5,734,344	5,718,362	5,119,745	5,466,456	4,754,468
Telecommunications operations and maintenance	1,015,892	1,011,714	1,130,469	924,802	601,857
Customer accounting and information	2,088,840	1,960,419	2,066,317	2,095,783	1,859,707
Administration and general	5,048,381	4,241,549	4,420,433	4,169,687	3,956,286
Depreciation and amortization	5,841,292	4,717,805	4,584,884	4,601,137	4,258,323
Taxes	2,742,672	2,713,281	2,413,881	2,220,161	2,138,550
Total operating expenses	47,840,565	45,247,198	43,269,949	42,676,836	42,429,790
Net operating revenue (expense)	3,231,534	6,161,578	5,226,875	(47,665)	664,806
NONOPERATING REVENUES (EXPENSES)					
Interest income	45,244	42,574	58,695	74,313	113,944
Grant revenue	3,560,701	3,509,879	2,573,201	1,618,792	494,408
Contributed capital	1,397,164	1,294,511	990,165	991,816	974,691
Interest on long-term debt	(1,925,917)	(1,980,623)	(2,356,815)	(2,018,950)	(2,068,361)
Allowance for funds used during construction (AFUDC)	875,036	937,714	800,989	632,432	661,140
Other revenue	404,625	407,633	492,647	446,441	524,741
Impairment of investment	-	-	-	-	-
Other expenses	(1,650,528)	(3,749,436)	(146,655)	-	(726,596)
Net nonoperating revenues (expenses)	2,706,325	462,252	2,412,227	1,744,844	(26,033)
CHANGE IN NET ASSETS	\$ 5,937,859	\$ 6,623,830	\$ 7,639,102	\$ 1,697,179	\$ 638,773
DEBT SERVICE COVERAGE ADJUSTMENTS					
Interest charges (net AFUDC)	\$ 1,050,881	\$ 1,042,909	\$ 1,555,826	\$ 1,386,518	\$ 1,407,221
Depreciation and amortization	5,841,292	4,717,805	4,584,884	4,601,137	4,258,323
Capital grant	(3,560,701)	(3,509,879)	(2,573,201)	(1,618,792)	(494,408)
Impairment of investment	1,650,381	3,746,773	-	-	-
Rate stabilization transfer (to) from	-	-	-	-	-
Total debt service coverage adjustments	4,981,853	5,997,608	3,567,509	4,368,863	5,171,136
AVAILABLE FOR DEBT SERVICE	\$ 10,919,712	\$ 12,621,438	\$ 11,206,611	\$ 6,066,042	\$ 5,809,909
TOTAL DEBT SERVICE	\$ 3,684,871	\$ 3,780,993	\$ 3,589,687	\$ 3,508,662	\$ 3,434,230
DEBT SERVICE COVERAGE	2.96	3.34	3.12	1.73	1.69

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
CUSTOMER STATISTICAL DATA (Unaudited)

