

**NEW ISSUE—Book-Entry Only**

**Moody's Rating: Applied For**  
**S&P Global Rating: Applied For**  
**Fitch's Rating: Applied For**  
**See "DESCRIPTION OF RATINGS."**

*In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."*



**\$22,705,000\***  
**PUBLIC UTILITY DISTRICT NO. 1**  
**OF BENTON COUNTY, WASHINGTON**  
**ELECTRIC REVENUE AND REFUNDING BONDS, SERIES 2016**

**Dated: Date of Delivery****Due: November 1, as shown on the inside cover**

The Electric Revenue and Refunding Bonds, Series 2016 (the "Bonds") of Public Utility District No. 1 of Benton County, Washington (the "District"), are issuable only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased.

Interest on the Bonds, first payable on May 1, 2017, and thereafter semiannually on November 1 and May 1 of each year, and principal of the Bonds are payable by the Bond Registrar to DTC, which will in turn remit such principal and interest to its broker-dealer Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds, as described under Appendix D—"BOOK-ENTRY SYSTEM."

The Bonds are subject to redemption prior to maturity. See "DESCRIPTION OF THE BONDS."

---

**MATURITY SCHEDULE — SEE INSIDE COVER**

---

The Bonds are being issued to provide the funds necessary to make improvements to and replacements of the District's electric utility system, to refund certain outstanding bonds of the District, and to pay costs of issuance of the Bonds. See "PURPOSE AND APPLICATION OF PROCEEDS."

The principal of and interest on the Bonds are payable solely from and secured by Revenues and other funds pledged by the Bond Resolution, subject to the prior payment of Operating Expenses, and are on a parity with \$49,735,000 of Outstanding Parity Bonds (as defined herein), of which, depending on market conditions, approximately \$9,335,000 is expected to be refunded with proceeds of the Bonds, and any Future Parity Bonds (as defined herein). See "SECURITY FOR THE BONDS."

**The Bonds are special limited obligations of the District and are not obligations of the State of Washington or any political subdivision thereof other than the District, and neither the full faith and credit nor the taxing power of the District or the State of Washington is pledged to the payment of the Bonds.**

This cover page is not intended to be a summary of the terms of, or security for, the Bonds. Investors are advised to read the entire Official Statement to obtain information necessary to making an informed investment decision.

*The Bonds are offered when, as and if issued, subject to the approval of legality by Foster Pepper PLLC, Seattle, Washington, Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, P.C., Seattle, Washington. The Bonds are expected to be delivered on or about October 3, 2016, through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer.*

**RBC Capital Markets**

Dated: \_\_\_\_\_, 2016

\* Preliminary, subject to change.

# MATURITY SCHEDULES, INTEREST RATES, YIELDS AND CUSIP NUMBERS

**\$22,705,000\***

## **ELECTRIC REVENUE AND REFUNDING BONDS, SERIES 2016**

Due November 1 *	Amount*	Interest Rate	Yield	CUSIP No.**
2017	\$ 25,000			
2018	55,000			
2019	55,000			
2020	60,000			
2021	60,000			
2022	65,000			
2023	830,000			
2024	900,000			
2025	975,000			
2026	1,055,000			
2027	1,130,000			
2028	1,220,000			
2029	1,315,000			
2030	1,420,000			
2031	990,000			
2032	1,030,000			
2033	1,075,000			
2034	1,115,000			
2035	1,160,000			
2036	1,200,000			
2037	1,260,000			
2038	1,325,000			
2039	1,390,000			
2040	1,460,000			
2041	1,535,000			

\* Preliminary, subject to change.

\*\* The CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the America Bankers Association by S&P Global Market Intelligence. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the District and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP numbers.

**Public Utility District No. 1 of Benton County**  
**2721 West Tenth Avenue, P.O. Box 6270**  
**Kennewick, Washington 99336**  
**(509) 582-2175**  
**[www.bentonpud.org](http://www.bentonpud.org)\***

**Commissioners**

Lori Kays-Sanders ..... President  
Barry Bush..... Vice President  
Jeffrey D. Hall ..... Secretary

**Administrative Staff**

Chad B. Bartram..... General Manager  
Stephen B. Hunter ..... Assistant General Manager/Director of Operations  
Jon L. Meyer ..... Director of Finance and Business Services  
Dan F. Hultgrenn..... General Counsel  
Rick Dunn ..... Senior Director of Engineering and Power Management  
Paula Ball ..... Director of Customer Programs and Service  
Kevin White ..... Supervisor of Risk Management and Treasury

**Bond and Disclosure Counsel**

Foster Pepper PLLC  
1111 Third Avenue, Suite 3400  
Seattle, Washington 98101

**Financial Advisor**

Piper Jaffray & Co.  
1420 Fifth Avenue, Suite 1425  
Seattle, Washington 98101

---

\* The District's website is not part of this Official Statement, and investors should not rely on information presented in the District's website in determining whether to purchase the Bonds. This inactive textual reference to the District's website is not a hyperlink and does not incorporate the District's website by reference.

The information in this Official Statement has been compiled from official and other sources the District considers reliable and, while not guaranteed as to accuracy, which the District believes to be correct as of its date. The District makes no representation regarding the accuracy or completeness of the information in Appendix D—"BOOK-ENTRY SYSTEM," which has been obtained from DTC's website, or regarding the Underwriter or Financial Advisor. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

Information on website addresses set forth in this Official Statement, including the District's, is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon in making investment decisions regarding the Bonds.

No dealer, broker, salesperson, or other person has been authorized by the District or the Underwriter to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The Underwriter has provided the following three sentences for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time without prior notice to any person.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond Resolution has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

The presentation of certain information, including tables of receipts from revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Certain statements contained in this Official Statement do not reflect historical facts, but rather are forecasts and "forward-looking statements." No assurance can be given that the future results shown herein will be achieved, and actual results may differ materially from the forecasts shown. In this respect, the words "estimate," "forecast," "project," "anticipate," "expect," "intend," "believe" and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. All estimates, projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. These forward-looking statements speak only as of the date they were prepared. The District specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise expressly provided in "CONTINUING DISCLOSURE UNDERTAKING."

The order and placement of materials in this Official Statement, including the appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement.

This Preliminary Official Statement, as of its date, is in a form deemed final by the District for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) but is subject to revision, amendment, and completion in a final Official Statement which will be available within seven business days after the sale date.

## TABLE OF CONTENTS

	Page		Page
PURPOSE AND APPLICATION OF		Packwood Lake Hydroelectric Project .....	29
PROCEEDS .....	1	Lakeview Light and Power (LL&P	
Purpose of the Bonds .....	1	Wind Energy, Inc.).....	29
Refunding Plan .....	1	White Creek Wind Project.....	29
Sources and Uses of Funds .....	3	BioFuels Washington, LLC	
DESCRIPTION OF THE BONDS .....	3	Project/Emerald City Renewables	
General .....	3	LLC.....	30
Termination of Book-Entry Transfer		Idaho Wind Partners .....	30
System.....	3	Power Scheduling.....	30
Transfer and Exchange .....	4	Agreement with Franklin PUD and	
Optional Redemption.....	4	Grays Harbor PUD.....	30
Mandatory Redemption .....	4	Risk Management.....	31
Notice of Redemption.....	4	Power Swaps .....	31
Partial Redemption .....	5	Solar Projects.....	32
Purchases by the District .....	5	Conservation Programs .....	32
Defeasance.....	5	Legislation and Initiatives .....	32
SECURITY FOR THE BONDS.....	6	Various Factors Affecting the Electric	
Pledge of Revenues and Other Funds .....	6	Utility Industry.....	33
Rate Covenants.....	6	GENERAL AND ECONOMIC	
Additional Bonds.....	6	INFORMATION.....	34
Junior Lien Debt.....	7	LITIGATION .....	36
Reserve Account.....	7	LEGAL MATTERS .....	36
Other Covenants .....	8	Conflicts of Interest.....	37
Flow of Funds Under the Bond		LIMITATIONS ON REMEDIES.....	37
Resolution .....	8	INITIATIVE AND REFERENDUM .....	37
Resource Obligations.....	9	TAX MATTERS .....	37
Contingent Payments and Obligations.....	9	Tax Exemption .....	37
No Acceleration Upon Default.....	10	Certain Other Federal Tax Consequences .....	38
DEBT SERVICE REQUIREMENTS .....	10	CONTINUING DISCLOSURE	
THE DISTRICT .....	11	UNDERTAKING .....	39
General .....	11	Basic Undertaking to Provide Annual	
Service Area .....	11	Financial Information and Notice of	
Management .....	13	Material Events .....	39
District Employees and Retirement Plan .....	14	Type of Annual Financial Information	
Accounting and Financial Statements .....	17	Undertaken to be Provided.....	40
Insurance .....	17	Amendment of Undertaking .....	41
General Obligation Bonds and Taxing		Termination of Undertaking .....	41
Authority.....	18	Remedy for Failure to Comply with	
Telecommunications.....	18	Undertaking .....	41
Investments.....	19	Prior Compliance with Continuing	
Financial Policies .....	19	Disclosure Undertakings.....	41
ELECTRIC SYSTEM .....	20	DESCRIPTION OF RATINGS.....	41
General .....	20	FINANCIAL ADVISOR.....	41
Electric and Telecommunication Rates .....	20	UNDERWRITING .....	41
District Rate History .....	22	MISCELLANEOUS.....	42
Future Financing Plans.....	22		
Customers, Energy Sales and Revenues.....	23	APPENDIX A— 2015 AUDITED FINANCIAL	
Operating Results .....	24	STATEMENTS	
Management Discussion of Results.....	25	APPENDIX B— SUMMARY OF CERTAIN	
District’s Largest Customers .....	25	PROVISIONS OF THE	
Capital Improvements .....	25	BOND RESOLUTION	
THE DISTRICT’S POWER SUPPLY .....	26	APPENDIX C— PROPOSED FORM OF	
Introduction .....	26	OPINION OF BOND	
Bonneville Power Administration .....	26	COUNSEL	
Frederickson 1 Generating Station .....	28	APPENDIX D— BOOK-ENTRY SYSTEM	
Nine Canyon Wind Project.....	28		

[THIS PAGE INTENTIONALLY LEFT BLANK]

**OFFICIAL STATEMENT**  
**OF**  
**PUBLIC UTILITY DISTRICT NO. 1 OF**  
**BENTON COUNTY, WASHINGTON**

**RELATING TO ITS**

**\$22,705,000\***  
**ELECTRIC REVENUE AND REFUNDING BONDS, SERIES 2016**

Public Utility District No. 1 of Benton County, Washington (the “District”), a municipal corporation duly organized and existing under the laws of the State of Washington, furnishes this Official Statement, which includes the cover page, inside cover page and appendices hereto, in connection with the offering of \$22,705,000\* aggregate principal amount of Electric Revenue and Refunding Bonds, Series 2016 (the “Bonds”). This Official Statement provides information concerning the District, the Bonds and the electric system owned and operated by the District (the “Electric System”).

