

Report of Independent Auditors
and Financial Statements for

Clatskanie People's Utility District

December 31, 2016 and 2015

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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**CLATSKANIE PEOPLE'S UTILITY DISTRICT
PRINCIPAL OFFICIALS
DECEMBER 31, 2016**

<u>Name</u>	<u>Address</u>	<u>Title</u>
Bob Wiggins	47100 River Ranch Lane Clatskanie, Oregon	President of the Board of Directors
Merle Gillespie	PO Box 523 Clatskanie, Oregon	Vice-President of the Board of Directors
Linda A. Hooper	PO Box 1606 Clatskanie, Oregon	Secretary of the Board of Directors
Steve D. Petersen	PO Box 459 Rainier, Oregon	Treasurer of the Board of Directors
Don Hooper	75960 Delena Road Clatskanie, Oregon	Director
Marc Farmer	74692 Olson Road Clatskanie, Oregon	General Manager and Registered Agent
<hr/> <u>Registered Office</u>		
Clatskanie People's Utility District	PO Box 216 Clatskanie, Oregon 97016	

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Clatskanie People's Utility District

Report on Financial Statements

We have audited the accompanying financial statements of Clatskanie People's Utility District (the District), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

REPORT OF INDEPENDENT AUDITORS (continued)

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, 2016 and 2015, 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 Matter

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the proportionate share of the net pension liability, and the schedule of contributions 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 in 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 for Audits of Oregon Municipal Corporations, we have issued our report dated June 19, 2017, on our consideration of the District'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, Partner
For Moss Adams LLP
Portland, Oregon
June 19, 2017

CLATSKANIE PEOPLE'S UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016 AND 2015

This discussion and analysis is designed to provide an overview of the financial activities of the Clatskanie People's Utility District (the District) for the years ended December 31, 2016 and 2015. This supplementary information should be read in conjunction with the District's audited financial statements. This annual report consists of a series of financial statements. The statements of net position provide information about the District as a whole and present a view of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (assets and deferred outflows of resources less liabilities and deferred inflows of resources). The statements of revenues, expenses and changes in net position measure the District's annual operations. The statements of cash flows' primary purpose is to provide information about the District's cash receipts and cash payments during the reporting periods.

The District is a political subdivision of the State of Oregon and is overseen by a five member Board of Directors (the Board). District customers elect the Board, who represent the five subdivisions in the District's territory. The Board appoints a General Manager to be the Chief Executive Officer for the District. The District was formed by a majority vote of the people in 1940 in order to obtain the benefits of reliable low cost power for this area.

Financial policies and controls – The District's financial management system consists of financial policies, financial management strategies, and the internal control structure including the annual budgets and external audit of its financial statements. The Board has the exclusive right and responsibility to determine rates and charges for services provided. The Board has established standards for financial performance and rate competitiveness that place its financial performance above the average of publicly owned electric utilities. This objective is reflected in evaluations of creditworthiness performed by the major rating agencies. The current District rating is:

Moody's Investor Service: A3

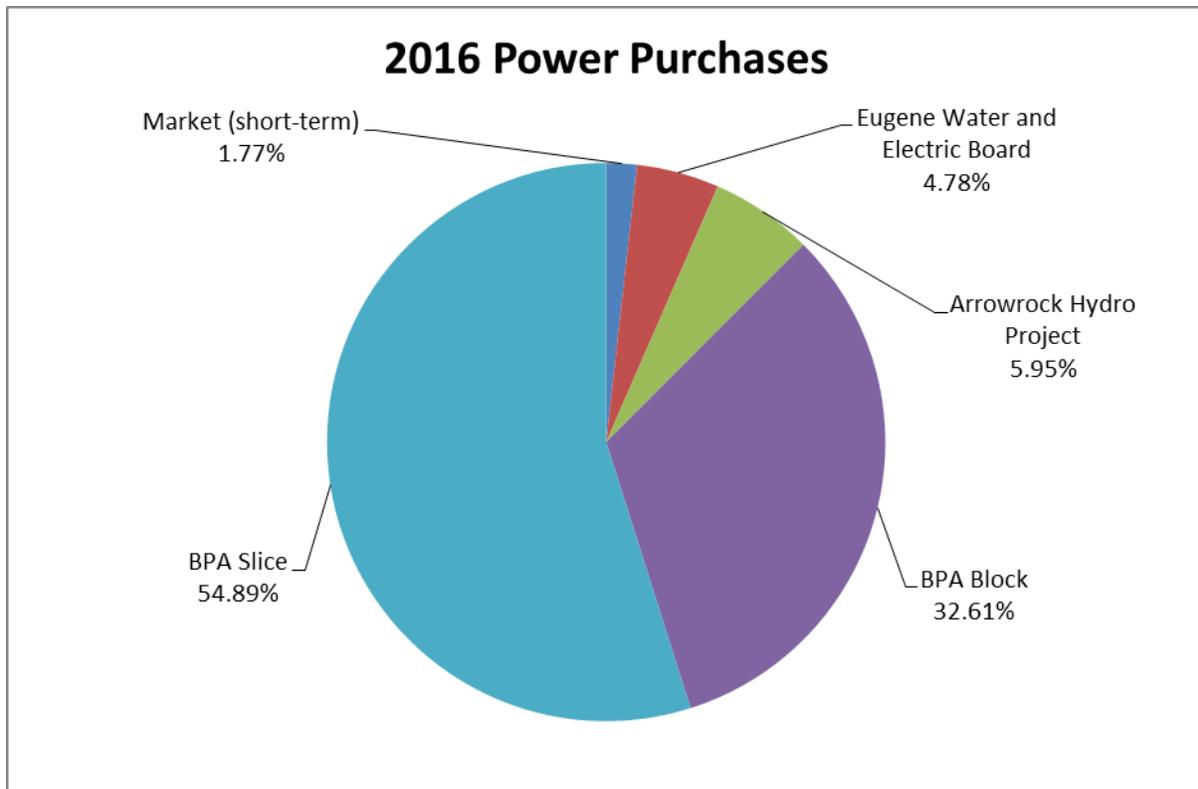
The following analysis focuses on the District's financial position, the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position, at December 31, 2016. Additionally, the focus is on those activities during the year, in comparison with the prior year, which lead to net income or what is known for governmental entities as "change in net position."

Power supply risk management policies – The District must comply with State of Oregon Statutes that authorize and control its activities, and scope of its purchases and investments. Accordingly, the District's activities in the power markets are associated with the provisions of electricity to meet anticipated sales of the District and forecasts of generation output. Exposure to wholesale market risks are managed by limiting the term of forward contracts. The Energy Resources and Services Manager is empowered to trade (purchase or sell) power up to three months in duration. The General Manager is authorized to approve trades up to five years in duration. This policy is meant to reduce the risks to the District of being either too deficient or too excessive relative to the power required to serve customer needs.

