Report of Independent Auditors
and Financial Statements for

Western Generation Agency

December 31, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Western Generation Agency

Report on Financial Statements
We have audited the accompanying financial statements of Western Generation Agency (the Agency), which comprise the statements of net position as of December 31, 2015 and 2014 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Generation Agency as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 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.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards of Auditors of Oregon Municipal Corporations, we have issued our report dated March 8, 2016, on our consideration of the Agency's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Julie Desimone

Julie Desimone, Partner for Moss Adams LLP
Portland, Oregon
March 8, 2016

This discussion and analysis is presented to provide an overview of Western Generation Agency's (Agency) financial activities for the years ended December 31, 2015, 2014, and 2013. This supplementary information should be read in conjunction with the Agency's financial statements.

Western Generation Agency was created in 1993 pursuant to an Intergovernmental Agency Agreement between Eugene Water & Electric Board (EWEB) and Clatskanie People's Utility District (CPUD) for the purpose to construct, own and operate an electric generation plant; the Wauna Cogeneration Project (Project), at the Wauna Mill (Mill) currently owned and operated by Georgia Pacific Corporation. The Agency is governed by a Board of Directors comprised of six appointed members, three each from both EWEB and CPUD, and as a separate legal entity, has no other association with either entity regarding financial reporting requirements. The Agency currently sells the energy from its generation to the Bonneville Power Administration (BPA) for a predetermined price.

Financial Summary and Analysis

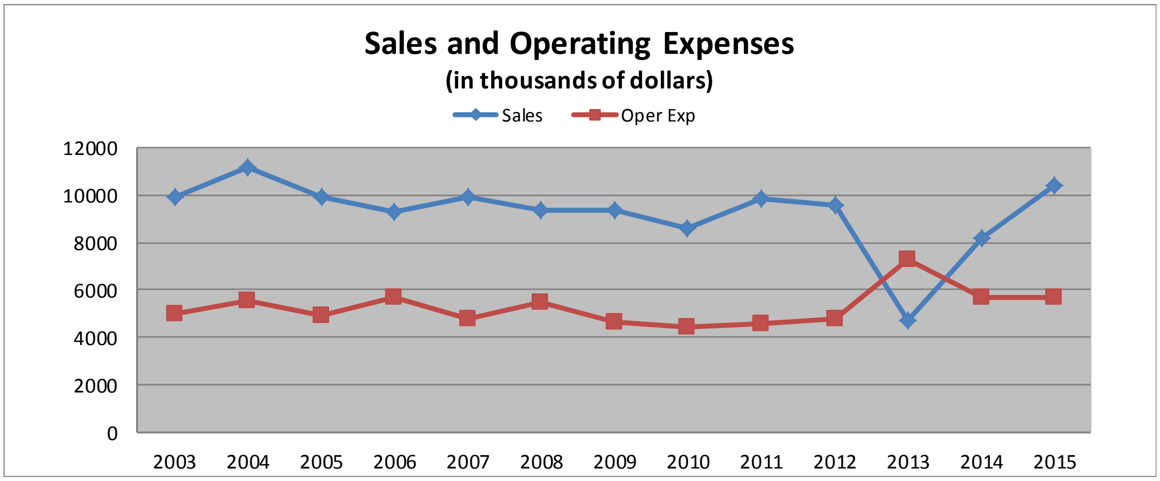
During 2015, the Agency's power sales increased by 28%. Increase in power sales were a result of normal production levels as described in the following sentence. In the prior year, power sales didn't return to normal production levels until the end of January 2014, after all repairs from the prior year's steam hammer event were complete. Overall, the Agency experienced a net increase in income of approximately $2.6 million for the current year. The primary factors influencing these results include:

- Increase in power sales revenue of $2.3million due to return to normal production,
- Increase in proceeds from insurance claim of $50,000,
- Increase in distributions to members of $400,000,
- Decrease in interest expense and related amortization of $200,000.