The Bonds are to be issued pursuant to Title 54 (the “Enabling Act”), and chapters 39.46 and 39.53 of the Revised Code of Washington (“RCW”), as amended, and Resolution No. 2368 adopted on July 18, 2016 (the “Bond Resolution”). The Bonds are dated as of their date of delivery and are issued on a parity with the outstanding \$17,345,000 principal amount of Electric Revenue Bonds, Series 2010 (Taxable Build America Bonds – Direct Payment) (the “2010 Bonds”) and the outstanding \$32,390,000 principal amount of Electric Revenue and Refunding Bonds, Series 2011 (the “2011 Bonds,” and together with the 2010 Bonds, the “Outstanding Parity Bonds”), of which \$9,335,000 is expected to be refunded with a portion of the proceeds of the Bonds. See “PURPOSE AND APPLICATION OF PROCEEDS—Refunding Plan.” The District issued its Electric System Revenue Note, 2008 establishing a line of credit with Bank of America junior in lien to the Outstanding Parity Bonds in the available amount of not to exceed \$10,000,000. No draws have been made against this line of credit. See “SECURITY FOR THE BONDS—Junior Lien Debt.”

The District has pledged in the Bond Resolution that it will not issue any indebtedness that is secured by a lien on the Net Revenues of the Electric System that is superior to the lien of the Bonds. The District reserves the right in the Bond Resolution to issue additional bonds on a parity with the Outstanding Parity Bonds and the Bonds subject to certain conditions (“Future Parity Bonds”). The Outstanding Parity Bonds, the Bonds and all Future Parity Bonds are collectively referred to herein as the “Parity Bonds.”

Certain capitalized words and phrases used in this Official Statement have the meanings as defined in the Bond Resolution, unless the context clearly indicates that another meaning is intended. See Appendix B—“SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.”

**PURPOSE AND APPLICATION OF PROCEEDS**

**Purpose of the Bonds**

The Bonds are being issued to provide the funds necessary to make improvements to and replacements of the District’s Electric System, to refund the Refunded Bonds (described below), to fund the Reserve Account, if necessary, and to pay costs of issuing the Bonds.

**Refunding Plan**

If market conditions are favorable, in order to effect a debt service savings, a portion of the proceeds of the Bonds and other District funds will be used to retire, defease and refund a portion of the 2011 Bonds maturing on or after

---

\* Preliminary, subject to change.

November 1, 2023 (the “Refunding Candidates”), at a price of par on their redemption date as shown in the following table. The Refunding Candidates refunded with proceeds of the Bonds will be the Refunded Bonds.

### Refunding Candidates

<b>Bond</b>	<b>Maturity Date</b>	<b>Par Amount (\$)</b>	<b>Interest Rate (%)</b>	<b>Redemption Date</b>	<b>Redemption Price (%)</b>	<b>CUSIP Numbers</b>
<i>Electric Revenue and Refunding Bonds, Series 2011</i>						
Serials	2023	\$ 525,000	5.00%	11/01/2021	100%	082869MH8
	2024	555,000	5.00	11/01/2021	100	082869MJ4
	2025	580,000	5.00	11/01/2021	100	082869MK1
	2026	610,000	5.00	11/01/2021	100	082869ML9
Term	2031	3,540,000	5.00	11/01/2021	100	082869MM7
Term	2035	3,525,000	5.00	11/01/2021	100	082869MN5
Total		\$9,335,000				

A portion of the net proceeds from the sale of the Bonds will be irrevocably deposited in the Refunding Account (the “Refunding Account”) and will be held in cash or may be used to purchase direct, non-callable obligations of the United States of America (the “Escrow Obligations”) to be held by U.S. Bank National Association, Seattle, Washington (the “Refunding Trustee”) under a refunding trust agreement (the “Refunding Trust Agreement”), dated the date of delivery of the Bonds, between the District and the Refunding Trustee. The Escrow Obligations will mature at such times and pay interest in such amounts that will provide, with other available funds held by the Refunding Trustee under the Refunding Trust Agreement, sufficient money to pay the interest on the Refunded Bonds coming due on and prior to the redemption date set forth above and to redeem and retire the Refunded Bonds on the redemption date set forth above at a price of 100% of the principal amount to be redeemed. Since all payments of principal of and interest on the Refunded Bonds will thereafter be provided for from money and securities on deposit with the Refunding Trustee under the Refunding Trust Agreement, the liens, pledges and covenants of the Refunded Bonds will terminate and be discharged and released.

An independent verification will be obtained from The Arbitrage Group, Inc. stating that the Escrow Obligations held by the Refunding Trustee and the interest to be earned thereon, together with any money held by the Refunding Trustee, will be sufficient to make all such interest payments to the redemption date for the Refunded Bonds and to pay the principal and premium, if any, of the Refunded Bonds on the date fixed for redemption. The verification will also confirm the correctness of the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not “arbitrage bonds” as defined by Section 148 of the Internal Revenue Code of 1986, as amended.



## Sources and Uses of Funds

The proceeds from the Bonds are estimated to be applied as follows:

### Sources and Uses

#### Sources of Funds

Principal Amount of the Bonds	\$
[Net] Original Issue Premium/Discount	
District Contribution	
Total Sources of Funds	\$

#### Uses of Funds

Deposit to Construction Account	\$
Deposit to Refunding Account	
Reserve Account Deposit	
Issuance Costs*	
Total Uses of Funds	\$

\* Includes underwriter's discount, financial advisor fees, rating fees, legal fees, refunding trustee fees, verification agent fees and other costs of issuing the Bonds.

## DESCRIPTION OF THE BONDS

### General

The Bonds will be issued in the principal amount of \$22,705,000\* and will be dated the date of their delivery. The Bonds will bear interest payable on May 1, 2017, and on each November 1 and May 1 thereafter, at the rates per annum corresponding to those principal amounts maturing November 1 in each year, as set forth on the inside cover page of this Official Statement. The Bonds are issuable in registered form in the denomination of \$5,000 and integral multiples thereof.

The fiscal agent of the State of Washington, currently U.S. Bank National Association, Seattle, Washington, or such other bank or trust company appointed by the District, will act as Bond Registrar for the Bonds.

The Bonds will be issued in fully registered form initially in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only as described below. The purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the "registered owners" or "bondowners" shall mean Cede & Co. and shall not mean the "Beneficial Owners" of the Bonds. In this Official Statement, the term "Beneficial Owner" shall mean the person for whom a DTC participant acquires an interest in the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable by wire transfer by the Bond Registrar to DTC, which in turn is obligated to remit such principal and interest to the DTC participants for subsequent disbursements to Beneficial Owners of the Bonds, as further described below.

### Termination of Book-Entry Transfer System

If DTC resigns as the securities depository and the District is unable to retain a qualified successor to DTC or if the District determines that a continuation of the book-entry transfer system is not in the best interests of the District, the District will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof. Thereafter the principal of the Bonds will be

\* Preliminary, subject to change.

payable upon due presentment and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed on the interest payment date to the persons in whose names the Bonds are registered, at the address appearing upon the Bond Register on the 15<sup>th</sup> day of the month next preceding the interest payment date. The Bonds will be transferable as provided in the Bond Resolution.

### **Transfer and Exchange**

Neither the District nor the Bond Registrar shall be required to transfer or exchange Bonds during the 15 days preceding an interest payment of the Bonds through and including such interest payment date or during the 15 days preceding any selection of Bonds to be redeemed.

### **Optional Redemption**

The Bonds maturing on or prior to November 1, 20\_\_, shall be issued without the right or option of the District to redeem those Bonds prior to their stated maturity dates. The District reserves the right and option to redeem the Bonds maturing on or after November 1, 20\_\_, prior to their stated maturity dates at any time on or after \_\_\_\_\_, 20\_\_, as a whole or in part (within one or more maturities selected by the District), at par plus accrued interest to the date fixed for redemption.

### **Mandatory Redemption**

The Bonds maturing in 20\_\_ and 20\_\_ are Term Bonds and, if not redeemed under the optional redemption provisions set forth above or purchased in the open market under the provisions set forth below, will be called for redemption at a price of par, plus accrued interest to the date of redemption, on November 1 in years and amounts as follows:

#### **20\_\_ Term Bonds**

<u>Mandatory Redemption Years</u>	<u>Mandatory Redemption Amounts</u>
-----------------------------------	-------------------------------------

\*

\* Maturity.

#### **20\_\_ Term Bonds**

<u>Mandatory Redemption Years</u>	<u>Mandatory Redemption Amounts</u>
-----------------------------------	-------------------------------------

\*

\* Final maturity.

If the District redeems the Term Bonds under the optional redemption provisions described above or purchases or defeases the Term Bonds, the Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for those Term Bonds in the manner described below regarding the selection of Bonds for redemption.

### **Notice of Redemption**

So long as the Bonds are held by DTC in book-entry only form, any notice of redemption will be given at the time, to the entity and in the manner required by the Blanket Issuer Letter of Representations between the District and

DTC ("Letter of Representations"). During any period in which the Bonds are not in book-entry only form, unless waived by any registered owner of the Bonds to be redeemed, official notice of any redemption of Bonds will be given by the Bond Registrar on behalf of the District by mailing a copy of an official redemption notice by first-class mail, postage prepaid, at least 20 days and not more than 60 days prior to the date fixed for redemption, to the registered owners of the Bonds to be redeemed at the address appearing on the bond register at the time the Bond Registrar prepares the notice.

In the case of an optional redemption, the District reserves the right to rescind any redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected registered owners at any time prior to the scheduled optional redemption date. Any notice of optional redemption that is so rescinded will be of no effect, and the Bonds for which the notice of optional redemption has been rescinded will remain outstanding.

Interest on the Bonds called for redemption will cease to accrue on the date fixed for redemption, except in the case of a rescinded optional redemption as described above or unless payment of that Bond is not made or provided for in full on the date fixed for redemption.

### **Partial Redemption**

If less than all of the Bonds are to be redeemed, the District may select the maturity or maturities to be redeemed. If less than all of the Bonds of any maturity are to be redeemed, the Bonds or portions thereof to be redeemed are to be selected by the Registrar or DTC, as applicable, randomly, or in accordance with their respective standard procedures. The Bond Resolution provides that the portion of any Bonds of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof and that in selecting portions of such Bonds for redemption, the Registrar will treat each such Bonds as representing that number of such Bonds of \$5,000 denomination that is obtained by dividing the principal amount of such Bonds to be redeemed in part by \$5,000.