CLATSKANIE PEOPLE'S UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2016 AND 2015

Distribution system – The District’s distribution system serves 275-square miles in Clatsop and Columbia County, Oregon, including the cities of Clatskanie and Rainier and adjacent rural areas. Power supply requirements are met primarily from hydroelectric sources purchased under long-term contracts from the Bonneville Power Administration (BPA), Eugene Water and Electric Board (EWEB), and the Arrowrock Hydroelectric Project, and supplemented as needed with wholesale power purchases. Heating load and general economic conditions are the primary influences on residential and commercial sales, while industrial sales are influenced by economic conditions and industry management controls.

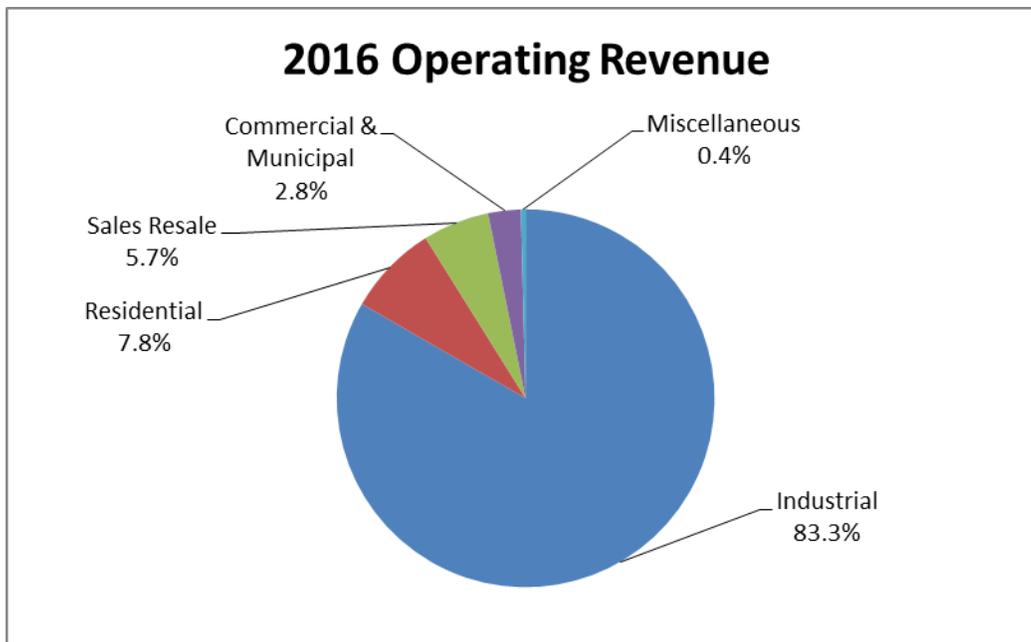
Power supply – During 2016, 87.5% of the Districts power purchases were from BPA, of which 54.9% provided under a variable “Slice of the System” product and 32.6% under a fixed power Block product. The District power supply included 1.8% from the short-term wholesale market, 4.8% from EWEB and 5.9% from the Arrowrock Hydro Project. Under the Slice product the District had the right to 0.72661% of the output of the Federal Columbia River Power System (FCRPS) for 2016 and 2015. At historically minimum water conditions, this portion of the output, together with local generation, is sufficient to serve retail load within the District. The chart below depicts 2016 power purchases.



**CLATSKANIE PEOPLE'S UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016 AND 2015**

In its budgeting and planning, the District assumes water conditions based on 90% of average of long-term hydrological forecasts and current forward market prices to forecast wholesale sales of secondary power that is surplus to its retail needs. Surplus power is primarily sold to an industrial customer located outside the District under an evergreen sales agreement and to a lesser degree by wholesale markets.

Financial summary and analysis – During 2016, the District's gross operating revenues increased in comparison with the prior year. Revenue increased by approximately \$3.6 million (7.5%). The District's retail revenues (consisting of industrial, residential, commercial/municipal accounts) increased by approximately \$4.6 million (9.5%). Over the year, sales for resale remained fairly flat with only a small decrease of \$900,000 (1.9%). The primary factors in the increase in retail revenues was the rate increase enacted in October of 2015 and increased customer usage due to the record cold winter. Decrease in sales for resale was due to low market power prices. In comparing 2016 to 2015, the overall increase to revenue in 2016 was due substantially to the increase in retail revenue collection. The chart below indicates 2016 operating revenues.



During 2015, the District's gross operating revenues decreased in comparison with the prior year. Revenue decreased by approximately \$2.0 million (4.1%). The District's retail revenues (consisting of industrial, residential, commercial/municipal accounts) increased slightly by approximately \$437,000 (.1%). Over the year, sales for resale decreased by \$2.4 million (4.0%). The primary factors in the decrease in sales for resale were low market power prices and less hydro production. In comparing 2015 to 2014, the overall decrease to revenue in 2015 was due substantially to the decreased sales for resale revenues.

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016 AND 2015**

SELECTED FINANCIAL DATA

(in millions of dollars)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 51,922	\$ 48,211	\$ 50,257
Operating expenses	48,303	46,325	48,035
Operating income	3,619	1,886	2,222
Depreciation and amortization	3,161	3,244	3,238
Operating income before depreciation and amortization	6,779	5,130	5,439
Change in net position	4,290	3,936	2,781
Total assets and deferred outflows of resources	80,905	74,829	71,288
Total liabilities and deferred inflows of resources	38,791	37,006	37,401
Total net position			
Net investment in capital assets	22,395	22,238	24,148
Restricted	2,193	2,176	2,163
Unrestricted	17,525	13,409	7,577

Capital assets and long-term debt activities – Total utility plant in service as of December 31, 2016, 2015, and 2014 consisted of the following:

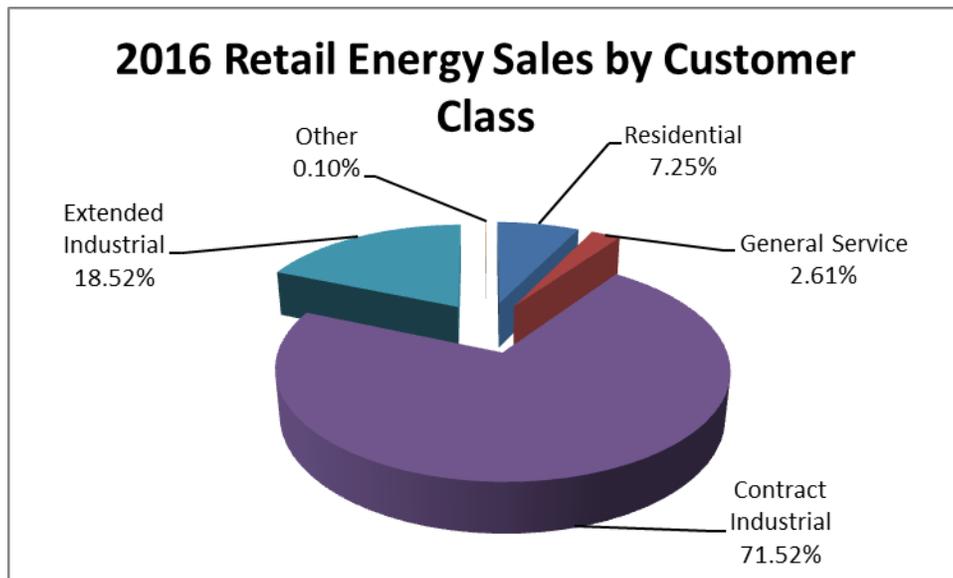
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Generation	\$ 6,778	\$ 6,747	\$ 6,747
Transmission and distribution	49,827	47,571	46,938
General plant	<u>18,860</u>	<u>19,561</u>	<u>19,667</u>
Total plant in service	<u>\$ 75,465</u>	<u>\$ 73,879</u>	<u>\$ 73,352</u>