	Years Ended December 31,				
	2015	2014	2013	2012	2011
ACTIVE CUSTOMER ACCOUNTS					
Residential	17,026	16,958	16,999	17,001	16,892
General service	2,472	2,422	2,389	2,387	2,369
Industrial	3	3	3	4	4
Irrigation and frost control	1,344	1,327	1,345	1,336	1,331
Street lighting	21	21	20	21	21
Sales for resale	5	5	4	6	2
Telecommunications	18	19	16	19	21
Total active customer accounts	20,889	20,755	20,776	20,774	20,640
REVENUES BILLED					
Residential	\$ 21,113,465	\$ 21,594,990	\$ 21,328,142	\$ 18,862,658	\$ 18,089,701
General service	15,394,511	14,699,325	13,854,328	12,425,572	11,717,785
Industrial	2,453,501	2,227,514	1,347,794	1,135,306	1,052,677
Irrigation and frost control	4,776,955	4,248,172	3,194,235	3,029,476	2,371,177
Street lighting	142,627	141,045	136,782	135,393	124,495
Sales for resale	3,189,997	4,680,273	5,132,270	3,531,677	6,741,527
Telecommunications	2,609,109	2,516,289	2,217,116	2,096,256	1,955,276
Other operating revenue	1,391,935	1,301,167	1,286,159	1,412,834	1,041,958
Total revenues billed	\$ 51,072,100	\$ 51,408,775	\$ 48,496,826	\$ 42,629,172	\$ 43,094,596
ENERGY CONSUMED (kWh)					
Residential	269,949,470	288,719,419	293,419,767	289,639,794	324,538,087
General service	223,376,404	216,537,020	211,564,358	204,212,439	202,556,775
Industrial	44,235,060	39,843,330	23,517,840	20,583,710	21,141,320
Irrigation and frost control	79,162,514	67,931,145	62,319,197	65,131,338	60,835,173
Street lighting	1,368,734	1,359,997	1,363,740	1,359,672	1,359,877
Sales for resale	175,444,000	198,744,000	193,128,000	267,366,000	357,255,000
Total energy consumed (kWh)	793,536,182	813,134,911	785,312,902	848,292,953	967,686,232
AVERAGE ANNUAL REVENUE PER CUSTOMER					
Residential	\$ 1,240	\$ 1,273	\$ 1,255	\$ 1,110	\$ 1,071
General service	6,228	6,069	5,799	5,206	4,946
Industrial	817,834	742,505	449,265	283,827	263,169
Irrigation and frost control	3,554	3,201	2,375	2,268	1,782
Street lighting	6,792	6,716	6,839	6,447	5,928
Sales for resale	637,999	936,055	1,283,068	588,613	3,370,764
Telecommunications	144,951	132,436	138,570	110,329	93,108
Total annual average revenue per customer	\$ 2,445	\$ 2,477	\$ 2,334	\$ 2,052	\$ 2,088
AVERAGE ANNUAL kWh PER CUSTOMER					
Residential	15,855	17,026	17,261	17,037	19,213
General service	90,363	89,404	88,558	85,552	85,503
Industrial	14,745,020	13,281,110	7,839,280	5,145,928	5,285,330
Irrigation and frost control	58,901	51,192	46,334	48,751	45,706
Street lighting	65,178	64,762	68,187	64,746	64,756
Total annual average kWh per customer	29,622	29,636	28,531	27,998	29,608

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON
OTHER FINANCIAL DATA (Unaudited)

	Years Ended December 31,				
	2015	2014	2013	2012	2011
COST OF POWER					
Bonneville Power Administration	\$ 15,301,707	\$ 15,407,731	\$ 15,235,772	\$ 15,407,149	\$ 17,100,497
Douglas County PUD - Wells Hydroelectric Project	4,041,858	3,784,405	3,646,318	3,551,725	3,593,090
Energy NW - Nine Canyon Wind Project	3,042,858	3,040,382	3,008,055	3,029,067	3,060,855
Other cost of power, including market purchases	2,982,721	2,651,550	1,644,075	1,210,869	1,106,157
Total cost of purchased power	\$ 25,369,144	\$ 24,884,068	\$ 23,534,220	\$ 23,198,810	\$ 24,860,599
ENERGY RESOURCES MWh					
Bonneville Power Administration	434,936	473,822	472,322	509,404	605,088
Douglas County PUD - Wells Hydroelectric Project	291,554	300,617	296,743	319,040	313,857
Energy NW - Nine Canyon Wind Project	35,544	40,613	37,724	43,321	44,620
Other cost of power, including market purchases	64,871	29,993	20,975	13,587	10,816
Total energy resources MWh	826,905	845,045	827,764	885,352	974,381
AVERAGE COST PER MWh					
Bonneville Power Administration	\$ 35.18	\$ 32.52	\$ 32.26	\$ 30.25	\$ 28.26
Douglas County PUD - Wells Hydroelectric Project	13.86	12.59	12.29	11.13	11.45
Energy NW - Nine Canyon Wind Project	85.61	74.86	79.74	69.92	68.60
Other cost of power, including market purchases	45.98	88.41	78.38	89.12	102.27
Average cost per MWh (all resources)	\$ 30.68	\$ 29.45	\$ 28.43	\$ 26.20	\$ 25.51
PEAK DEMAND MW	152	170	155	154	149
NET UTILITY PLANT	\$ 115,043,427	\$ 110,840,366	\$ 106,028,834	\$ 97,967,535	\$ 97,967,535
EMPLOYEE DATA					
Full-time employees	90	91	90	92	90
Part-time employees	2	2	2	2	2
Total employees	92	93	92	94	92