### **Purchases by the District**

The District has reserved the right to purchase any Bonds offered to the District at any time at a price deemed reasonable by the District.

### **Defeasance**

The District may set aside with a trustee or escrow agent in a special trust account irrevocably pledged to the payment of certain Bonds, cash and/or Government Obligations, sufficient, together with the earnings thereon, to provide funds to pay when due the interest on part or all of the Bonds and to redeem and retire such Bonds at or prior to maturity in accordance with their terms. Prior to any defeasance, the District must obtain a verification from an independent certified public accountant that the escrowed cash and securities are sufficient to pay the Bonds and an opinion of nationally-recognized bond counsel that such defeasance will not cause interest on any tax-exempt Parity Bonds then outstanding to become subject to federal income taxes. In such event no further payment need be made into the Bond Fund for the payment of the principal of and interest on the Bonds so provided for and such Bonds shall cease to be entitled to any lien, benefit or security of the Bond Resolutions except the right to receive payment from such special account, and such Bonds shall not be deemed to be outstanding for purposes of the Bond Resolution.

The term "Government Obligations" has the meaning given in chapter 39.53 RCW, as amended, currently: (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

## **SECURITY FOR THE BONDS**

### **Pledge of Revenues and Other Funds**

The principal of and interest on the Bonds are payable solely from and secured by a pledge of (1) all income (including investment income), revenues and receipts derived by the District through the ownership and operation of the Electric System, excluding certain investment income and income from separate utility systems (the "Revenues"), subject to the prior payment of Operating Expenses and (2) the Revenue Fund, Construction Fund and the Bond Fund, and investment earnings thereon, subject only to the provisions of the Bond Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Resolution.

The Bonds are special limited obligations of the District. Neither the State of Washington nor any political subdivision thereof, other than the District, is obligated to pay the principal of and interest on the Bonds, and neither the full faith and credit nor the taxing power of the District or the State of Washington is pledged to the payment of the Bonds.

### **Rate Covenants**

The District has covenanted in the Bond Resolution to establish, maintain and collect rates and charges for electric power and energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Electric System which shall be fair and nondiscriminatory. Such rates and charges shall be adequate to provide Revenues sufficient for the punctual payment of the principal of, premium, if any, and interest on all Parity Bonds for which payment has not otherwise been made, for all payments required to be made into the Bond Fund, and for the proper operation and maintenance of the Electric System, including all necessary repairs, replacements and renewals thereto. Rates and charges must also be adequate to provide Net Revenues (defined below) in each fiscal year equal to at least 1.25 times the Annual Debt Service on the Outstanding Parity Bonds in such fiscal year.

Net Revenues are computed by deducting Operating Expenses from Revenues in each fiscal year, provided that there may be added to Net Revenues in any fiscal year an aggregate amount, not exceeding the Annual Debt Service for such fiscal year, which is withdrawn from the Rate Stabilization Account within the Revenue Fund and deposited in the General Account in the Revenue Fund in such fiscal year and there shall be subtracted from Net Revenues any amount withdrawn from the General Account in the Revenue Fund and deposited in the Rate Stabilization Account in such fiscal year.

### **Additional Bonds**

Under the terms of the Bond Resolution, Additional Bonds may be issued on a parity with the Outstanding Parity Bonds and Parity Lien Obligations, if any, for any lawful purpose of the District if the District obtains either:

(i) A certificate of the Treasurer of the District setting forth that (a) the Net Revenues for any 12 consecutive months of the 24 months prior to the date of issuance of such Additional Bonds, divided by (b) the maximum Annual Debt Service in any future fiscal year for all Parity Bonds then outstanding and the Additional Bonds then to be issued, results in a percentage that is not less than 125%, or

(ii) A certificate of a Consulting Engineer and filed with the District setting forth that (a) the Adjusted Net Revenues (as described in Appendix B—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Issuance of Additional Bonds"), divided by (b) the maximum Annual Debt Service in any future fiscal year for all Parity Bonds then outstanding and Additional Bonds then to be issued results in a percentage that is not less than 125%.

Additional Bonds also may be issued to pay the costs of the Distribution and Transmission Facilities or Generating Facilities for which bonds have previously been issued without complying with the requirements of (i) or (ii) above if a Consulting Engineer's certificate shall be filed with the District that states that the issuance of the Additional Bonds is necessary to complete such facilities and that completion is necessary for the efficient and economic operation of the Electric System. Additional Bonds, including bonds used to retire at or prior to their maturity or

maturities any or all of the outstanding Bonds of any series, may also be issued without compliance with the above requirements for certain specified purposes, as more fully set forth in Appendix B—“SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Issuance of Additional Bonds.”

Additional Bonds may also be issued for the purpose of refunding part or all of the Parity Bonds without obtaining the certificate described in (i) or (ii) above if the Treasurer certifies that the Annual Debt Service for any fiscal year thereafter will not be increased by more than \$5,000 by reason of the issuance of the Additional Bonds.

### **Junior Lien Debt**

The District has a \$10,000,000 line of credit facility with Bank of America that matures on December 31, 2016, with a lien on Gross Revenues junior to the lien of the Parity Bonds. The District has not made any draws on this line of credit facility. The facility provides that Bank of America will provide letters of credit up to a maximum of \$10,000,000 to secure certain derivative products. Bank of America has not provided any letters of credit under this facility, and the District has started the process to replace or extend the line of credit upon its expiration. See “THE DISTRICT’S POWER SUPPLY—Power Swaps.”

### **Reserve Account**

A Reserve Account has been established in the Bond Fund to further secure the payment of Parity Bonds. The Reserve Account Requirement is defined in the Bond Resolution as the least of (1) maximum Annual Debt Service for the Parity Bonds, (2) 125% of Average Annual Debt Service for the Parity Bonds, or (3) the amount permitted by the Code to be funded from proceeds of tax-exempt bonds. Should Future Parity Bonds be issued, an amount sufficient to meet the then Reserve Account Requirement will be either deposited upon the issuance of those bonds or deposited in approximately equal monthly installments from the Revenue Fund within the earlier of five years or by the final maturity date of such Additional Bonds. The District may at any time provide all or any part of the Reserve Account Requirement through Qualified Insurance or Qualified Letter of Credit. The District’s reimbursement obligation for such Qualified Insurance, if any, will rank on a parity of lien with the Parity Bonds. See definition of Qualified Insurance in APPENDIX B—“SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.”

The District expects to deposit District funds or Bond proceeds, if necessary, which together with amounts on deposit in the Reserve Account will be equal to the Reserve Account Requirement. There is currently \$1,083,997 of cash in the Reserve Account, along with the reserve policy as described below.

With the consent of the owners of not less than 66-2/3% in aggregate principal amount of Outstanding Parity Bonds, as provided in the Bond Resolution, the resolution authorizing any Additional Bonds may establish a separate debt service reserve account for any such Additional Bonds and set forth the reserve account requirement for such bonds or provide that some or all of such Additional Bonds be secured by the Reserve Account. The owners of the Bonds by taking and holding the same shall be deemed to have consented to the adoption by the District of such supplemental resolution.

*Reserve Account Surety Bond.* A reserve policy was obtained from Financial Security Assurance Inc., which is now known as Assured Guaranty Municipal Corp. (“FSA”), to secure the Reserve Account Requirement for the Parity Bonds. The maximum amount of the FSA reserve policy is \$3,499,979, and expires on November 1, 2021, or earlier if no Parity Bonds are outstanding.

The reserve policy issued by FSA provides that upon the later of one business day after the receipt by FSA of a demand for payment executed by the Bond Registrar certifying that provision for a payment of principal or interest on the Parity Bonds when due has not been made FSA will promptly deposit funds with the Bond Registrar sufficient to enable the Bond Registrar to make such payments due on the Parity Bonds, but in no event exceeding the policy limit of the reserve policy so drawn on.

Pursuant to the terms of the reserve policy, the policy limit is automatically reduced to the extent of each payment made by the insurer under the terms of the reserve policy, and the District is required to reimburse the insurer for

any draws under the reserve policy with interest at a market rate. Upon such reimbursement, the reserve policy is reinstated to the extent of each reimbursement up to but not exceeding the policy limits. The reimbursement obligation of the District under the reserve policy is subordinate to the District's obligations with respect to the Parity Bonds.

In the event the amount on deposit in, or credited to, the Reserve Account exceeds the amount of the reserve policy, any draw on the reserve policy shall be made only after all the funds in the Reserve Account have been expended. In the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the reserve policy, is insufficient, draws on the reserve policy shall be made on a pro rata basis to fund the insufficiency. The surety bonds do not insure against nonpayment caused by the insolvency or negligence of the Bond Registrar.

FSA is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). Certain SEC filings of FSA are available on the company's website, [www.assuredguaranty.com](http://www.assuredguaranty.com) (which is not incorporated herein by this reference). Such reports, proxy statements and other information may also be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549.

Moody's Investors Service and S&P Global Ratings currently rate FSA "A2" and "AA," respectively. Fitch Ratings has withdrawn its rating for FSA. The resolutions authorizing the Outstanding Parity Bonds do not require that the Reserve Account be funded when the providers of Qualified Insurance are downgraded.

#### **Other Covenants**

The District has also covenanted in the Bond Resolution, among other things, to maintain the properties of the Electric System in good repair, to insure properties of the Electric System, to keep proper books of account of the Electric System, and to sell or otherwise dispose of the Electric System in its entirety only if provision is made for the redemption of all Parity Bonds, if any, then outstanding. See Appendix B—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Certain Other Covenants."

#### **Flow of Funds Under the Bond Resolution**

The Revenues of the District shall be deposited in the Revenue Fund and credited to the following accounts and used only for the following purposes and in the following order of priority:

A. All Revenues paid into the Revenue Fund shall first be credited to the General Account therein and applied as follows:

1. to pay Operating Expenses of the Electric System, and Resource Obligations when payable as Operating Expenses, and to provide for sufficient working capital for the operation of the Electric System;

2. to make all payments required to be made into the Interest Account in the Bond Fund for the payment of accrued interest on the Parity Bonds on the next interest payment date and to make District Payments;

3. to make all payments required to be made into the Principal Account in the Bond Fund for the payment of the principal amount of Serial Bonds next coming due; and to make all payments required to be made into the Bond Retirement Account in the Bond Fund for mandatory redemption of Term Bonds and to pay Resource Obligations not payable as Operating Expenses;

4. to make all payments required to be made into the Reserve Account in the Bond Fund created to secure the payment of the Parity Bonds and to pay certain reimbursement obligations; and

5. to make all payments required to be made into any special fund or account created to pay or secure the payment of the principal of and interest on any revenue bonds, warrants or other revenue obligations of the District having a lien upon Revenues and money in the Revenue Fund and Bond Fund and accounts therein junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds.