As of December 31, 2016, the District had approximately \$75.4 million of plant-in-service. Net additions to utility plant consisted primarily of additions to the distribution system of approximately \$2.3 million and a decrease in general plant of approximately \$700,000. This represented an overall increase in net plant of approximately \$1.6 million over 2015. Utility plant net of accumulated depreciation was \$43.7 million. Capital construction in 2016 was provided for by funds from District operations.

Long-term debt activity for the years ended December 31, 2016 and 2015 consists of scheduled debt payments.

**CLATSKANIE PEOPLE'S UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016 AND 2015**

Retail sales – Retail sales totaled approximately 901,341 megawatt-hours in 2016. The majority of retail sales were provided to serve industrial loads. The chart below indicates energy sales by rate class.



Rates and economic outlook – In October 2015, the District increased rates by 7.2% of controlled revenues.

The hydro generation that the District receives across the year from the Slice and Arrowrock agreements depends upon the precipitation in the applicable Northwest river basins. The amount and timing of the runoff will impact the size and value of surplus generation the District has to sell. The majority of surplus sales go to an industrial customer located outside the District's service area with a contract price based upon the District's cost, which means that the District's revenues are less dependent on wholesale spot market prices than many other hydro-based utilities in the Northwest. But, the District's financial performance still depends in part upon surplus energy sales to cover expenses.

In 1994, the District joined with the Eugene Water & Electric Board (EWEB) to form the Western Generation Agency (WGA) to finance, build and sell the electricity generated from a 27,000 kilowatt project at the local Georgia-Pacific Wauna Paper Mill that came on-line in 1996. The power is sold to EWEB under a fixed price sales agreement that expires in April 2021. The District purchases half of the power from EWEB.

The net revenues, after operations and retirement of debt, from the sale of electricity are shared between the two WGA entities. WGA pays Georgia-Pacific for steam production as well as basic operation and maintenance costs. The District's Board of Directors decides how the earnings are distributed to the customers. Financial information for WGA may be obtained from WGA's trustee, US Bank, Portland, Oregon.

CLATSKANIE PEOPLE'S UTILITY DISTRICT
STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,447,058	\$ 7,281,062
Accounts and other receivables, less allowance for doubtful accounts of \$6,459 in 2016 and \$23,726 in 2015	4,694,645	4,144,755
Materials and supplies inventory	809,229	784,987
Prepaid expenses and other current assets	<u>343,571</u>	<u>360,784</u>
Total current assets	<u>14,294,503</u>	<u>12,571,588</u>
BOND RESERVE FUNDS – RESTRICTED	<u>2,162,840</u>	<u>2,176,005</u>
UTILITY PLANT		
Utility plant in service	75,465,156	73,879,277
Less accumulated depreciation	<u>31,740,008</u>	<u>29,547,975</u>
Net utility plant in service	43,725,148	44,331,302
Construction in progress	569,658	1,145,997
Electric plant acquisition adjustment, net of accumulated amortization of \$968,021 and \$950,772 at December 31, 2016 and 2015, respectively	<u>-</u>	<u>17,249</u>
Net utility plant	<u>44,294,806</u>	<u>45,494,548</u>
OTHER ASSETS		
Investment in Western Generation Agency	2,547,792	1,825,212
Prepaid purchased power	11,397,509	9,658,053
Regulatory asset – pension	<u>3,113,337</u>	<u>2,619,825</u>
Total other assets	<u>17,058,638</u>	<u>14,103,090</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources – pension	<u>3,093,776</u>	<u>484,084</u>
Total assets and deferred outflows of resources	<u><u>\$ 80,904,563</u></u>	<u><u>\$ 74,829,315</u></u>

CLATSKANIE PEOPLE'S UTILITY DISTRICT
STATEMENTS OF NET POSITION

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	December 31,	
	2016	2015
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 4,189,218	\$ 4,104,897
Accrued interest payable	72,583	76,513
Current portion of bonds payable	1,346,000	1,296,000
Total current liabilities	5,607,801	5,477,410
NON-CURRENT LIABILITIES		
Long-term debt, net of current portion	20,593,281	21,960,485
Net pension liability	5,937,351	2,446,983
Transitional liability	1,752,983	1,834,396
Total noncurrent liabilities	28,283,615	26,241,864
Total liabilities	33,891,416	31,719,274
DEFERRED INFLOWS OF RESOURCES		
Deferred rate stabilization fund	4,630,140	4,630,140
Deferred inflows of resources – pension	269,762	656,926
Total deferred inflows of resources	4,899,902	5,287,066
NET POSITION		
Net investment in capital assets	22,394,942	22,238,063
Restricted – bond reserve fund	2,193,014	2,176,005
Unrestricted	17,525,289	13,408,907
Total net position	42,113,245	37,822,975
Total liabilities, deferred inflows of resources and net position	\$ 80,904,563	\$ 74,829,315

CLATSKANIE PEOPLE'S UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2016	2015
OPERATING REVENUES		
Industrial	\$ 43,348,703	\$ 39,359,195
Sales for resale	2,961,226	3,456,215
Residential	4,033,528	3,859,381
Commercial and municipal	1,429,992	1,414,884
Other	148,110	121,263
	<u>51,921,559</u>	<u>48,210,938</u>
OPERATING EXPENSES		
Purchased power and transmission	38,191,091	35,404,292
Administrative and general	2,558,812	3,465,354
Depreciation and amortization	3,160,807	3,244,287
Distribution maintenance	1,554,694	1,332,458
Distribution operations	1,555,753	1,512,266
Customer accounting, collection, and assistance	932,216	656,265
Property taxes	568,460	560,418
Generation	35,206	69,742
Conservation programs, net	(254,091)	79,557
	<u>48,302,948</u>	<u>46,324,639</u>
INCOME FROM OPERATIONS	<u>3,618,611</u>	<u>1,886,299</u>
OTHER INCOME (EXPENSE)		
Interest income	365,843	278,879
Interest expense	(893,025)	(926,980)
Gain (loss) on disposal of property	(109,757)	4,632
	<u>(636,939)</u>	<u>(643,469)</u>
INCOME BEFORE INCOME FROM JOINT VENTURE AND CAPITAL CONTRIBUTIONS	2,981,672	1,242,830
CAPITAL CONTRIBUTIONS	186,018	138,341
INCOME FROM WESTERN GENERATION AGENCY	<u>1,122,580</u>	<u>2,554,799</u>
CHANGE IN NET POSITION	4,290,270	3,935,970
NET POSITION, beginning of year	<u>37,822,975</u>	<u>33,887,005</u>
NET POSITION, end of year	<u>\$ 42,113,245</u>	<u>\$ 37,822,975</u>