Selected Financial Data

(in thousands of dollars)	2015	2014	2013
Power sales	$ 10,438	$ 8,157	$ 4,743
Insurance reimbursement for outage	2,003	1,500	$ -
Operating expenses	5,658	5,691	7,259
Operating income	6,782	3,966	(2,516)
Income (loss) (not including distributions to members)	5,435	2,140	(4,481)
Total assets and deferred outflows	31,232	31,104	32,250
Total liabilities	27,809	32,391	35,677
Net position			
Net investment in capital assets	(9,606)	(10,483)	(11,100)
Restricted	8,850	7,887	7,427
Unrestricted	4,178	1,309	246
Total net position	3,423	(1,287)	(3,427)
Total liabilities and net position	31,232	31,104	32,250

Power Sales and Operating Expenses



Capital Asset and Long-Term Debt Activity

Utility plant as of December 31, 2015, 2014, and 2013 consisted of the following:

(in thousands of dollars)	2015	2014	2013
Buildings	$ 10,797	$ 10,797	$ 10,797
Equipment	56,553	56,553	56,553
Total utility plant	$ 67,350	$ 67,350	$ 67,350

The Agency had not invested in any additions to plant in 2015, 2014, or 2013; therefore, plant values are consistent with previous years. Utility plant net of depreciation was $14.8 million, $17.7 million, and $20.5 million at the end of those years, respectively. For 2013 the decrease was $1.8 million, a difference of $900,000 over prior years due to the plant being idle for four months due to the steam hammer event.

Total liabilities as of December 31, 2015, 2014, and 2013 consisted of the following:

(in thousands of dollars)	2015	2014	2013
Total current liabilities	$ 6,017	$ 6,437	$ 6,451
Preferred dividend payable	1,555	1,386	1,217
Total long-term debt	20,237	24,568	28,009
Total liabilities	$ 27,809	$ 32,391	$ 35,677

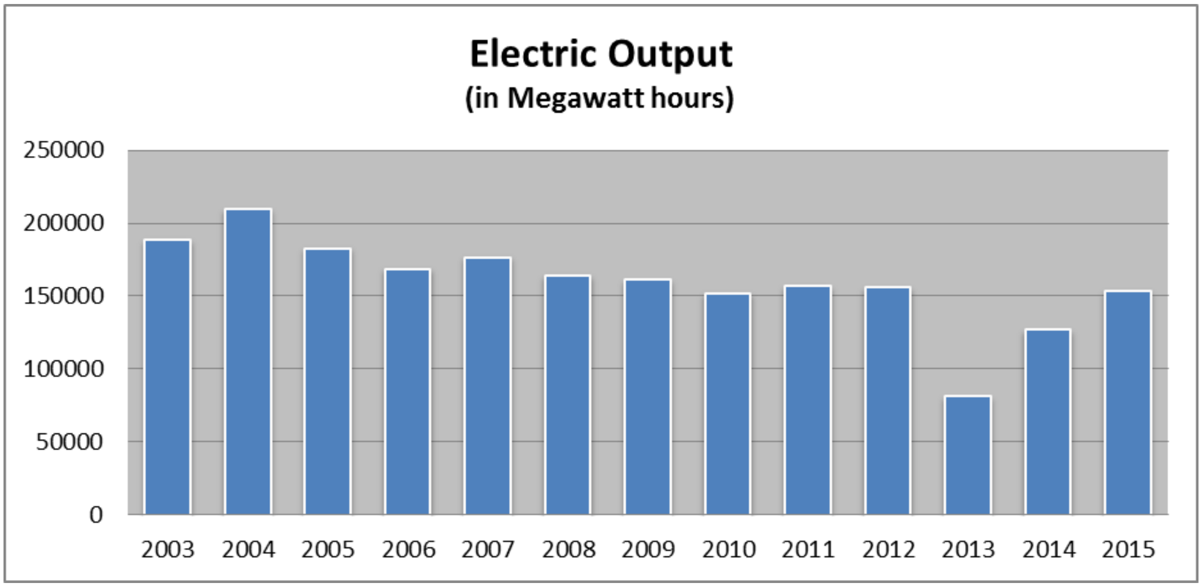
At year-end, the Agency had $20.2 million in long-term debt outstanding as compared to $24.6 million for 2014 and $28.0 million for 2013.

On October 26, 2006, the Agency refunded the 1994 Series A and Series B bonds with a new bond issuance. At this time, the Agency also issued additional bonds to pay off a major portion of the equity contribution from EWEB. These additional bonds are called the "Series C bonds." The Series C bonds are considered "Turbo" bonds and have a fixed debt service schedule as with the other bond issues. However, if earnings from the Agency are in excess of $400,000, on a semi-annual basis, the remaining earnings are used to pay-off the Series C bonds. Therefore, in years where excess funds are available to pay-off the Series C bonds, the trustee will transfer the excess funds to the Subordinate lien account to annually pay off bonds. The debt service schedule for the Series C bonds will then be recalculated. When the Series C bonds are paid in full, the remaining EWEB equity of $2,150,987 plus accrued interest will be paid as earnings are available. Earnings will be available after the $400,000 distribution to the members on a semi-annual basis.