B. After the payments required to be made out of the General Account pursuant to A above, the District may credit any remaining Revenues to the Contingency and Replacement Account in the Revenue Fund in each fiscal year up to an amount equal to 25% of the Annual Debt Service in such fiscal year.

C. After the payments required to be made out of the General Account and after the credit to the Contingency and Replacement Account, if any, pursuant to B above, the District may credit any remaining Revenues to the Rate Stabilization Account in the Revenue Fund.

D. After all of the above payments and credits have been made, amounts remaining in the General Account may be used for any other lawful purpose of the District.

### **Resource Obligations**

Upon compliance with certain requirements in the Bond Resolution (see Appendix B—“SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Resource Obligations”), the District may (1) enter into contracts for the purchase of energy, capacity, capability or conservation, or (2) construct or acquire as a separate system, facilities or resources for the generation of power and energy or for the conservation, transformation, transmission or distribution of power and energy and may declare costs associated with such contract or separate system to be a Resource Obligation of the Electric System. Notwithstanding the limitations set forth in the previous subsection, a Resource Obligation shall be paid as an Operating Expense of the Electric System for any month in which the benefits contracted for were made available to the Electric System during such month. The lien on Revenues of Resource Obligations rank prior to debt service on Parity Bonds. When such benefits are not available, a Resource Obligation shall be payable from Revenues on a parity of lien on Revenue with the Parity Bonds. The District has not entered into any Resource Obligations.

The District has also covenanted in the Bond Resolution not to enter into any agreement that obligates the District to pay from Revenues for (a) generating or transmission capacity or the use or lease of generating or transmission facilities under which agreement payment is not conditioned on the availability of such capacity, energy or facility, or (b) the installment purchase or lease of property which otherwise transfers to the District the burdens and benefits of ownership, unless such agreement specifically provides that the payment obligation of the District thereunder is junior to the obligation of the District to make payments from the Revenue Fund into the Bond Fund. This restriction does not apply to Resource Obligations.

### **Contingent Payments and Obligations**

The District has entered into, and may in the future enter into, contracts and agreements in the course of its business that include an obligation on the part of the District to make payments or post collateral contingent upon the occurrence or nonoccurrence of certain future events, including events that are beyond the direct control of the District. These agreements may include interest rate swaps and other similar agreements, agreements with respect to the delivery of electric energy or other energy, letter of credit agreements and other financial and energy hedging transactions. Such contingent payments or posting of collateral may be conditioned upon the future credit ratings of the District and/or other parties, maintenance by the District of specified financial ratios, future changes in energy prices, and other factors. Some such payments may be characterized as Operating Expenses, and thus may be payable from Revenues prior to the payment of debt service on the Bonds. Other such payments may be payable on a parity with debt service on the Bonds, including any “regularly scheduled payments” with respect to Derivative Products. The District has entered into several energy swap agreements that include such contingent payment obligations. See “THE DISTRICT’S POWER SUPPLY—Power Swaps” and Appendix B—“SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Derivative Products.”

## No Acceleration Upon Default

Upon the occurrence and continuance of an Event of Default under the Bond Resolution, payment of the principal amount of the Bonds is not subject to acceleration. The District thus would be liable only for principal and interest payments as they became due, and the Bondowners would be required to seek a separate judgment for each payment, if any, not made. Any such action for money damages would be subject to any limitations on legal claims and remedies against public bodies under Washington law. Amounts recovered would be applied to unpaid installments of interest prior to being applied to unpaid principal and premium, if any, which had become due. The District has never defaulted in the payment of principal or interest on any of its bonds.

## DEBT SERVICE REQUIREMENTS

The District's debt service on the outstanding 2010 Bonds, 2011 Bonds and the Bonds is set forth below. In addition, the District has a \$10,000,000 line of credit with a lien on Net Revenues junior to the lien of the Parity Bonds. See "SECURITY FOR THE BONDS—Junior Lien Debt." A portion of the federal credit payments the District should receive for a portion of the 2010 Bonds has been reduced as a result of the Federal sequestration. The reduction is expected to be 6.9% as of October 1, 2016; the reduction was 6.8% from October 1, 2015 through September 30, 2016; 7.3% from October 1, 2014 through September 30, 2015; and 7.2% from October 1, 2013 through September 30, 2014.

		Debt Service Requirements <sup>(1)</sup>			
Calendar Year	Outstanding Bonds Debt Service <sup>(2)</sup>	The Bonds <sup>(3)</sup>			Combined Debt Service <sup>(3)</sup>
		Principal	Interest	Total	
2016	\$ 4,019,018	--	--	--	\$ 4,019,018
2017	5,126,237	\$ 25,000	\$ 1,066,892	\$ 1,091,892	6,218,129
2018	5,498,987	55,000	988,900	1,043,900	6,542,887
2019	5,500,487	55,000	986,700	1,041,700	6,542,187
2020	5,502,987	60,000	984,500	1,044,500	6,547,487
2021	5,500,987	60,000	982,100	1,042,100	6,543,087
2022	4,499,237	65,000	979,700	1,044,700	5,543,937
2023	2,688,090	830,000	977,100	1,807,100	4,495,190
2024	2,652,884	900,000	943,900	1,843,900	4,496,784
2025	2,613,869	975,000	907,900	1,882,900	4,496,769
2026	2,576,045	1,055,000	868,900	1,923,900	4,499,945
2027	2,539,119	1,130,000	826,700	1,956,700	4,495,819
2028	2,494,181	1,220,000	781,500	2,001,500	4,495,681
2029	2,448,679	1,315,000	732,700	2,047,700	4,496,379
2030	2,397,285	1,420,000	680,100	2,100,100	4,497,385
2031	--	990,000	623,300	1,613,300	1,613,300
2032	--	1,030,000	583,700	1,613,700	1,613,700
2033	--	1,075,000	542,500	1,617,500	1,617,500
2034	--	1,115,000	499,500	1,614,500	1,614,500
2035	--	1,160,000	454,900	1,614,900	1,614,900
2036	--	1,200,000	408,500	1,608,500	1,608,500
2037	--	1,260,000	348,500	1,608,500	1,608,500
2038	--	1,325,000	285,500	1,610,500	1,610,500
2039	--	1,390,000	219,250	1,609,250	1,609,250
2040	--	1,460,000	149,750	1,609,750	1,609,750
2041	--	1,535,000	76,750	1,611,750	1,611,750
Total <sup>(1)</sup>	\$ 56,058,091	\$ 22,705,000	\$ 16,899,742	\$ 39,604,742	\$ 95,662,833

(1) Totals may not add due to rounding.

(2) Excludes the Refunding Candidates and the Build America Bonds subsidy for the 2010 Bonds.

(3) Preliminary, subject to change.



## **THE DISTRICT**

### **General**

The District, a municipal corporation of the State of Washington, was established at the general election of 1934 and exists under and by virtue of the Enabling Act, for the purpose of engaging in the purchase, generation, transmission, distribution and sale of electric energy. The District is located in southeastern Washington, approximately 220 miles southeast of Seattle, Washington, 150 miles southwest of Spokane, Washington, and 220 miles northeast of Portland, Oregon.

Pursuant to the Enabling Act, the District is empowered to (1) purchase electric energy, (2) sell electric energy at wholesale and retail, (3) acquire, construct and operate electric generating plants and transmission, distribution and telecommunication facilities, and (4) issue revenue obligations for the purpose of financing the acquisition and construction of electric properties and for other corporate purposes. Additionally, the District is authorized under RCW 54.16.330 to provide wholesale telecommunication services. Public utility districts may operate water utilities, although the District does not currently have any water utility service.

### **Service Area**

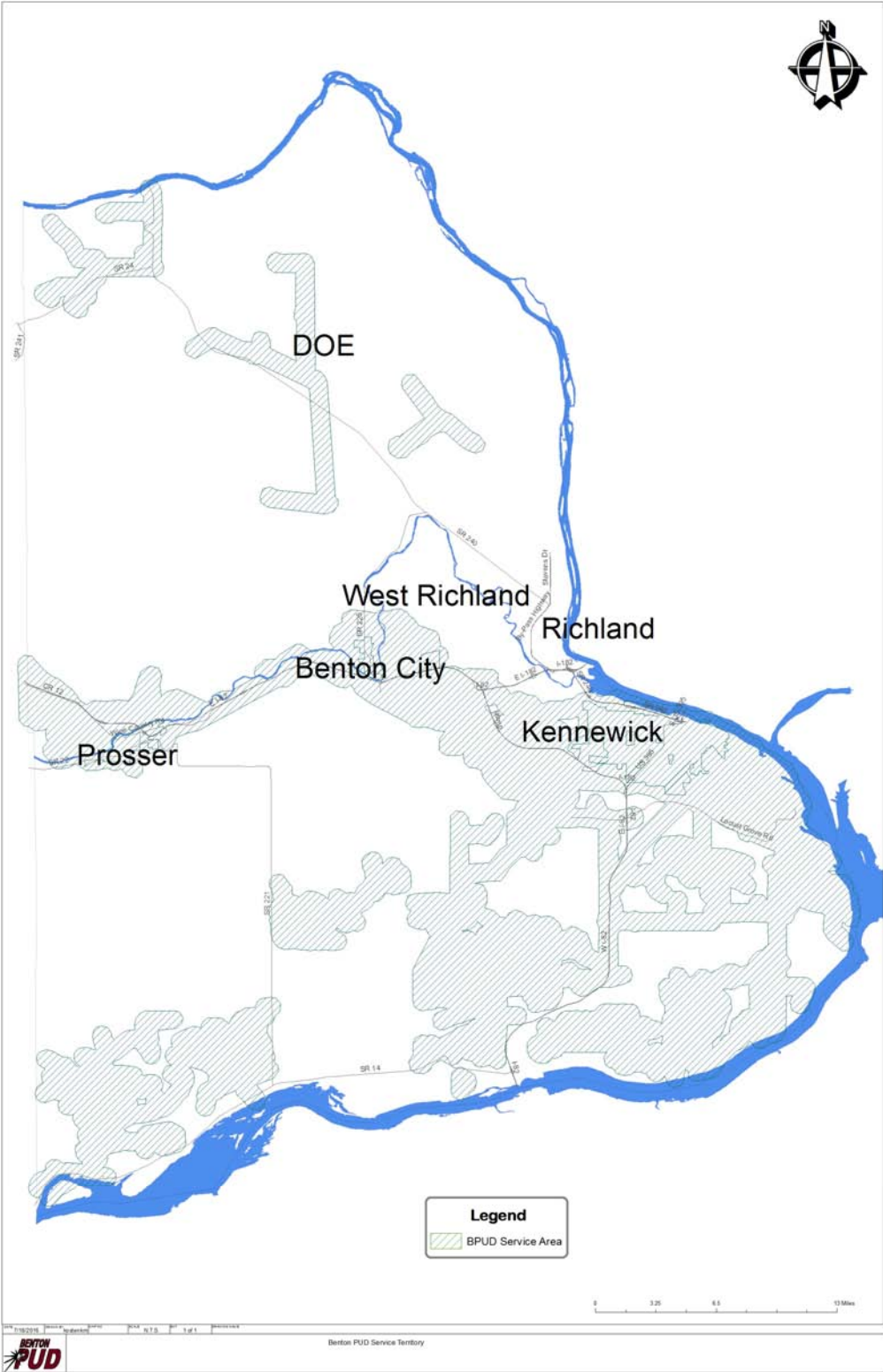
The District serves Benton County exclusive of the following areas: most of the City of Richland (the “City”), the U.S. Department of Energy’s operations on the Hanford Reservation, the City of West Richland and those rural areas of the County which are served by the Benton Rural Electric Association. Cities in the District’s service area include Kennewick, population 79,120, Prosser, population 5,940, and Benton City, population 3,325. The District maintains its administrative offices in the City of Kennewick.