CLATSKANIE PEOPLE'S UTILITY DISTRICT
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 51,371,669	\$ 48,776,362
Cash paid to suppliers	(40,857,670)	(40,379,588)
Cash paid to employees	(5,353,933)	(4,533,601)
Property taxes paid	(568,460)	(560,418)
Net cash from operating activities	<u>4,591,606</u>	<u>3,302,755</u>
CASH FLOWS FROM CAPITAL RELATED ACTIVITIES		
Utility plant additions, net	(2,070,822)	(1,848,060)
Capital contributions	186,018	138,341
Change in materials and supplies inventory	(24,242)	63,945
Equity distributions from Western Generation Agency	400,000	200,000
Net cash from capital related activities	<u>(1,509,046)</u>	<u>(1,445,774)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases (sales) of investments	13,165	(703,881)
Interest received	365,843	278,879
Net cash from investing activities	<u>379,008</u>	<u>(425,002)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(1,296,000)	(911,000)
Payments on transitional liability	(81,413)	(63,380)
Interest paid	(918,159)	(950,725)
Net cash from financing activities	<u>(2,295,572)</u>	<u>(1,925,105)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	1,165,996	(493,126)
CASH AND CASH EQUIVALENTS, beginning of year	<u>7,281,062</u>	<u>7,774,188</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 8,447,058</u></u>	<u><u>\$ 7,281,062</u></u>

CLATSKANIE PEOPLE'S UTILITY DISTRICT

STATEMENTS OF CASH FLOWS

Reconciliation of operating income to net cash from operating activities:

	Years Ended December 31,	
	<u>2016</u>	<u>2015</u>
Income from operations	\$ 3,618,611	\$ 1,886,299
Adjustments to reconcile income from operations to net cash from operating activities:		
Depreciation and amortization	3,160,807	3,244,287
Changes in assets and liabilities:		
Accounts and other receivables	(549,890)	565,424
Prepaid expenses and other current assets	17,213	1,691
Accounts payable and accrued liabilities	84,321	(337,904)
Prepaid purchased power	<u>(1,739,456)</u>	<u>(2,057,042)</u>
Net cash from operating activities	<u>\$ 4,591,606</u>	<u>\$ 3,302,755</u>

CLATSKANIE PEOPLE'S UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – Clatskanie People's Utility District (the District) is a State of Oregon municipal corporation, organized under Chapter 261 of the Oregon Revised Statutes (ORS), which provides electric power primarily to Clatskanie and Rainier, Oregon and the surrounding rural areas. The District is exempt from federal and state income taxes.

Reporting entity – In evaluating how to define the District for financial reporting purposes, management has considered the District's financial reporting entity. The financial reporting entity consists of the District and component units. Component units are legally separate organizations for which the District is financially accountable and other organizations for which the District is not accountable, but for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial statements to be misleading or incomplete. Based upon this criterion, the District has no component units.

Basis of accounting, measurement focus and presentation – The District is considered an enterprise and operates as a proprietary fund. The financial statements of the District have been prepared using the "economic resources measurement focus" and on the "accrual basis of accounting" in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The Uniform System of Accounts, as prescribed by the Federal Energy Regulatory Commission (FERC) is the basis for the District's accounting policies.

Change in accounting principle – Effective January 1, 2016, the District adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements, and provides guidance for determining a fair value measurement for financial reporting purposes (see Note 2).

Concentration of credit risk – Financial instruments that are exposed to concentrations of credit risk consist primarily of cash (see Note 2) and receivables. Credit is extended to customers generally without collateral requirements, however, deposits are obtained from certain customers and formal shut-off procedures are in place.

Utility plant – Utility plant assets are stated at cost (see Note 3). Cost includes contracted services, direct labor and materials, interest capitalized during construction and certain overhead items. Additions, renewals and betterments with a minimum cost of \$2,000 or greater and with a useful life over one-year are capitalized. The provision for depreciation is determined by the straight-line method over the estimated useful lives of the assets (as specified by FERC for utility plant) ranging from three to fifty years.

CLATSKANIE PEOPLE'S UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Maintenance and repairs of utility plant is expensed as incurred. The actual or average cost of property replaced or renewed is removed from utility plant and such cost plus removal cost less salvage is charged to accumulated depreciation.

Electric plant acquisition adjustment – This adjustment represents the amount paid over net book value for the Rainier, Oregon service area and is being amortized on a straight-line basis over fifteen years.

Investment in Western Generation Agency – Investment in Western Generation Agency, a joint venture, is accounted for under the equity method of accounting (see Note 4).

Cash equivalents and restricted cash – The District considers short-term investments with original maturities of three months or less to be cash equivalents (see Note 2). Restricted cash and cash equivalents consist of bond reserve funds.

Accounts receivable – Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated based on the District's historical losses, review of specific problem accounts, the existing economic conditions and the financial stability of its customers. Generally, the District considers accounts receivable past due after 30 days.

Materials and supplies inventory – Materials and supplies inventory consists primarily of items for construction and maintenance of utility plant and is stated at average cost.

Compensated absences – The District accrues accumulated unpaid vacation and a portion of sick leave benefits as the obligation is incurred (see Note 6).

Prepaid purchase power – Consists of power purchased, but not yet delivered to the District in relation to the Arrowrock Hydroelectric facility.

Deferred outflows of resources – Consists of deferrals for changes in the net pension liability, as defined under GASB Statement No. 68.

Deferred inflows of resources – Deferred inflows of resources consist of the following components:

- **Rate stabilization fund** – Primarily consists of deferred revenues for the benefit of future rate stabilization and are accounted for in accordance with regulatory assets and liabilities guidance.
- **Pension** – Consists of deferrals for changes in the net pension liability, as defined under GASB Statement No. 68.

CLATSKANIE PEOPLE'S UTILITY DISTRICT NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Revenue recognition – Operating revenues generally result from providing electric sales and services. The District utilizes cycle billing and records revenue billed to its customers when the meters are read. Meters are read each month and industrial accounts are read at month-end. The District also records unbilled revenue, revenues from electric power delivered but not yet billed. All revenues not meeting this definition are reported as non-operating revenues.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications have no effect on previously reported net position.