Fuel Supply

The Agency uses high-pressure steam from the Mill to produce electricity and redelivers low-pressure steam to the Mill. A portion of that steam is produced using pulp/paper waste. Actual production for 2015 was 153,656 MWh or 21% more than 2014 production. Actual production for 2014 was 126,719 MWh or 70% more than 2013 production.

Generating Output



Economic Factors

In 2016, generation levels of electricity are budgeted to be 155,000 MWh. This is only 1,400 MWh more than production from the prior year. The budgeted amount is due to anticipated normal production. The 2016 budgeted amount for production includes a scheduled Mill shutdown during the month of May, which will result in less steam to the turbine. The Agency expects the Mill to generally continue operation of the various paper machines in their current configuration.

Power Purchase Agreements

The Power Purchase Agreement between the Agency and EWEB will remain in effect for a period of 25 years from the Commercial Operation Date of the Project. Commercial operations commenced on April 6, 1996. The agreement requires EWEB to purchase Project output in an amount not to exceed 231,637 MWh annually. In the event Project output exceeds this amount, EWEB will notify the Agency of the prevailing fair market price for such excess output and, if the Agency agrees to accept the prevailing fair market price or if the parties agree to another price, EWEB may purchase all excess Project output at the agreed-upon price. If no agreement on price can be reached, the Agency can elect not to generate the excess output.

EWEB has agreed to suspend its Power Purchase Agreement in favor of a Power Purchase Agreement between the Agency and the BPA. The BPA Power Purchase Agreement will be in effect for a period of 20 years from the Commercial Operation Date of the Project. The BPA agreement requires the purchase of Project output not to exceed 236,000 MWh annually. In the event Project output exceeds this amount, the Agency will notify the BPA of the expected excess output and a proposed price, not to exceed the agreed-upon price of the BPA's annual purchase commitment. If the Agency and the BPA agree upon the proposed price or another price, the BPA may purchase all excess Project output at the agreed-upon price. If no agreement on price can be reached, the Agency can sell the excess output to EWEB under a transmission agreement with the BPA.

Lease Agreement

The Agency leases the land from the Mill on which the Fluidized Bed Boiler (FBB) and steam turbine reside. This lease is scheduled to expire in 2021, at which time the Bonds are scheduled to be paid in full. The lease agreement contains an option for the Mill to buy the electric generation plant at the end of the lease term.

Summary

The management of the Agency is responsible for preparing the information in this management's discussion and analysis, financial statements and notes to financial statements. The financial statements are prepared according to accounting principles generally accepted in the United States of America, and they fairly portray the Agency's financial position and operating results. The notes to the financial statements are an integral part of the basic financial statements and provide additional information.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31, 2015	December 31, 2014
CURRENT ASSETS		
Cash and cash equivalents	$ 3,434,961	$ 1,205,445
Accounts receivable	1,062,306	973,869
Interest receivable	227	259
Prepayments and other current assets	198,304	199,607
Total current assets	4,695,798	2,379,180
RESTRICTED CASH AND CASH EQUIVALENTS		
Investments for debt service	4,803,268	4,256,329
Debt service reserve – Series A and B	4,815,250	4,815,491
Maintenance fund	500,000	16,964
Total restricted cash and cash equivalents	10,118,518	9,088,784
UTILITY PLANT		
Utility plant	67,350,057	67,350,057
Less accumulated depreciation	(52,524,002)	(49,699,802)
Net utility plant	14,826,055	17,650,255
OTHER NONCURRENT ASSETS		
Regulatory asset – unamortized bond issue costs	546,994	738,203
Regulatory asset – major maintenance costs	594,233	707,417
Total other noncurrent assets	1,141,227	1,445,620
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on bond refunding	449,947	539,936
Total assets and deferred outflows of resources	$ 31,231,545	$ 31,103,775

See accompanying notes.

LIABILITIES AND NET POSITION

	December 31, 2015	December 31, 2014
CURRENT LIABILITIES		
Accounts payable	$ 553,266	$ 1,669,711
Accrued interest	1,268,465	1,201,934
Bonds payable, current portion	4,195,000	3,565,000
Total current liabilities	6,016,731	6,436,645
PREFERRED DIVIDEND PAYABLE	1,555,604	1,386,214
LONG-TERM DEBT, net of current portion	20,236,581	24,567,884
Total liabilities	27,808,916	32,390,743
NET POSITION		
Net investment in capital assets	(9,605,526)	(10,482,629)
Restricted for		
Debt service and reserve	8,350,053	7,869,886
Maintenance	500,000	16,964
Unrestricted	4,178,102	1,308,811
Total net position	3,422,629	(1,286,968)
Total liabilities and net position	$ 31,231,545	$ 31,103,775

See accompanying notes.