Although cities in the District’s service area have statutory authority to provide electric service, only the City does so, and the District is not aware of any other city in its service area that is considering providing electric service. The District also has statutory rights of eminent domain, which, subject to certain limitations, enable the District to acquire various assets and property rights, including electric distribution facilities in Benton County of any investor-owned utility company that may seek to serve Benton County. The District’s facilities in any city and its right to provide electric service in any city are subject to the reasonable police power of such city.

The District’s service area overlaps the service area of the Benton Rural Electric Association in small portions of rural Benton County. Since 1966 and as updated in 2000, the District and Benton Rural Electric Association have had a written agreement setting forth the methodology to determine which of the two utilities should serve new customers bordering the two utilities. This agreement expires on July 25, 2025.

In 2005, the District and the City renegotiated a 25-year service area agreement. The agreement defines the boundaries for electric utility service, encourages the orderly expansion of the City’s electric service into its Urban Growth Area, and establishes compensation for the sale and transfer of electric facilities between the utilities.

**PUBLIC UTILITY DISTRICT NO. 1  
OF BENTON COUNTY, WASHINGTON**  
Service Area



## Management

*Commissioners.* The District is administered by a three member Board of Commissioners (the “Commission”), elected from commissioner districts. Members serve six year terms with one member elected every two years.

The present members of the Commission are:

Commissioners	First Elected/Appointed	Current Term Expires
Lori Kays-Sanders, President	November 2, 2004	December 31, 2016
Barry Bush, Vice President	November 6, 2012	December 31, 2018
Jeffrey D. Hall, Secretary	January 10, 2002	December 31, 2020

*Administrative Staff.* Key members of the senior management staff of the District include the following:

*Chad B. Bartram*, General Manager, joined the District in 2001. He became the General Manager in 2013 and previously served as Assistant General Manager and Director of Finance and Business Services. Prior to joining the District, Mr. Bartram was with Energy Northwest supervising business planning, accounting and budgeting. He has over 35 years of financial experience. Mr. Bartram has a Master’s Degree in Management Science from the University of Central Texas and a Bachelor’s Degree in Accounting from Seattle University. He is a Certified Public Accountant and Certified Management Accountant.

*Stephen B. Hunter*, Assistant General Manager/Director of Operations, joined the District in 1986 as an Electrical Engineer. He was appointed Assistant General Manager in 2013, and has served the District as a Distribution Engineer, Associate Engineer, System Engineer, Supervisor of Operations and Director of Engineering. He is a registered professional engineer. Mr. Hunter’s engineering degree is from Washington State University.

*Jon L. Meyer*, Director of Finance and Business Services, joined the District in 2001. Mr. Meyer became the Director of Finance and Business Services in 2014. He previously served as the District Treasurer and prior to that, Accounting Manager. Mr. Meyer oversees the District’s accounting, contract and purchasing and risk management and treasury functions. He is a Certified Public Accountant and Certified Management Accountant with a Masters of Accounting from Washington State University.

*Dan F. Hultgrenn*, General Counsel, has represented the District since 2003. Mr. Hultgrenn is in private practice and has been practicing municipal law since 1977. He provides legal services to a city and various special districts, including port, fire protection, school, mosquito control, conservation, hospital, water and irrigation districts. Mr. Hultgrenn has a bachelor’s degree in business management from Whitworth College and a Doctor of Jurisprudence from Willamette University.

*Rick Dunn*, Senior Director of Engineering and Power Management, joined the District in 2007 as the Manager of Engineering. Mr. Dunn has 28 years experience working in the electric power industry as a consultant and manager. Prior to joining the District, Mr. Dunn served as the Manager of Engineering and Operations for the Umatilla Electric Cooperative. He has a Bachelor’s Degree in Electrical Engineering from Washington State University and is a registered professional engineer.

*Paula Ball*, Director of Customer Programs and Service, joined the District in 2005 and currently serves as Director of Customer Programs and Services. Ms. Ball is responsible for executing the District’s customer engagement strategy and oversees the Key Accounts and Customer Care departments. She previously worked for Puget Sound Energy where she served as Director of Customer Service. Ms. Ball received her Bachelors of Arts Degree in Business Administration from Washington State University. She volunteers her time with the Tri-Cities Cancer Center, where she is a member of the Autumn Affair’s Auction Committee.

*Kevin K. White*, Supervisor of Risk Management and Treasury, joined the District in 2012 as a Power/Rates Analyst. He became the Supervisor of Risk Management and Treasury in 2014. Prior to joining the District, Mr. White was with Energy Northwest as a Financial Analyst and with Chelan County PUD as a Financial/Treasury Analyst. He

has 14 years of financial experience. Mr. White has a Bachelor's Degree in Business Administration from Central Washington University.

### **District Employees and Retirement Plan**

The District has 154 full and part time employees. The District has an agreement with the International Brotherhood of Electrical Workers ("IBEW"), which covers approximately 56% of the District's employees. The remaining 44% are not represented by any union. The term of the existing contract with the IBEW is three years and expires on March 31, 2017. The District believes that it has good relations with the employees represented by IBEW. The District has not experienced a work stoppage or a strike in the past 40 years. Through an interlocal agreement with six other Central Washington public utility districts ("PUDs"), the District is a member of Central Washington Public Utilities United ("CWPU"). CWPU negotiates jointly on behalf of the seven member PUDs with IBEW for wages and benefits. Additionally, the seven PUDs have formed the Central Washington Public Utilities Unified Insurance Program Trust for the purpose of providing an employee pool for health insurance benefits. See "THE DISTRICT—Insurance" herein.

**Retirement Plans.** See Note 6 of APPENDIX A—"2015 AUDITED FINANCIAL STATEMENTS" for a further description regarding the retirement benefit plans described below.

**Pensions.** Pensions for the District's employees are provided by the Washington State Public Employees Retirement System ("PERS") through three different retirement plan options. These plans are administered by the State. The Washington State Investment Board, a 15-member board created by the Legislature in 1981, invests the funds in the plans. PERS Plan 1 and Plan 2 are defined benefit plans. PERS Plan 3 is both a defined benefit plan (employer share) and defined contribution plan (employee share). Contributions by both employees and employers are based on gross wages. PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those PERS participants who joined on or after October 1, 1977 are Plan 2 members, unless they exercise an option to transfer to Plan 3. PERS participants joining on or after September 1, 2002 have the irrevocable option of choosing membership in PERS Plan 2 or PERS Plan 3.

State law requires systematic actuarial based funding to finance the retirement plans. Actuarial calculations to determine employer and employee contributions are prepared by the Office of the State Actuary ("OSA"), a nonpartisan legislative agency charged with advising the Legislature and Governor on pension benefits and funding policy. To calculate employer and employee contribution rates necessary to pre-fund the plans' benefits, OSA uses actuarial cost and asset valuation methods selected by the Legislature as well as economic and demographic assumptions. The Legislature adopted the following economic assumptions for contribution rates beginning July 1, 2015: (1) 7.8% rate of investment return; (2) general salary increases of 3.75%; (3) 3.0% rate of Consumer Price Index increase; and (4) 0.95% growth in membership. The long-term investment return assumption is used as the discount rate for determining the liabilities for a plan. The 10-year annualized return on the investment returns as of March 31, 2016 on the retirement funds was 6.12%.

All State-administered retirement plans are funded by a combination of funding sources: (1) contributions from the State; (2) contributions from employers (including the State as employer and the District and other governmental employers); (3) contributions from employees; and (4) investment returns.

Under State statute, contribution rates are adopted by the Pension Funding Council ("PFC") in even-numbered years for the next ensuing State biennium. The rate-setting process begins with an actuarial valuation by the OSA, which makes non-binding recommendations to the Select Committee on Pension Policy, which then recommends contribution rates to the PFC. No later than the end of July in even-numbered years, the PFC adopts contribution rates, which are subject to revision by the Legislature. The following table outlines the current contribution rates of employers and employees.

**Contribution Rates for the 2015-17 Biennium  
Expressed as a Percentage of Covered Payroll**

	<u>Employer<sup>(1)</sup></u>	<u>Employee</u>
PERS Plan 1	11.18%	6.00%
PERS Plan 2	11.18	6.12
PERS Plan 3	11.18	Variable <sup>(2)</sup>

(1) Includes a 0.18% State Department of Retirement Systems administration expense fee.

(2) Rates vary from 5.0% minimum to 15.0% maximum based on the rate selected by the PERS 3 member.

Source: Department of Retirement Systems.

In 2014, the District contributed \$1,126,533 to the PERS system, on a covered payroll of \$12,475,479, and in 2015, the District contributed \$1,292,496, on a covered payroll of \$12,895,713. For additional information, see Note 6 to the Audited Financial Statements for the Year Ended December 31, 2015, attached hereto as Appendix A.

**Plan Funding Status and Unfunded Actuarial Liability.** While the District's contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. It is expected that the contribution rates for employees and employers in the PERS Plans 2 and 3 will increase in the coming years. The OSA website includes information regarding the values, funding levels and investments of these retirement plans.

Historically, OSA used the Projected Unit Credit ("PUC") cost method and the Actuarial Value of Assets ("AVA") to report a plan's funded status. PUC was one of several acceptable measures of a plan's funded status under current GASB rules. The PUC cost method projects future benefits under the plan, using salary growth and other assumptions and applies the service that has been earned as of the valuation date to determine accrued liabilities. The Actuarial Value of Assets ("AVA") is calculated using a methodology which smoothes the effect of short-term volatility in the Market Value of Assets ("MVA") by deferring a portion of annual investment gains or losses over a period of up to eight years.