Net position – Net position consists primarily of cumulative net revenues collected for the payment of utility plant or principal amortization of debt incurred for utility plant, in advance of net accumulated depreciation recognized on such plant. It is the District's intention to set rates at a level to continue replacing and improving net utility plant. Net position consists of the following components:

- **Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation, less outstanding balances of any debt borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – This component of net position has constraints placed on its use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulations 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 net investment in capital assets or restricted net position.

Note 2 – Cash and Investments

The District is required under ORS Chapter 295 to secure deposits in public funds made in non-governmental institutions. The Federal Deposit Insurance Corporation insures up to \$250,000 in each account. The District has obtained additional insurance to comply with this statute or has deposited funds in qualified depositories in the State of Oregon.

Concentration of credit risk is the risk that, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. Of the District's total deposits at December 31, 2016 and 2015, all cash and investments are invested in two financial institutions.

CLATSKANIE PEOPLE'S UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2 – Cash and Investments (continued)

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 or collateral securities that are in the possession of an outside party. All of the aforementioned investments are held in the District's name by a third-party custodian.

As of December 31, 2016:

Cash and Deposit Type	Carrying Value	% of Portfolio	Weighted Average Maturity (Years)
Cash on hand	\$ 1,200	0.01%	NA
General cash account	2,824,819	26.62%	NA
Money market accounts	5,621,039	52.98%	NA
Government and agency bonds – restricted	2,162,840	20.39%	0.82
	<u>\$ 10,609,898</u>	<u>100.00%</u>	
Cash and cash equivalents	\$ 8,447,058		
Bond reserve funds – restricted	2,162,840		
	<u>\$ 10,609,898</u>		

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

As of December 31, 2015:

Cash and Deposit Type	Carrying Value	% of Portfolio	Weighted Average Maturity (Years)
Cash on hand	\$ 1,200	0.01%	NA
General cash account	5,713,309	60.41%	NA
Money market accounts	1,669,484	17.66%	NA
Government and agency bonds – restricted	2,073,074	21.92%	1.32
	<u>\$ 9,457,067</u>	<u>100.00%</u>	
Cash and cash equivalents	\$ 7,281,062		
Bond reserve funds – restricted	2,176,005		
	<u>\$ 9,457,067</u>		

CLATSKANIE PEOPLE'S UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2 – Cash and Investments (continued)

Fair value measurement – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for periods beginning after June 15, 2015. In accordance with Statement 72, Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

The hierarchy of inputs used to generate the valuation is classified into three different levels:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the government can access at the measurement date.

Level 2 – Inputs include quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for an asset, either directly or indirectly.

Level 3 – Inputs are unobservable inputs from the asset or liability where there is very little market activity and they should be used only when relevant Level 1 and Level 2 inputs are unavailable.

The District's fair value measurements are performed on a recurring basis. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The tables following present fair value balances and their levels within the fair value hierarchy as of December 31, 2016 and 2015.

Fair value of District's investments under GASB 72 – Debt securities classified in Level 2 of the fair value hierarchy are valued using various market and industry inputs, including institutional bond quotes.

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash and Investments (continued)

The District has the following fair value measurements at December 31, 2016:

	December 31, 2016	Fair Value Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. agencies	<u>\$ 2,162,840</u>	<u>\$ -</u>	<u>\$ 2,162,840</u>	<u>\$ -</u>

The District has the following fair value measurements at December 31, 2015:

	December 31, 2015	Fair Value Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. agencies	<u>\$ 2,073,074</u>	<u>\$ -</u>	<u>\$ 2,073,074</u>	<u>\$ -</u>

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 3 - Utility Plant in Service

Plant activity for the year ended December 31, 2016 is as follows:

	Balance December 31, 2015	Additions*	Retirements*	Balance December 31, 2016
Depreciable assets:				
Distribution system	\$ 41,783,881	\$ 2,448,914	\$ (192,790)	\$ 44,040,005
Generation system	6,746,907	30,897	-	6,777,804
Transmission system	5,287,863	-	-	5,287,863
Structures and improvements	9,296,329	-	-	9,296,329
Equipment	8,568,324	196,709	(897,851)	7,867,182
Non-depreciable assets:				
Land and land rights	2,188,859	-	-	2,188,859
Organization and franchise costs	7,114	-	-	7,114
Total utility plant in service	<u>\$ 73,879,277</u>	<u>\$ 2,676,520</u>	<u>\$ (1,090,641)</u>	<u>\$ 75,465,156</u>
Accumulated depreciation:				
Distribution system	\$ 16,661,684	\$ 1,731,821	\$ (187,138)	\$ 18,206,367
Generation system	4,438,380	345,601	-	4,783,981
Transmission system	964,171	176,392	-	1,140,563
Structures and improvements	1,334,160	301,651	-	1,635,811
Equipment	6,149,580	759,483	(935,777)	5,973,286
Total accumulated depreciation	<u>\$ 29,547,975</u>	<u>\$ 3,314,948</u>	<u>\$ (1,122,915)</u>	<u>\$ 31,740,008</u>
Plant not subject to depreciation:				
Electric plant acquisition adjustment	\$ 17,249	\$ -	\$ (17,249)	\$ -
Construction work in progress	1,145,997	2,045,697	(2,622,036)	569,658
Net utility plant	<u>\$ 45,494,548</u>	<u>\$ 1,407,269</u>	<u>\$ (2,607,011)</u>	<u>\$ 44,294,806</u>

*Additions and retirements include transfers.

CLATSKANIE PEOPLE'S UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3 - Utility Plant in Service (continued)

Plant activity for the year ended December 31, 2015 is as follows:

	Balance December 31, 2014	Additions*	Retirements*	Balance December 31, 2015
Depreciable assets:				
Distribution system	\$ 41,151,161	\$ 713,659	\$ (80,939)	\$ 41,783,881
Generation system	6,746,907	-	-	6,746,907
Transmission system	5,287,863	-	-	5,287,863
Structures and improvements	9,208,564	87,765	-	9,296,329
Equipment	8,761,461	207,079	(400,216)	8,568,324
Non-depreciable assets:				
Land and land rights	2,188,859	-	-	2,188,859
Organization and franchise costs	7,114	-	-	7,114
Total utility plant in service	<u>\$ 73,351,929</u>	<u>\$ 1,008,503</u>	<u>\$ (481,155)</u>	<u>\$ 73,879,277</u>
Accumulated depreciation:				
Distribution system	\$ 15,209,773	\$ 1,533,124	\$ (81,213)	\$ 16,661,684
Generation system	4,094,148	344,232	-	4,438,380
Transmission system	788,566	175,605	-	964,171
Structures and improvements	1,039,144	295,016	-	1,334,160
Equipment	5,777,835	833,921	(462,176)	6,149,580
Total accumulated depreciation	<u>\$ 26,909,466</u>	<u>\$ 3,181,898</u>	<u>\$ (543,389)</u>	<u>\$ 29,547,975</u>
Plant not subject to depreciation:				
Electric plant acquisition adjustment	\$ 86,248	\$ -	\$ (68,999)	\$ 17,249
Construction work in progress	357,432	1,588,146	(799,581)	1,145,997
Net utility plant	<u>\$ 46,886,143</u>	<u>\$ (585,249)</u>	<u>\$ (806,346)</u>	<u>\$ 45,494,548</u>

*Additions and retirements include transfers.