WESTERN GENERATION AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2015	2014
OPERATING REVENUES		
Power sales	$ 10,437,740	$ 8,156,628
Insurance reimbursement for outage	2,002,669	1,500,000
Total operating revenues	12,440,409	9,656,628
OPERATING EXPENSES		
Production	1,541,830	2,179,782
Administrative and general	577,703	686,597
Depreciation	2,824,200	2,824,200
Steam efficiency payment	714,591	-
Total operating expenses	5,658,324	5,690,579
OPERATING INCOME	6,782,085	3,966,049
INTEREST ON INVESTMENTS	1,702	1,733
OTHER EXPENSE		
Interest expense and related amortization	1,349,143	1,527,393
DISTRIBUTIONS AND DIVIDENDS		
Preferred equity dividend	325,047	300,885
Distributions to members	400,000	-
Total distributions and dividends	725,047	300,885
CHANGE IN NET POSITION	4,709,597	2,139,504
NET POSITION, beginning of year	(1,286,968)	(3,426,472)
NET POSITION, end of year	$ 3,422,629	$ (1,286,968)

See accompanying notes.

	Years Ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Bonneville Power Administration	$ 10,349,303	$ 7,182,760
Proceeds from insurance	2,002,669	1,500,000
Payments to Georgia Pacific	(3,119,101)	(2,090,942)
Payments for administrative and general costs	(716,980)	(737,143)
Net cash from operating activities	8,515,891	5,854,675
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	1,734	1,597
Net cash from investing activities	1,734	1,597
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond principal payments	(3,565,000)	(3,305,000)
Interest payments	(1,293,375)	(1,465,127)
Equity distributions	(400,000)	-
Net cash from capital and related financing activities	(5,258,375)	(4,770,127)
CHANGE IN CASH AND CASH EQUIVALENTS	3,259,250	1,086,145
CASH AND CASH EQUIVALENTS, beginning of year	10,294,229	9,208,084
CASH AND CASH EQUIVALENTS, end of year	$ 13,553,479	$ 10,294,229
RECONCILIATION TO BALANCE SHEET		
Cash and cash equivalents	$ 3,434,961	$ 1,205,445
Restricted cash equivalents	10,118,518	9,088,784
	$ 13,553,479	$ 10,294,229

See accompanying notes.

WESTERN GENERATION AGENCY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 6,782,085	$ 3,966,049
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation on utility plant	2,824,200	2,824,200
Amortization of regulatory asset - major maintenance costs	113,184	113,184
(Increase) decrease in assets		
Accounts receivable	(88,436)	(973,869)
Prepayments and other current assets	1,303	(11,739)
Increase (decrease) in liabilities		
Accounts payable	(1,116,445)	(63,150)
Net cash from operating activities	$ 8,515,891	$ 5,854,675

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Organization – Western Generation Agency (the Agency) was created pursuant to an Intergovernmental Agency Agreement, dated October 13, 1993, between Eugene Water & Electric Board (EWEB) and Clatskanie People's Utility District (CPUD) for the purpose to construct, own and operate an electric generation plant, the Wauna Cogeneration Project (Project).

The Agency has no employees. EWEB and CPUD will continue to provide, or cause to be provided, such technical, general and administrative services as the Agency may reasonably require.

The Project is comprised of both a Steam Turbine Generator (STG), with a nameplate rating of 36 megawatts (MW) capable of producing an average 26 MW of energy, and a Fluidized Bed Boiler (FBB). The FBB is utilized in the production of steam that is supplied to the STG. The steam production is accomplished by burning solid waste fuel generated by the existing pulp/paper manufacturing facility owned by Georgia Pacific, located in Wauna, Oregon. The Project is dependent on steam production from the Georgia Pacific manufacturing facility.

The Agency is governed by a Board of Directors which is comprised of three appointed members from both EWEB and CPUD, and as a separate legal entity has no other association with either entity regarding financial reporting requirements. The Agency has no component units and is not a part of a reporting entity of any other government.

Method of accounting – The Agency maintains its accounting records in accordance with accounting principles generally accepted in the United States of America for governmental proprietary funds.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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.

Cash equivalents and restricted cash and cash equivalents – The Agency considers all highly-liquid investments with original maturities of three months or less when purchased to be cash equivalents (see Note 2). Restricted cash and cash equivalents are held within the bond funds.