In September 2015, OSA adopted the Entry Age Normal ("EAN") cost method to estimate accrued pension liabilities for the purposes of reporting funded status. The EAN method represents each plan member's benefits as a constant share of payroll throughout the member's career. This liability estimate incorporates the statutorily set discount rate and fully reflects the demographic assumptions revised in the June 30, 2013 valuation, which included projected improvements in mortality rates.

During the years 2001 through 2010, the rates adopted by the Legislature were lower than those that would have been required to produce actuarially required contributions to PERS Plan 1, a closed plan with a large proportion of the retirees. The State Actuary's actuarial valuation for PERS Plan 1 as of June 20, 2013 showed a 63% funded ratio (unfunded liability of \$4.831 billion) while PERS Plans 2 and 3 had valuation assets that exceed their accrued liability by \$537 million (a 102% funded ratio). The State Actuary's actuarial valuation for PERS Plan 1 as of June 30, 2014, showed a 61% funded ratio (unfunded liability of \$4.965 billion) while PERS Plans 2 and 3 had valuation assets that exceed their accrued liability by \$214 million (a 101% funded ratio). The decrease in the funded status and increase in the unfunded accrued actuarial liability primarily reflect changed demographic assumptions, including projected improvements in mortality rates, and the statutory requirement that the assumed rate of return be reduced to 7.8% from 7.9%.

The State Actuary's actuarial valuation for PERS Plan 1 and PERS Plans 2 and 3 as of June 30, 2015, showed a 58% funded ratio (unfunded liability of \$5.239 billion) and a 88% funded ratio (unfunded liability of \$3.715 billion), respectively. Using the EAN cost method, the State Actuary's actuarial valuation for PERS Plan 1 and PERS Plans 2 and 3 as of June 30, 2014, showed a 61% and 90% funded ratio, respectively. In comparing the funded status as of June 30, 2014 to June 30, 2015, there was a small decline from 87 percent to 86 percent, partly due to the drop in the statutorily defined discount rate from 7.8 percent to 7.7 percent.

PERS Plans 2 and 3 are accounted for in the same pension trust fund and may legally be used to pay the defined benefits of any PERS Plan 2 and 3 member. Assets for one plan may not be used to fund benefits for another plan:

however, all employers in PERS are required to make contributions at a rate (percentage of payroll) determined by the OSA every two years for the sole purpose of amortizing the PERS 1 unfunded actuarial accrued liability within a rolling 10-year period. The Legislature established maximum contribution rates from 2009 to 2015 and certain minimum contribution rates that became effective in 2015 and remain in effect until the actuarial value of assets in PERS Plan 1 equals 100% of the actuarial accrued liability of PERS Plan 1. These rates are subject to change by future legislation enacted by the State Legislature to address future changes in actuarial and economic assumptions and investment performance.

The information in this section has been obtained from the District's financial statements and information on the OSA and DRS websites.

**New GASB Reporting Rules.** The Government Accounting Standard Board ("GASB") has implemented new pension regulations that require employers, including the District, to report their pension liabilities on a generally accepted accounting principles ("GAAP") basis rather than a funding basis. Beginning with its 2015 financial statements, the District reported its proportionate share of the net plan asset or liability for each pension plan in which District employees participate. The liability is based on the actuarial present value of projected benefit payments to periods of employee service, a discount rate that considers the availability of plan assets and recognition of projected investment earnings. The DRS determines each participating employers' proportionate share of the plan liability and OSA determines each plan's accounting valuation. The GASB rules impact accounting for pensions and not the funding status of the plans calculated by OSA or pension contribution rates that are set based on statutory assumptions.

DRS has calculated the collective net pension liability for the various retirement plans based on the new GASB reporting requirements as well as the District's share of such liability. Net pension liability equals the total pension liability (a measure of the total cost of future pension benefit payments already earned, stated in current dollars) minus the value of the assets in the pension trust that can be used to make benefit payments. Contributions from plan members and employers are assumed to continue to be made at contractually required rates, the assumed long-term rate of investment return is 7.50%, the assumed economic inflation is 3.0%, and the assumed salary inflation is 3.7%. The following table shows the District's share of the net pension liability for the plans it participates in for the State fiscal year ended June 30, 2015 based on its share of contributions for the year.

**District's Share of Pension Liabilities/(Assets)  
For Year Ended June 30, 2015**

	Net Liability/(Assets)	District Percent	District's Share of Net Liability/(Assets)
PERS 1 <sup>(1)</sup>	\$5,230,930,000	0.114841%	\$6,007,252
PERS 2/3	3,573,057,000	0.145674	5,205,015

(1) Includes District's 0.112796% for UAAL.

Source: DRS CAFR for Fiscal Year Ended June 30, 2015

**Deferred Compensation Plans.** The District maintains an Internal Revenue Code Section 457 deferred compensation plan and a Section 401(a) plan, which permit employees to defer a portion of their compensation. The District match was locked at a maximum rate of 2% on January 1, 2007. The District has no liability for losses under these plans but does have the duty to act for the exclusive benefit of plan participants and their beneficiaries and to exercise administrative actions in accordance with plan documents, exercising due care that would be expected of a prudent person.

**Health Reimbursement Arrangement.** The District maintains a health reimbursement arrangement for its employees. Effective January 1, 2015, the District converted an employee incentive (of 1% of an employee's regular straight-time wages for the pay period) for voluntarily participating in the employer provided wellness program, to a monthly \$150 into the health reimbursement arrangement. This payment is intended to help employees pay for qualified health care costs and insurance premiums upon retirement. Contributions are held in trust or the exclusive benefit of participants and beneficiaries.

## **Accounting and Financial Statements**

The accounting and reporting policies of the District conform to generally accepted accounting principles for municipal governments. The District adheres to the accounting standards and pronouncements of GASB, which is the accepted standard-setting body for governmental entities. Accounts are maintained in accordance with the Uniform System of Accounts for Public Utilities and Licenses as published by the Federal Energy Regulatory Commission ("FERC").

The District uses the economic resources measurement focus and the accrual basis of accounting where revenues are recognized when incurred, regardless of the timing of the related cash flows. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses, while revenues and expenses related to capital, financing and investing activities are considered to be nonoperating revenues and expenses.

The State Auditor's Office has the responsibility to audit the District's financial operations. In addition, since 2012, the District's financial statements are audited by an independent auditing firm of Moss Adams LLP. The financial statements as of December 31, 2015, included in this Official Statement, have been audited by Moss Adams LLP, as stated in their report appearing herein as Appendix A. Moss Adams LLP has not been engaged to perform and has not performed, since the date of their report included herein, any procedures on the financial statements addressed in that report. Moss Adams has not performed any procedures relating to this Official Statement or participated in the preparation of this Official Statement.

## **Insurance**

The District and 17 other public utility districts and one joint operating agency, NoaNet, participate in a joint self-insurance pool in affiliation with the Public Utility Risk Management System (the "PURMS Fund"). The PURMS Fund self-insures its members to \$1,000,000 for liability and currently maintains a reserve of at least \$3,000,000. Members of the PURMS Fund are automatically assessed to make up any shortfall in the reserve amount, once the fund balance has dropped below \$2,500,000. General comprehensive liability insurance in excess of \$1,000,000 is insured through Associated Electric and Gas Insurance Services Limited up to a limit of \$35,000,000, and for an additional \$25,000,000 through Energy Insurance Mutual Limited. The fund maintains \$35,000,000 in directors and officers liability coverage with a retention level of \$500,000. The members share joint liability and administrative costs of the fund among themselves. As all members share in replenishing the fund, the District's exposure to any single claim is minimized. For premiums and assessments for the fund's liability insurance, the District recorded approximately \$354,200 and \$235,300 in 2014 and 2015, respectively. The PURMS Fund and its members are involved in ongoing litigation and claim processing of which the total dollar value of the risk posed is unknown.

In addition to liability insurance coverage, the District maintains property insurance with the PURMS Fund. The self-insurance level for property insurance is \$250,000 with reserves of \$750,000. In addition, the PURMS Fund purchases \$150,000,000 of excess insurance over the \$250,000 (or higher) retention level. The District recorded \$217,100 and \$143,900 in 2014 and 2015, respectively, for premiums and assessments for property insurance within the PURMS Fund.

The District is a member of the Central Washington Public Utilities Unified Insurance Program Trust (the "UIP Trust"), that provides a central fund for the collection and disbursement of employee benefit premiums and claims involving medical, dental, life and long-term disability coverage. The UIP Trust is administered by a Board of Trustees consisting of a trustee and an alternate trustee from each of the seven member districts. The Board of Trustees of the UIP Trust is authorized to negotiate and obtain insurance policies and authorize disbursements made from the UIP Trust to third-party administrators or other entities. The UIP Trust has self-insured medical and dental plans.

The District pays unemployment claims on a reimbursement basis with claims administered by the State Department of Employment Security.

The District self-pays short-term disability benefits through a 70% salary continuation program from the 41<sup>st</sup> consecutive scheduled hour of inability to work until the employee either recovers, returns to work or completes the

waiting period required for long-term disability insurance eligibility, whichever is earlier. Certification of illness or injury by a licensed, competent medical authority is required. The District utilizes a third-party administrator who provides medical oversight and advice-to-pay for disability claims.

### **General Obligation Bonds and Taxing Authority**

The District is authorized to issue nonvoter-approved general obligation bonds for any corporate purpose of the District in an amount up to 3/4 of 1 percent of the total assessed value of the taxable property within the District. In addition, the District is authorized to levy an annual tax on all taxable property within the District up to \$0.45 per \$1,000 of assessed value in any one year. The District has no outstanding general obligation bonds and does not levy a tax. The proceeds of any such tax would not be available to pay or secure the Bonds. The District has no plans to utilize this taxing power.

### **Telecommunications**

The District, along with eight other Washington public utility districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation established in 2000. NoaNet leases fiber optic strands from Bonneville and was created to provide its members and their respective rural communities with a high speed fiber optic transmission system to serve their needs and to provide cost-effective communications facilities and other services for use by the members and others. Today, NoaNet provides wholesale services to many large telecommunications and Internet based service companies as well as a significant portion of local and state wide entities in the State.