Note 4 - Western Generation Agency

The Western Generation Agency (WGA) was created pursuant to an Intergovernmental Agency Agreement dated October 12, 1993, between the District and EWEB for the purpose of constructing, owning and operating a combined heat and power electric generation plant, the Wauna Cogeneration Project (the Project). The Project is located at the Wauna Paper Mill owned by Georgia Pacific at the western edge of Clatskanie PUD's service territory. WGA sells all of the energy from its generation to the BPA for a predetermined price under a power purchase agreement in effect through April 5, 2016. This agreement expired April 5, 2016, at which time EWEB started purchasing power from WGA under the Power Purchase Agreement between WGA and EWEB.

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 4 - Western Generation Agency (continued)

The Project is comprised of both a Steam Turbine Generator (STG), and a Fluidized Bed Boiler (FBB). The FBB produces steam by burning solid waste fuel created by the pulp/paper manufacturing process at the Wauna Paper Mill. The STG produces about 155,000 MWh per year at levels between 15 MW and 22 MW. Generation is a function of the mill requirements for steam necessary to produce paper. The change in the WGA investment for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Investment in WGA, beginning of year	\$ 1,825,212	\$ (529,587)
Allocated net income	1,122,580	2,554,799
Distributions	<u>(400,000)</u>	<u>(200,000)</u>
Investment in WGA, end of year	<u>\$ 2,547,792</u>	<u>\$ 1,825,212</u>

Summary of WGA assets, liabilities and net position follows:

	<u>2016</u>	<u>2015</u>
Total assets	\$ 26,033,600	\$ 31,231,545
Total liabilities	21,165,811	27,808,916
Total net position	4,867,789	3,422,629

Summary of WGA sales and income follows:

	<u>2016</u>	<u>2015</u>
Power sales	\$ 9,824,391	\$ 10,437,740
Operating income	3,801,141	6,782,085
Net income	1,445,160	4,709,597

The WGA Board of Directors is comprised of three appointed members from the District and three appointed members from EWEB and, as a separate legal entity, has no other association with either entity regarding financial reporting requirements. Financial information for the project is included in the financial statements of WGA and may be obtained from WGA's Trustee, US Bank, Portland, Oregon.

In 2013, WGA experienced an unplanned outage with significant damage to agency owned equipment. An insurance claim was filed, for which WGA received \$2.0 million and \$1.5 million of insurance proceeds during the years ended December 31, 2015 and 2014, respectively. These amounts were recorded as operating revenue as the associated expenses were included in maintenance (production) expense. WGA did not receive any insurance proceeds in 2016.

CLATSKANIE PEOPLE'S UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5 - Deferred Inflows of Resources - Regulatory Liabilities

Due to regulation of its rates by its Board, the District utilizes regulatory assets and liabilities guidance. Accordingly, certain income may be deferred as a regulatory liability that would otherwise be credited as revenues. In 2008, the Board authorized a deferral of \$8 million. The deferral will be used to stabilize rates.

Effective October 1, 2009, the District's retail electric rates were increased. Rather than passing the entire amount to customers, the District chose to mitigate this increase by transferring funds from the 2008 deferral of revenue. Subsequently, rates have remained low enough to allow the District to maintain their rate stabilization fund until rates increase and warrant additional application of the deferred revenue. As of December 31, 2016 and 2015, the remaining balance in the rate stabilization fund is approximately \$4.6 million.

Note 6 - Compensated Absences

Employees are allowed to accrue up to 90 days of vested vacation pay. Terminated employees may elect to designate all or a portion of the vested amount to be paid to a Health Reimbursement Account (HRA) through the Variable Employee Beneficiary Association (VEBA) for health expenses or the 401(a) retirement plan. For any such amounts designated to the HRA, the District will add the payroll cost savings of FICA, PERS and Medicare to the VEBA account.

Sick leave accrues at eight hours per month with a maximum accumulation of 920 hours. The District will automatically cash out any overage at 5% per year of service to a maximum of 80% and payouts at 80%. At December 31, 2016, accrued vacation and sick leave were \$226,279 and \$412,796, respectively. At December 31, 2015, accrued vacation and sick leave were \$284,702 and \$315,196, respectively.

Note 7 - Line of Credit

During 2011, the District entered into an \$8,500,000 line of credit with Cashmere Valley Bank bearing interest at 0.058% of the bank prime rate (3.75% at December 31, 2016). The maturity date is June 1, 2017 and there was no balance outstanding at December 31, 2016 and 2015. The District did not extend the maturity date of the line of credit subsequent to year end.

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 8 - Long-Term Debt

Long-term debt activity for the year ended December 31, 2016 is as follows:

	Balance December 31, 2015	Borrowings	Principal Maturities	Balance December 31, 2016
2007 Series A Revenue Bonds, interest rates ranging from 4% to 5%; original issue of \$9,510,000; maturing through 2019.	\$ 3,630,000	\$ -	\$ 885,000	\$ 2,745,000
2007 Series B Revenue Bonds, interest rates ranging from 3.88% to 5%; original issue of \$9,990,000; maturing through 2027.	9,990,000	-	-	9,990,000
Series 2014 Revenue Bonds, interest rates ranging from 2% to 5%; original issue of \$9,255,000; maturing through 2034.	9,255,000	-	355,000	8,900,000
Special Districts Association of Oregon installment loan, no interest, original issue of \$280,000 due in five annual payments of \$56,000 maturing through 2018.	168,000	-	56,000	112,000
	23,043,000	\$ -	\$ 1,296,000	21,747,000
Add unamortized premium	213,485			192,281
Less current portion	(1,296,000)			(1,346,000)
	\$ 21,960,485			\$ 20,593,281

CLATSKANIE PEOPLE'S UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8 - Long-Term Debt (continued)