Revenue recognition and receivables – The Agency recognizes revenue from power sales to Bonneville Power Administration (BPA) based on the metered amount of kilowatt hours (Kwh) provided to BPA each month at the contract rate, pursuant to the Power Purchase Agreement (the Agreement) between the Department of Energy (through BPA) and the Agency (see Note 6). Sales under the Agreement are judged fully collectible by the Agency, therefore, no allowance for doubtful accounts is considered necessary.

Note 1 – Summary of Significant Accounting Policies (continued)

In accordance with the Bond Indenture (Indenture), project revenues received, including interest, are restricted and are to be placed in the revenue fund. The monies in the revenue fund are disbursed first to the operating fund for the budgeted monthly operating costs. Thereafter, monies from the revenue fund are used per the terms of the Indenture for the various fund types.

Utility plant – Plant facilities are recorded at original cost (see Note 3). Costs include labor, materials, and related indirect costs, such as engineering, design and allowance for funds used during construction. The cost of additions, renewals and betterments is capitalized. Routine repairs and replacements will be charged to operating expenses when incurred. Depreciation is computed using the straight-line method over the length of the Agreement (25 years), which is considered the useful life of the plant.

Asset retirement obligation – Upon termination of the Agency's Lease Agreement (See Note 6), at Georgia Pacific's discretion, the Agency could be requested to surrender possession of its facility or remove it from Georgia Pacific's premises and restore the land; however, alternatives are provided in the Lease Agreement, which provide a number of possible outcomes in the Agency's favor. In the Agency's judgment, the outcomes with the highest likelihood of coming to pass diminish the asset retirement obligation to immaterial levels.

Regulatory assets – The Agency has established regulatory assets for the following items:

- **Unamortized bond issue costs** – Unamortized bond issue costs represent the remaining expense related to various debt issuances. The asset is amortized over the duration of the related debt and recognition of these costs is included in the fixed-contract prices.

- **Major maintenance costs** – Major maintenance costs represent the costs incurred to replace the control board for the Project. The asset is amortized over the remaining life of the lease with Georgia Pacific.

Net position – Consist of the following components:

- **Net investment in capital assets** – This component of net position consists of (a) capital assets, (b) net of accumulated depreciation and outstanding balances of any bonds 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 their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

- **Unrestricted** – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Note 1 – Summary of Significant Accounting Policies (continued)

Unamortized bond premiums and loss on refunding – Premiums are capitalized and amortized over the term of the Indenture. Losses on refunding of bond issuances are amortized over the new or old bonds, whichever period is shorter.

Major customer – The Agency has entered into a Power Purchase Agreement with the Department of Energy, acting by and through BPA, to provide power to BPA for 20 years. The contract states that the Agency is not to provide more than 236,000 MWh (megawatt hours) during a year. This agreement was effective April 6, 1996, the date of substantial completion and commencement of operations. All power sales in 2015 and 2014 were to BPA.

Income taxes – The Agency is not subject to income taxes as it is a governmental agency.

Note 2 – Cash and Investments

The Agency maintains cash and investments in several accounts in accordance with bond resolutions or designations by the Agency. In accordance with the Indenture, the Agency can invest in obligations of the U.S. Treasury, other U.S. agencies, New Housing Authority bonds, direct and general obligations of any state, collateralized certificates of deposit, repurchase agreements, reverse repurchase agreements, prime commercial paper rated at least P-1 by Moody's or at least A-1 by Standard & Poor's, mortgage-backed bonds and collateralized mortgage obligations, if such bonds or obligations are rated in one of the two highest ratings categories of either Moody's or Standard & Poor's, and the Oregon State Treasurer's Local Government Investment Pool (LGIP), as provided by Oregon Revised Statutes (ORS) 294. Descriptions of these fund account types are as follows:

- **Debt service reserve** – Monies required to be set aside to meet debt service needs in the event revenue is insufficient.

- **Investments for debt service** – Amounts required under the Indenture for the payment of principal and interest of the 2006 Series A, B, and C Revenue Bonds and any amounts accumulated for the redemption of the bonds.

- **Maintenance fund** – Consists of amounts required to be set aside to fund major repairs and/or major maintenance, absent a deficiency in the Debt Service Reserve or Investments for Debt Service.

Note 2 – Cash and Investments (continued)

Deposits with financial institutions are comprised of money market accounts. $250,000 was covered by federal depository insurance. The full amount is collateralized with securities held by the pledging financial institution but not in the Agency's name.

As of December 31, 2015:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash and money market accounts	$ 13,553,479	0.00	100.0%
	$ 13,553,479		100.0%

As of December 31, 2014:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash and money market accounts	$ 10,294,229	0.00	100.0%
	$ 10,294,229		100.0%

The "weighted average maturity in years" calculation assumes that all investments are held until maturity.