NoaNet has outstanding \$2,790,000 in bonds, of which the District's Electric System has guaranteed the repayment of up to a maximum of \$392,274 to the extent NoaNet's revenues are insufficient for this purpose. Each member that is a guarantor of the payment of the principal of and interest on the bonds is liable by assessment, or otherwise, to repay NoaNet for amounts due and owing with respect to such principal and interest up to each member's percentage interest. The District's percentage interest is 14.06%. In the event of a failure by any member or members to pay such amounts when due, NoaNet may bill other members as necessary, and each member is obligated to pay 30 days after receipt of the bill, an additional amount up to a maximum of 25% of such member's percentage interest (the District's maximum percentage interest is 17.57%, or \$490,203), in order to cover the deficiency caused by such member's or members' failure to pay. Any member that pays an additional amount to cover a deficiency reserves all rights to seek reimbursement from the member or members that failed to pay. The District's guarantee is junior in lien to the Parity Bonds.

In addition, as of April 1, 2016, NoaNet has a \$10,500,000 in total aggregate authorized principal amount bank loan with Wells Fargo Bank, National Association (of which \$9,199,242 was outstanding as of June 30, 2016) to fund capital expenditures, which is not guaranteed by the District or other members; however, under NoaNet's bylaws, NoaNet can bill members for costs of NoaNet, including debt service. In 2014 and 2015, the District paid nothing to NoaNet for assessments, and the 2016 NoaNet budget does not anticipate a contribution from members to pay for outstanding debt or for any operational requirements.

In 2010, NoaNet received two federal grant awards, totaling over \$138 million, the largest amount given in the State, from the National Telecommunications & Information Administration Broadband Technology Opportunities Program ("BTOP"). The District was a sub-recipient in the second BTOP grant with a total project budget of \$3.5 million. The District's actual projects costs were approximately \$2.3 million. While the original BTOP budget included a cash contribution from the District, final project and grant reconciliations resulted in no contribution being needed.

The District has installed and continues to build out a fiber optic backbone system in its service area to provide wholesale telecommunications services and for use by the Electric System. The District connected its fiber optic system to NoaNet's fiber optic communications system. Broadband coverage is also being extended through the development of a wireless network to deliver high-speed internet service. The District's gross capital investment as of December 31, 2015 in broadband infrastructure was \$19.8 million. Net of capital contributions and grant proceeds, the District has invested \$12.9 million in broadband infrastructure as of December 31, 2015.



## Investments

The District's funds are invested in a manner that emphasizes preserving principal and maintaining necessary liquidity. The District's allowable investments are restricted by Washington State law, and eligible investments include (i) bonds of the State or any local government in the State, (ii) general obligation bonds of any other state or local government thereof which have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency, (iii) registered warrants of a local government in the same county as the local government making the investment, (iv) obligations of the U.S. government, its agencies and wholly owned corporations, or obligations issued or guaranteed by supranational institutions, provided, that at the time of investment, the United States government must be the largest shareholder of such institution, (v) obligations of the Federal Home Loan Bank, Fannie Mae and other government-sponsored corporations, (vi) bankers' acceptances purchased on the secondary market, (vii) commercial paper purchased on the secondary market, subject to state investment board policies, and (viii) corporate notes purchased on the secondary market, subject to state investment board policies. Investments generally are made so that securities can be held to maturity.

*State Government Investment Pool.* The State Treasurer's Office administers the Washington State Local Government Investment Pool (the "LGIP"), a \$12.8 billion dollar (as of June 30, 2016) fund that invests money on behalf of more than 540 participants. In its management of LGIP, the State Treasurer is required to adhere, at all times, to the principles appropriate for the prudent investment of public funds. These are, in priority order, (i) the safety of principal; (ii) the assurance of sufficient liquidity to meet cash flow demands; and (iii) to attain the highest possible yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands.

The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool which provides its participants the opportunity to benefit from the economies of scale inherent in pooling. It is also intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than would otherwise be available to them. Although not regulated by the U.S. Securities and Exchange Commission (the "SEC"), the LGIP is invested in a manner generally consistent with the SEC guidelines for Rule 2a-7 money market funds; for example, currently it has a maximum weighted average maturity of 60 days and a maximum weighted average life of 120 days. The maximum final maturity is 397 days except for floating- and variable-rate securities and securities that are used for repurchase agreements. The weighted average maturity of the LGIP generally ranges from 30 to 60 days. Investments permitted under the pool's guidelines include U.S. government and agency securities, bankers' acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, motor vehicle fund warrants, and certificates of deposit issued by qualified Washington State depositories.

The Bond Resolution provides that money in the Bond Fund and the Revenue Fund be invested in "Permitted Investments." See Appendix B—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Certain Definitions." Also see Appendix A, Note 3.

As of June 30, 2016, the District's funds (both restricted and unrestricted) were invested as indicated in the following table:

Investments	
Investment Description	
Federal Home Loan Bank	\$ 8,045,780
Federal National Mortgage Association	6,000,460
LGIP	28,449,952
Total investments	<u>\$ 42,496,192</u>

## Financial Policies

The District periodically reviews and updates its financial policies in order to consider recent and relevant financial metrics for similar utilities. In 2015, the Commission last approved modifications to its financial policies.

The District's financial policy has a goal of keeping minimum operating reserves of not less than 90 days of cash on hand. If operating conditions cause reserves to fall below 90 days, the District will work to develop a plan to restore reserves to the 90 day level within three months. The District's unrestricted cash and investment balances totaled \$49.5 million in 2014 and \$45.5 million in 2015. Actual balances exceeded the minimum required level for each year.

In addition, the District is required by the Bond Resolution to maintain and collect rates and charges sufficient to provide Net Revenues in each fiscal year in an amount at least equal to 1.25 times the Annual Debt Service. The District has a minimum debt service coverage planning target of 2.0 times Annual Debt Service including capital contributions, and 1.75 times Annual Debt Service excluding capital contributions. For the years ended December 31, 2014 and 2015, the District's debt service coverage (as calculated pursuant to the Bond Resolution, including capital contributions) was 3.38 and 2.93 times, respectively.

The District also has a long-term goal of maintaining a debt-to-capitalization ratio of 38% or less, with the proviso that the Commission may direct staff to exceed this ratio when circumstances warrant, e.g., for the purchase of a long-term generation asset or capacity. For the years ended 2014 and 2015, the District's debt-to-capitalization ratios were 31% and 30%, respectively.

Under the Bond Resolution, the District may deposit revenue into the Rate Stabilization Account and remove it from the current year's revenue for purposes of calculating the debt service coverage ratio. The Rate Stabilization Account had a balance of \$7,500,000 as of June 30, 2016. The District does not expect to take money out of the Rate Stabilization Account in the near future. See "Operating Results" table below.

## **ELECTRIC SYSTEM**

### **General**

The District's service area comprises approximately 939 square miles of Benton County. The properties of the District's Electric System presently include approximately 89 miles of 115 kV transmission lines and 37 substations. The District has 1,662 miles of distribution lines, and other buildings, equipment, stores and related facilities. As of December 31, 2015, the District's gross investment in its Electric System was approximately \$221 million and the net investment was approximately \$83 million.

### **Electric and Telecommunication Rates**

The District is empowered and required under the laws pursuant to which it was organized and by the covenants of the Bond Resolution to establish, maintain, and collect rates and charges for electric power and energy and other services adequate to provide revenues sufficient for the punctual payment of the principal of, premium, if any, and interest on all outstanding indebtedness, to pay for the proper operation and maintenance expenses of the Electric System and to make all necessary repairs, replacements and renewals thereof. The District has the exclusive authority to set rates and charges for electric energy and services and is by law free from the ratemaking jurisdiction and control of the Washington Utilities and Transportation Commission or any other federal, state or local agency having the authority to set rates and charges for electric energy and services. The Public Utility Regulatory Policies Act of 1978 ("PURPA") directs state regulatory authorities and non-FERC jurisdictional utilities (including the District) to consider certain standards for rate design and other utility procedures. The District believes that it is operating in compliance with these PURPA ratemaking requirements. FERC could potentially assert jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under the Federal Power Act. FERC has adopted maximum prices that may be charged for certain wholesale power. The District may be subject to certain provisions of the Energy Policy Act of 2005, relating to transmission reliability and non-discrimination. Under the Enabling Act, the District is required to establish, maintain and collect rates or charges that are fair and nondiscriminatory and adequate to provide revenues sufficient for the payment of the principal of and the interest on revenue obligations for which the payment has not otherwise been provided and for other purposes set forth in the Enabling Act.

A person or entity that has requested wholesale telecommunications services from a public utility district may petition the Washington Utilities and Transportation Commission if it believes that the District's rates, terms and conditions are unduly or unreasonably discriminatory or preferential. The commission may issue an order finding non-compliance. The District charges wholesale providers of telecommunications services based on a published rate schedule.

The following table shows a comparison of the District's monthly electric bills for selected residential, commercial and industrial loads with the bills charged by certain public and private Northwest utilities. The comparative monthly electric bills shown are based on specific rate schedules for each utility; the use of other schedules applicable to particular customers will yield different results.

<b>Electric System<sup>(1) (2)</sup></b> <b>Comparable Monthly Electric Bills</b> <b>as of June 30, 2016</b> <b>(Winter/Summer Average Rates where applicable)</b>			
	<b>Residential</b> <b>(1,350 kWh)</b>	<b>Commercial</b> <b>(30 kW</b> <b>9,000 kWh)</b>	<b>Industrial</b> <b>(400 kW</b> <b>150,000 kWh)</b>
<b>The District</b>	\$108	\$572	\$8,982
<b>Washington State Public Utility Districts</b>			
Clallam County PUD No. 1	125	709	8,959
Clark Public Utilities	122	718	9,734
Cowlitz County PUD No. 1	114	794	11,099
Franklin County PUD No. 1	120	682	9,221
Grant County PUD No. 2	75	398	4,947
Grays Harbor County PUD No. 1	140	830	11,844
Kittitas County PUD No. 1	140	811	10,009
Klickitat County PUD No. 2	144	918	10,237
Lewis County PUD No. 1	102	575	8,418
Mason County PUD No. 3	132	778	10,431
Snohomish County PUD No. 1	133	799	12,244
<b>Washington Cities</b>			
City of Richland	105	552	7,573
City of Seattle	154	745	14,296
City of Tacoma	111	713	9,229
<b>Private Power Companies</b>			
Avista	117	963	15,330
Pacific Power (a PacifiCorp Company)	117	798	11,370
Portland General Electric	155	819	12,234
Puget Sound Energy	145	888	13,638
<b>Cooperatives</b>			
Benton REA	110	563	7,481
Tanner Electric	153	769	13,235

(1) Computed from the rate schedules provided by or found on the websites of the utilities listed. There are some variations in rate schedules and rate classification of the various utilities.

(2) Comparison as of June 30, 2016; however, the District's Commission approved a 4.9% rate increase effective September 1, 2016, and the following are the calculated average bills with the new rates: Residential - \$113, Commercial - \$600, and Industrial - \$9,421.