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

	Balance December 31, 2014	Borrowings	Principal Maturities	Balance December 31, 2015
2007 Series A Revenue Bonds, interest rates ranging from 4% to 5%; original issue of \$9,510,000; maturing through 2019.	\$ 4,485,000	\$ -	\$ 855,000	\$ 3,630,000
2007 Series B Revenue Bonds, interest rates ranging from 3.88% to 5%; original issue of \$9,990,000; maturing through 2027.	9,990,000	-	-	9,990,000
Series 2014 Revenue Bonds, interest rates ranging from 2% to 5%; original issue of \$9,255,000; maturing through 2034.	9,255,000	-	-	9,255,000
Special Districts Association of Oregon installment loan, no interest, original issue of \$280,000 due in five annual payments of \$56,000 maturing through 2018.	224,000	-	56,000	168,000
	23,954,000	\$ -	\$ 911,000	23,043,000
Add unamortized premium	234,689			213,485
Less current portion	(855,000)			(1,296,000)
	<u>\$ 23,333,689</u>			<u>\$ 21,960,485</u>

The future annual requirements for Series 2007 bond payments, principal and interest, are as follows:

	Series 2007A		Series 2007B	
	Principal	Interest	Principal	Interest
2017	\$ 925,000	\$ 130,460	\$ -	\$ 417,761
2018	970,000	84,210	-	417,761
2019	850,000	42,500	160,000	417,761
2020	-	-	1,060,000	411,561
2021	-	-	1,100,000	370,486
2022 - 2026	-	-	6,255,000	1,099,499
2027	-	-	1,415,000	58,723
	<u>\$ 2,745,000</u>	<u>\$ 257,170</u>	<u>\$ 9,990,000</u>	<u>\$ 3,193,552</u>

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 8 – Long-Term Debt (continued)

The future annual requirements for Series 2014 bond payments, principal and interest, are as follows:

	Series 2014	
	Principal	Interest
2017	\$ 365,000	\$ 322,781
2018	375,000	311,831
2019	390,000	296,831
2020	405,000	281,231
2021	420,000	265,031
2022 – 2026	2,280,000	1,157,569
2027 – 2031	2,750,000	683,988
2032 – 2034	1,915,000	145,313
	\$ 8,900,000	\$ 3,464,575

Note 9 – Pension Plan

Plan description – The District contributes to two pension plans administered by Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (Tier 1/Tier 2) is a cost-sharing multiple-employer defined benefit pension plan for qualifying employees hired before August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to Tier 1/Tier 2 consisting of two programs: a defined benefit pension plan and a defined contribution program (the Individual Account Program or IAP). The OPSRP pension plan is effective for all new employees hired on or after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. The plan provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary, years of service and type of service (general or police/fire). Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. Tier 1/Tier 2 members retain their existing Tier 1/Tier 2 accounts, but future member contributions are deposited into the member's IAP account. Benefit provisions under the Plans are established by State statute. PERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the PERS website.

Benefits provided (Tier 1/Tier 2) – The Tier 1/Tier 2 pension plan provides retirement, disability benefits, annual cost-of-living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The plan is closed to new members on or after August 29, 2003. The retirement allowance is payable monthly for life and may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary.

CLATSKANIE PEOPLE'S UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9 – Pension Plan (continued)

Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981), or a money match computation if a greater benefit results. A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer. General service employees may retire after reaching age 55. Tier 1 general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier 2 members are eligible for full benefits at age 60.

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- The member was employed by a PERS employer at the time of death
- The member died within 1200 days after terminated of PERS-covered employment
- The member died as a result of injury sustained while employed in a PERS-covered job
- The member was on an official leave of absence from a PERS-covered job at the time of death.

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 when determining the monthly benefit.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the cost of living adjustments will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits over \$60,000.

Benefits provided (OPSRP) – The OPSRP pension plan provides retirement, disability benefits, annual cost-of-living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The plan is open to new members hired on or after August 29, 2003. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit. A member of the OPSRP plan becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

CLATSKANIE PEOPLE'S UTILITY DISTRICT NOTES TO FINANCIAL STATEMENTS

Note 9 – Pension Plan (continued)

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to a job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

Contributions – PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due.

Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013. The state of Oregon and certain schools, community colleges and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced. Employer contributions for the years ended December 31, 2016 and 2015 were \$615,401 and \$595,131, respectively, excluding amounts to fund employer-specific liabilities.

Pension liability, pension expense, and deferred outflows or resources and deferred inflows of resources related to pension – The District reported a liability of \$5,937,351 and \$2,446,983 for its proportionate share of the net pension liability, as of December 31, 2016 and 2015, respectively. The net pension liability was measured as of June 30, 2016 and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension asset/liability was based on a projection of the District's long-term share of contributions to the Plans relative to the projected contributions for all participating employers, actuarially determined. The District's proportionate share of the net pension asset/liability for the Plans as of June 30, 2016 was 0.03954985%.

For the years ended December 31, 2016 and 2015, the District's proportionate share of system pension expense was \$1,033,269 and \$2,383,085, respectively. The District has elected to use regulatory accounting to recognize pension expense in conjunction with the required employer contribution rates. Accordingly, the District recognized pension expense related to Tier 1/Tier 2 and OPSRP of \$615,401 and \$595,131 for the years ended December 31, 2016 and 2015, respectively, the remaining portion has been deferred as a regulatory asset.

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 9 - Pension Plan (continued)

As of December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Pension contributions subsequent to measurement date	\$ 304,518	\$ -
Differences between expected and actual experience	196,434	-
Changes in assumptions	1,266,294	-
Differences between projected and actual earnings on plan investments	1,172,971	-
Changes in proportionate share	-	255,665
Differences between employer contributions and the employer's proportionate share of system contributions	153,559	14,097
	<u>\$ 3,093,776</u>	<u>\$ 269,762</u>

The amount of \$304,518 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are to be amortized as pension debits and pension credits as follows:

Years ending December 31,	2017	\$ 443,715
	2018	443,715
	2019	873,315
	2020	665,415
	2021	93,336
		<u> </u>
		<u>\$ 2,519,496</u>

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 9 – Pension Plan (continued)

Actuarial assumptions – The total pension liability/asset in the December 31, 2014 actuarial valuations were determined using the following actuarial assumptions.

Valuation Date	December 31, 2014
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.50%
Payroll Growth	3.50%
Projected Salary Increase	3.50%
Investment Rate of Return	7.50%

Mortality rates for healthy retirees and beneficiaries were based on the RP-2000 Sex-distinct tables, as appropriate, with adjustments for mortality improvements based on Scale BB. Mortality rates for active members are a percentage of healthy retiree rates that vary by group, as described in the valuation. For disabled retirees, mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years.

The methods and assumptions shown above are based on the 2014 Experience Study, published September 23, 2015, which reviewed experience for the four-year period ended on December 31, 2014.

Discount rate – The discount rate used to measure the total pension liability was 7.5 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

CLATSKANIE PEOPLE'S UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9 – Pension Plan (continued)

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below.

Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption.