Note 2 – Cash and Investments (continued)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the aforementioned cash and investments are held in the Agency's name by a third-party custodian.

	2015		
	Restricted Cash and Investments	Cash and Cash Equivalents	Total
US Bank Government Money Market Fund	$ 10,118,518	$ 3,434,961	$ 13,553,479
	$ 10,118,518	$ 3,434,961	$ 13,553,479
Debt service reserve – Series A & B	$ 4,815,250		
Maintenance fund	500,000		
Investments for debt service	4,803,268		
	$ 10,118,518		

	2014		
	Restricted Cash and Investments	Cash and Cash Equivalents	Total
Wells Fargo Government Money Market Fund	$ 9,088,784	$ 1,205,445	$ 10,294,229
	$ 9,088,784	$ 1,205,445	$ 10,294,229
Debt service reserve – Series A & B	$ 4,815,491		
Maintenance fund	16,964		
Investments for debt service	4,256,329		
	$ 9,088,784		

Note 3 – Utility Plant

	Balance at December 31, 2014	Additions	Retirements	Balance at December 31, 2015
Fluidized bed boiler				
Buildings	$ 8,202,497	$ -	$ -	$ 8,202,497
Equipment	29,097,226	-	-	29,097,226
Total fluidized bed boiler	37,299,723	-	-	37,299,723
Steam turbine				
Buildings	2,594,912	-	-	2,594,912
Equipment	27,455,422	-	-	27,455,422
Total steam turbine	30,050,334	-	-	30,050,334
Total utility plant	67,350,057	-	-	67,350,057
Accumulated depreciation	(49,699,802)	(2,824,200)	-	(52,524,002)
Net utility plant	$ 17,650,255	$ (2,824,200)	$ -	$ 14,826,055

	Balance at December 31, 2013	Additions	Retirements	Balance at December 31, 2014
Fluidized bed boiler				
Buildings	$ 8,202,497	$ -	$ -	$ 8,202,497
Equipment	29,097,226	-	-	29,097,226
Total fluidized bed boiler	37,299,723	-	-	37,299,723
Steam turbine				
Buildings	2,594,912	-	-	2,594,912
Equipment	27,455,422	-	-	27,455,422
Total steam turbine	30,050,334	-	-	30,050,334
Total plant in service	67,350,057	-	-	67,350,057
Accumulated depreciation	(46,875,602)	(2,824,200)	-	(49,699,802)
Net plant in service	$ 20,474,455	$ (2,824,200)	$ -	$ 17,650,255

Note 4 – Long-Term Debt

In October 2006, the Agency issued $55,565,000 of non-recourse Cogeneration Project Revenue Bonds, 2006 Series A, B, and C (Bonds) dated October 1, 2006. Series A bonds yield between 4.15% and 4.58% with final maturities from 2016 through 2021. Series B bonds yield between 4.45% and 4.63% with final maturities from 2008 through 2016. Series C bonds yield 5.00% with final maturity in 2021. The Bonds were issued to refund the Agency's 1994 Cogeneration Project Revenue Bonds, Series A and B and to pay EWEB a portion of outstanding preferred equity (see Note 5). The Bonds are non-recourse and are special, limited obligations of the Agency, and are collateralized solely by a pledge and assignment of the trust estate under the Indenture. The ability of the Agency to pay related principal and interest payments associated with the Bonds is contingent upon successful operation of the Project. A special redemption clause requires that excess amounts in the General Fund be transferred to the Redemption Account for the Series C bonds. Special redemption of the Series C bonds is mandatory if, but only if and only to the extent, funds are available to be transferred to the Redemption Account for such purposes.

The following is a summary of long-term debt transactions:

	Principal			
Cogeneration Project Revenue Bonds	Outstanding January 1, 2015	Issued	Matured During Year	Outstanding December 31, 2015
2006 Series A, interest rates ranging from 4.15% to 4.58%; original issue of $20,575,000; maturing through 2021	$ 20,575,000	$ -	$ -	$ 20,575,000
2006 Series B, interest rates ranging from 4.45% to 4.63%; original issue of $23,390,000; maturing through 2016	4,610,000	-	3,565,000	1,045,000
2006 Series C, interest rate of 5.00%; original issue of $11,600,000; maturing through 2021	2,465,000	-	-	2,465,000
	27,650,000	$ -	$ 3,565,000	24,085,000
Unamortized premium	482,884			346,581
Total debt	28,132,884			24,431,581
Less: Current portion	3,565,000			4,195,000
Long-term debt	$ 24,567,884			$ 20,236,581

Note 4 – Long-Term Debt (continued)

Cogeneration Project Revenue Bonds	Principal Outstanding January 1, 2014	Issued	Matured During Year	Outstanding December 31, 2014
2006 Series A, interest rates ranging from 4.15% to 4.58%; original issue of $20,575,000; maturing through 2021	$ 20,575,000	$ -	$ -	$ 20,575,000
2006 Series B, interest rates ranging from 4.45% to 4.63%; original issue of $23,390,000; maturing through 2016	7,915,000	-	3,305,000	4,610,000
2006 Series C, interest rate of 5.0%; original issue of $11,600,000; maturing through 2021	2,465,000	-	-	2,465,000
	30,955,000	$ -	$ 3,305,000	27,650,000
Unamortized premium	619,189			482,884
Total debt	31,574,189			28,132,884
Less: Current portion	3,565,000			3,565,000
Long-term debt	$ 28,009,189			$ 24,567,884

The future annual requirements for bond payments, principal and interest, are as follows:

	Series 2006A		Series 2006B		Series 2006C		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 2,785,000	$ 959,125	$ 1,045,000	$ 26,125	$ 365,000	$ 114,125	$ 4,195,000	$ 1,099,375
2017	3,385,000	804,875	-	-	375,000	95,625	3,760,000	900,500
2018	3,185,000	640,625	-	-	400,000	76,250	3,585,000	716,875
2019	3,500,000	473,500	-	-	420,000	55,750	3,920,000	529,250
2020	3,735,000	292,625	-	-	440,000	34,250	4,175,000	326,875
2021	3,985,000	99,625	-	-	465,000	11,625	4,450,000	111,250
	$ 20,575,000	$ 3,270,375	$ 1,045,000	$ 26,125	$ 2,465,000	$ 387,625	$ 24,085,000	$ 3,684,125

The resolutions authorizing the issuance of revenue bonds contain various covenants, sinking fund requirements and obligations with which the Agency must comply. The interest payments are made semi-annually on January 1 and July 1, and principal payments on January 1.

Note 5 – Related Party Transactions

Eugene Water & Electric Board – EWEB, pursuant to the Intergovernmental Agency Agreement and an agreement between EWEB and the Agency (Equity Contribution Agreement), contributed equity during the construction of the Project in the amount of $15.1 million. In 2006, $12.1 million of this equity was repaid when the Agency refinanced its bonds. Pursuant to the Indenture of Trust, EWEB's equity contribution will be repaid from the revenue of the Project, including a preferred dividend at 7.875% per annum, compounded semi-annually, with unpaid interest amounts accruing interest at 7.875%, subject to the flow of funds as outlined in the Indenture, and payable over the life of an Agreement with EWEB (25 years).

The equity accounts for CPUD and EWEB are as follows:

	Eugene Water & Electric Board		Clatskanie People's Utility District	
	Preferred Equity	Capital	Capital	Totals
BALANCE, December 31, 2013	$ 2,150,987	$ (2,788,730)	$ (2,788,729)	$ (3,426,472)
Income allocated to partners*	-	1,069,752	1,069,752	2,139,504
BALANCE, December 31, 2014	2,150,987	(1,718,978)	(1,718,977)	(1,286,968)
Income allocated to partners*	-	2,554,799	2,554,798	5,109,597
Other equity distributions	-	(200,000)	(200,000)	(400,000)
BALANCE, December 31, 2015	$ 2,150,987	$ 635,821	$ 635,821	$ 3,422,629

* Income allocated to partners is the change in net position and preferred equity distribution.

Georgia Pacific – Georgia Pacific owns and operates an existing pulp and paper manufacturing facility located in Wauna, Oregon.

Georgia Pacific has entered into agreements with the Agency (the Project Agreements), whereby Georgia Pacific is supplying steam to the STG for a period of 25 years beginning April 6, 1996 (Fuel Supply and Steam Sale Agreement). Georgia Pacific is leasing the site to the Agency on which the STG and FBB are located, and is providing FBB operating labor as well as maintaining the FBB at no expense to the Agency for a period of 25 years.

During 2015 and 2014, the Agency incurred expenses payable to Georgia Pacific for operating and maintaining the STG and for supplying steam. Payments for steam, Steam Efficiency Payments, are on a predetermined dollars-per-MMBtu basis in accordance with the Fuel Supply and Steam Sale Agreement. The full amount Steam Efficiency Payments listed on the statements of revenues, expenses, and changes in net position were billed to the Agency by Georgia Pacific. A payment of $714,591 was made for the year ended December 31, 2015. Since the Project did not have sufficient funds available within the general fund, no Steam Efficiency Payment was required to be paid for the year ended December 31, 2014.