These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.31%	6.99%
Micro Cap US Equities	1.31%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Market Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equity	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds – Diversified	2.50%	4.64%
Hedge Fund – Event-driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%

CLATSKANIE PEOPLE'S UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 9 – Pension Plan (continued)

Sensitivity analysis – Below is a sensitivity analysis around the discount rate assumed in the actuarial assumptions:

<u>Employers' Net Pension Liability</u>	<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
Defined benefit pension plan	\$ 9,586,800	\$ 5,937,351	\$ 2,887,000

Pension plan fiduciary net position – Detailed information about each pension plan's fiduciary net position is available in the separately issued OPERS financial reports.

Payable to the pension plan – At December 31, 2016 and 2015, the District had an outstanding amount of contributions payable to the pension plan of \$0 and \$32,610, respectively, which is reflected in the accounts payable and accrued liabilities amounts reported on the statement of net position.

Note 10 – Deferred Compensation Plan

The District sponsors a deferred compensation plan (Internal Revenue Code Section 457) for all eligible employees. The plan is entirely funded by voluntary employee contributions. Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries.

Effective August 1, 2009, the District established a 401(a) plan to match employee deferred compensation and allow deposits of other eligible District contributions. This plan matches the employee's contributions to the District's 457 plan. For the years ended December 31, 2016 and December 31, 2015, the plan matched 3.50% of the employee's base wage. Eligibility for the plan is subject to age and waiting period.

Note 11 – Power Supply

Purchased power – In late 2008 the District executed a new 20 year power purchase agreement with BPA to supply the District with power for the period October 1, 2011 through September 30, 2028. Part of the power purchased from BPA is provided as a "Slice of the System" product with variable energy volumes and remainder is purchased as a "Block" product with a fixed volume. Substantially all of the cost of power is fixed and established every two years under a BPA Rate Case. The Slice product is subject to a true-up to actual BPA cost annually. The Block product is subject to an adjustment should BPA experience extreme financial difficulties, but under most circumstances BPA has sufficient reserves to wait to "true-up" until the following rate case.

CLATSKANIE PEOPLE'S UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11 – Power Supply (continued)

Power management – On February 10, 2011, the District renewed a power management services agreement with EWEB to provide certain power scheduling, purchasing, sales and related services to assist in the short term management of the District's power supply that took effect on October 1, 2011. The cost for these services consists of a fixed monthly fee and an incentive fee based on gross wholesale sales of power and transmission rates. This incentive fee is 2% of monthly sales revenue. The term of the contract coincides with the BPA power purchase contract, ending on September 28, 2028. Either party may terminate the contract without cause with 24 months written notice. The District may terminate the contract for cause with 90 days written notice.

Generation – In 2001 the District constructed an 11 MW Gas Turbine Generator. Power generated by the turbine supplements the power supply needs of the District. The District has entered into an agreement for fuel management (purchasing and scheduling) and transportation services. The terms of the agreement set the price per MMBtu to the daily market mid-point plus \$0.03/MMBtu. Gas transportation costs are \$0.13/MMBtu plus NW Pipeline tariff rates for commodity and fuel. The agreement has been renewed annually and currently is set to expire on October 31, 2017.

Note 12 – Major Customer

The District has one industrial customer which accounts for approximately 80% and 79% of retail power sales as of December 31, 2016 and 2015, respectively, and 76% and 72% of accounts receivable as of December 31, 2016 and 2015, respectively. Services are provided to this customer under the terms of an ongoing electric service contract that may be terminated by either party one year from the date of notification.

Since January 1, 2003, the District entered into an agreement to provide up to 34 MW of power to supply power to an additional facility of this customer, located outside of the District's service areas. This agreement shall be in effect for a period of one year and continue thereafter until terminated, by either party for any reason, upon one year's advance written notice.

Note 13 – Legal Matters

In the normal course of business, the District is party to claims and matters of litigation. The ultimate outcome of these matters cannot presently be determined; however, in the opinion of management of the District, the resolution of these matters will not have a material adverse effect on the District's financial position, results of operations or liquidity.

REQUIRED SUPPLEMENTARY INFORMATION

CLATSKANIE PEOPLE'S UTILITY DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2016
LAST TEN YEARS*

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Proportion of the net pension asset/(liability)	0.04943420%	0.04261951%	0.03954985%
Proportionate share of the net pension asset/(liability)	\$ 1,120,532	\$ (2,446,983)	\$ (5,937,351)
Covered – employee payroll	\$ 3,070,456	\$ 3,323,688	\$ 3,293,625
Proportionate share of the net pension asset/(liability) as percentage of covered-employee payroll	36%	-74%	-180%
Plan's fiduciary net position	\$ 65,401,492,664	\$ 64,923,626,094	\$ 62,082,100,000
Plan fiduciary net position as a percentage of the total pension asset (liability)	103.59%	91.88%	80.53%

*10-year trend information will be presented prospectively

CLATSKANIE PEOPLE'S UTILITY DISTRICT
SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2016
LAST TEN YEARS*

	2014	2015	2016
Contractually required contribution (actuarially determined)	\$ 519,362	\$ 595,131	\$ 615,401
Contributions in relation to the actuarially determined contribution	519,362	595,131	615,401
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 3,070,456	\$ 3,323,688	\$ 3,293,625
Contributions as a percentage of covered-employee payroll	16.91%	17.91%	18.68%

Notes to Schedule

Valuation date: 12/31/2012, rolled forward to June 30, 2014 12/31/2013, rolled forward to June 30, 2015 12/31/2014, rolled forward to June 30, 2016

Methods and assumptions used to determine contribution rates:

Single and agent employers example	Entry age normal	Entry age normal	Entry age normal
Experience study report	2012, published September 2013	2014, published September 2015	2014, published September 2015
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Remaining amortization period	Tier One/Tier Two – 20 years; OPSRP – 16 years	Tier One/Tier Two – 20 years; OPSRP – 16 years	Tier One/Tier Two – 20 years; OPSRP – 16 years
Asset valuation method	Market value of assets	Market value of assets	Market value of assets
Inflation	2.75%	2.75%	2.50%
Salary increases	3.75%	3.75%	3.50%
Investment rate of return	7.75%	7.75%	7.50%
Retirement age	55 for Tier 1/Tier 2; 65 for OPSRP	55 for Tier 1/Tier 2; 65 for OPSRP	55 for Tier 1/Tier 2; 65 for OPSRP
Mortality	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables
Discount rate	7.75%	7.75%	7.50%

* 10-year trend information will be presented prospectively

AUDIT COMMENTS

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

To the Board of Directors
Clatskanie People's Utility District

We have audited the accompanying financial statements of the Clatskanie People's Utility District (the District) as of and for the year ended December 31, 2016 and have issued our report thereon dated June 19, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 over financial reporting.
- 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 AUDIT STANDARDS* (continued)**

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the District'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 District'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 still exist that have not been identified.

This report is intended solely for the information and use of the District'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, Partner
for Moss Adams LLP
Portland, Oregon
June 19, 2017