Note 6 – Commitments

The Agency has entered into a series of agreements to facilitate development, construction, and operation of the Project. These agreements are as follows:

Indenture of trust – The Agency has pledged all of its rights, title and interest in the Project, including all leasehold improvements, all Project revenue and Project agreements to the Trustee.

The Trustee's responsibilities include managing all investments of the Agency in accordance with the terms of the Indenture, and the disbursement of funds during and after construction of the Project in accordance with the terms of the Indenture.

Lease agreement – The lease agreement between the Agency and Georgia Pacific is for the lease of the site, adjacent to the Wauna Pulp and Paper Mill, where the Project is located. The lease term runs from December 31, 1996 for a period of 25 years. The lease payment represents all insurance, taxes, assessments and fees relating to the leased land and is the obligation of the Agency. Upon termination of the lease, the Agency may be required, at the sole discretion of Georgia Pacific, to restore the land to its original condition. Additionally, during the term of the lease, the lease requires Georgia Pacific to operate the FBB and to supply fuel to the FBB at no cost to the Agency.

Fuel Supply and Steam Sale Agreement – The Agreement between the Agency and Georgia Pacific is for a term of 25 years through July 1, 2021. The Agreement requires Georgia Pacific to supply steam to the STG in sufficient quantities that allow the STG to generate electric energy and to be compensated for the supply of steam as indicated in the Agreement. The Agreement also allows for compensation to be paid to Georgia Pacific for certain costs of fuel and electricity supplied for the generation of steam to be supplied to the STG, as indicated in the Agreement. This obligation to furnish steam to the STG is conditioned upon the continued operation of the Wauna Mill. Pursuant to the Steam Sales Agreement, Georgia Pacific is only obligated to provide any amount of steam necessary to meet the then-current steam requirements of the Wauna Mill, if any.

Power Purchase Agreements – The Power Purchase Agreement between the Agency and EWEB will remain in effect for a period of 25 years from the Commercial Operation Date of the Project. Commercial operations commenced on April 6, 1996. The agreement requires EWEB to purchase Project output in an amount not to exceed 231,637 MWh annually. In the event Project output exceeds this amount, EWEB will notify the Agency of the prevailing fair market price for such excess output and, if the Agency agrees to accept the prevailing fair market price or if the parties agree to another price, EWEB may purchase all excess Project output at the agreed-upon price. If no agreement on price can be reached, the Agency can elect not to generate the excess output.

Note 6 – Commitments (continued)

EWEB has agreed to suspend its Power Purchase Agreement in favor of a Power Purchase Agreement between the Agency and the BPA. The BPA Power Purchase Agreement will be in effect for a period of 20 years from the Commercial Operation Date of the Project. The BPA agreement requires the purchase of Project output not to exceed 236,000 MWh annually. In the event Project output exceeds this amount, the Agency will notify the BPA of the expected excess output and a proposed price, not to exceed the agreed upon price of the BPA's annual purchase commitment. If the Agency and the BPA agree upon the proposed price or another price, the BPA may purchase all excess Project output at the agreed-upon price. If no agreement on price can be reached, the Agency can sell the excess output to EWEB under a transmission agreement with the BPA.

Note 7 – Insurance Reimbursement for Outage

The Agency received $2.0 million and $1.5 million of insurance proceeds during the years ended December 31, 2015 and 2014, respectively, for the outage that occurred in 2013. These amounts were recorded as operating revenue as the associated expenses were included as maintenance (production) expense.

Of the total of $3.5 million insurance proceeds received during the years ended December 31, 2015 and 2014, approximately $1,273,000 was allocated as a partial settlement of the outstanding property damage claim and was used to pay repair bills. The remainder was allocated as a partial settlement of the business interruption claim and was available to pay operating expenses. The Agency does not expect any further settlements regarding the outage.

INDEPENDENT AUDITOR'S COMMENTS

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

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

To the Board of Directors
Western Generation Agency

We have audited the accompanying financial statements of Western Generation Agency (the Agency) as of and for the year ended December 31, 2015 and have issued our report thereon dated March 8, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the minimum standards for Auditors of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules (OAR) 162-010-000 to 162-010-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

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

The results of our tests disclosed no matters of noncompliance with those provisions that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. 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.

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for determining our auditing procedures 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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

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

Julie Desimone

Julie Desimone, Partner for Moss Adams LLP
Portland, Oregon
March 8, 2016