Source: The District and individual utilities.

### **District Rate History**

During the past ten years, the District has adjusted its retail power rates to accommodate changes in operating expenses, changes in the cost of wholesale power purchased from Bonneville, and certain cost of service adjustments. The following table summarizes the District's rate adjustments since 2010.

#### **Summary of Retail Rate Adjustments**

<b><u>Date Effective</u></b>	<b><u>Average Rate Increase</u></b>
January 1, 2010	6.00%
January 1, 2011	8.00
January 1, 2012	6.00
September 1, 2015	3.90
September 1, 2016	4.90

The District monitors and evaluates the need for future retail rate increases in order to meet targets established in financial policies. See "Financial Policies."

### **Future Financing Plans**

The District does not have any plans to issue additional Parity Bonds in the next 12 months. However, if market conditions allow for the refunding of outstanding Parity Bonds, such refunding will be considered.

## Customers, Energy Sales and Revenues

The following table shows the number of retail customers, energy sales and retail electric revenues per kWh by customer class for the District for the years 2011 through 2015.

<b>Customers, Energy Sales (MWh) and Revenues (per kWh)</b>					
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Customers (Average)					
Residential	40,201	40,645	41,322	41,758	42,375
General Service	5,421	5,499	5,572	5,643	5,737
Industrial	3	3	3	3	3
Irrigation	722	721	772	788	794
Other	1,850	1,842	1,852	1,861	1,853
Total	48,197	48,710	49,521	50,053	50,762
Energy Sales (MWh)					
Residential	687,953	668,018	697,887	696,804	665,505
General Service	503,471	512,797	519,493	533,008	530,283
Industrial	65,411	70,575	69,803	71,869	66,942
Irrigation	381,999	385,738	402,619	472,643	468,202
Other	9,528	8,148	6,972	6,998	7,090
Total	1,648,362	1,645,276	1,696,774	1,781,322	1,738,022
Peak Demand(MW)	380	394	415	431	429
Average Revenues per kWh (in cents)					
Residential	7.16	7.59	7.58	7.59	7.72
General Service	5.93	6.32	6.34	6.35	6.36
Industrial	4.25	4.57	4.55	4.52	4.56
Irrigation	4.61	4.88	4.88	4.82	4.76
Other	8.29	10.08	8.92	8.81	8.69
Average, All Classes	6.08	6.44	6.44	6.36	6.39

Source: District financial statements.

## Operating Results

The following table shows the District's historical operating results for 2011 through 2015.

	<b>Operating Results</b>				
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>OPERATING REVENUES</b>					
Sales of Electric Energy – Retail	\$105,228,051	\$110,799,843	\$115,079,778	\$117,641,940	\$116,820,422
Energy Sales for Resale	25,773,429	14,048,971	18,232,140	23,325,872	17,678,932
Transmission of Power for Others	397,063	797,837	776,957	632,528	690,639
Broadband Revenue	1,617,919	1,620,054	1,980,605	2,191,287	2,024,661
Other Revenue	1,424,566	1,879,829	1,249,791	1,472,425	1,670,466
<i>Total Operating Revenues</i>	<u>\$134,441,028</u>	<u>\$129,146,534</u>	<u>\$137,319,271</u>	<u>\$145,264,052</u>	<u>\$138,885,120</u>
<b>OPERATING EXPENSES</b>					
Purchased Power	\$75,475,402	\$68,652,534	\$77,877,737	\$84,714,618	\$82,340,739
Purchased Transmission & Ancillary Services	10,276,334	11,260,088	11,677,803	12,925,752	12,816,306
Conservation Program	808,494	405,589	1,315,642	89,940	417,113
Transmission Operations & Maintenance	17,575	12,684	82,066	81,220	81,305
Distribution Operations & Maintenance	7,499,422	8,191,232	8,092,079	8,540,568	9,051,462
Broadband Expense	674,581	696,415	890,521	982,869	1,022,025
Customer Accounting, Collection and Information	3,388,582	3,954,421	4,026,839	3,788,799	3,794,832
Administrative & General	5,384,210	6,276,795	6,444,642	6,909,615	7,229,048
Taxes	10,890,913	11,814,545	12,144,846	12,394,110	12,263,706
Depreciation	10,769,424	11,642,052	12,671,992	12,894,915	13,207,539
<i>Total Operating Expenses</i>	<u>\$125,184,937</u>	<u>\$122,906,355</u>	<u>\$135,224,167</u>	<u>\$143,322,406</u>	<u>\$142,224,075</u>
<b>OPERATING INCOME (LOSS)</b>	<u>\$9,256,091</u>	<u>\$6,240,179</u>	<u>\$2,095,104</u>	<u>\$1,941,646</u>	<u>\$(3,338,955)</u>
<b>NONOPERATING REVENUES &amp; EXPENSES</b>					
Interest & Miscellaneous Nonoperating Income	\$602,075	\$668,774	\$612,901	\$525,553	\$748,220
Interest Expense & Other Nonoperating Expense	(2,958,273)	(3,001,895)	(2,913,078)	(2,844,753)	(2,756,755)
Debt Premium Amortization & Loss on Defeased Debt	(237,799)	459,198	459,652	445,518	419,819
Unrealized Gain/(Loss) on Investments	--	19,862	(241,104)	173,722	24,568
Gain (Loss) in Joint Venture	(70,300)	--	--	--	--
<i>Total Nonoperating Revenues &amp; Expenses</i>	<u>\$(2,664,297)</u>	<u>\$(1,854,061)</u>	<u>\$(2,081,629)</u>	<u>\$(1,699,960)</u>	<u>\$(1,564,148)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	<u>\$6,591,794</u>	<u>\$4,386,118</u>	<u>\$13,475</u>	<u>\$241,686</u>	<u>\$(4,903,103)</u>
<b>Capital Contributions</b>	<u>\$1,394,438</u>	<u>\$2,368,597</u>	<u>\$2,706,411</u>	<u>\$3,834,420</u>	<u>\$2,471,250</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$7,986,232</u>	<u>\$6,754,715</u>	<u>\$2,719,886</u>	<u>\$4,076,106</u>	<u>\$(2,431,853)</u>
<b>Adjustments to (from) Change in Net Assets</b>					
Depreciation	\$10,769,424	\$11,642,052	\$12,671,992	\$12,894,915	\$13,207,539
Prepaid Power	578,400	578,400	607,457	1,017,144	1,017,144
Interest Expense	2,958,273	3,001,895	2,913,078	2,844,753	2,756,755
Debt Discount/Premium Amortization & Bond Issue Costs	237,799	(459,198)	(459,652)	(445,518)	(419,819)
GASB 68 Pension Non-Cash Entry	--	--	--	(245,062)	(157,447)
Transfer (to)/from Rate Stabilization Account	(2,369,920)	--	--	--	--
<b>REVENUE AVAILABLE FOR DEBT SERVICE</b>	<u>\$20,160,208</u>	<u>\$21,517,864</u>	<u>\$18,752,761</u>	<u>\$20,142,338</u>	<u>\$13,972,319</u>
<b>DEBT SERVICE<sup>(1)</sup></b>	<u>\$5,002,221</u>	<u>\$5,969,064</u>	<u>\$5,965,509</u>	<u>\$5,966,784</u>	<u>\$4,767,944</u>
<b>DEBT SERVICE COVERAGE RATIO</b>	<u>4.03x</u>	<u>3.60x</u>	<u>3.14x</u>	<u>3.38x</u>	<u>2.93x</u>

<sup>(1)</sup> Excluding Build America Bonds subsidy.

## Management Discussion of Results

Calendar year 2015 was on average the warmest year on record due to warm winter months, which resulted in a 2% decrease in retail sales of electric energy. In addition, 2015 was the third worst water year on record (measured from April to September at the Dalles Dam). Gross purchased power expense decreased 2% from 2014. Revenues from wholesale energy and natural gas sales decreased by \$5.6 million (23%) from 2014 to 2015, primarily as a result of lower resale power prices and less power available for resale from the District's Bonneville Slice contract as a result of low water conditions. Net power expense (power supply expense less energy sales for resale) increased by 5% primarily as a result of reduced wholesale sales and a Bonneville rate increase effective October 2015. Retail service agreements increased 1.6% between 2014 and 2015. In 2015, the District had an ending unrestricted reserve balance of \$45.5 million and a debt service coverage of 2.93 times debt service.

From 2013 to 2014, revenues from sales to retail customers increased \$2.6 million (2%), general usage in kilowatt hours sold to retail customers increased 5%, and active service agreements increased 1.1%. Revenues from wholesale energy and natural gas sales increased by \$4.9 (26%) from 2013 to 2014, primarily as a result of increased purchases and sales to manage daily loads and increased power generated by the Frederickson Plant.

Operating results from January through June 2016, show net loss of \$0.8 million with a forecasted net loss of \$0.4 million by year-end. The first six months of 2016 were warmer than average resulting in retail revenues being 1.7% lower than expected. During the same period, the District has seen an increase of 488 new customers, which is a continuation of steady customer growth.

### District's Largest Customers

The District's ten largest customers (consisting of six agricultural customers, one industrial customer and three general customers, including the City of Kennewick and the Kennewick School District) accounted for approximately 560,952,816 kWh, or approximately 32.1%, of the District's total retail energy sales and \$26,370,411, or approximately 23.7%, of the District's total revenues from the sale of retail electricity for the fiscal year ended December 31, 2015. The District's largest customer, an agricultural customer, accounted for approximately 11.5% of the District's total retail energy sales (kWh) and approximately 8.2% of the revenues from the retail sale of electricity during fiscal year 2015.

### Capital Improvements

Total capital expenditures for the years 2011 through 2015 and projected capital spending for 2016, 2017 and 2018 are presented in the following table. During the period 2011 through 2015, the District received approximately \$8.9 million in contributions in aid of construction, which offset the total capital expenditures listed in the table.

Capital Expenditures <sup>(1)</sup>		
Year	Actual	Projected
2011	\$12,055,000	--
2012	11,574,000	--
2013	13,558,000	--
2014	10,112,000	--
2015	10,989,000	--
2016	--	\$16,687,000
2017	--	14,462,000
2018	--	15,325,000

<sup>(1)</sup> Rounded to the nearest thousand. Excludes broadband capital expenditures, which are fully-funded by revenues.

The District currently anticipates financing or reimbursing a portion of the capital expenditures for 2016 and 2017 from the Bond proceeds and financing the remaining expenditures from rates.

## THE DISTRICT'S POWER SUPPLY

### Introduction

The District obtains most of its power supply (about 80% of its actual load) pursuant to a long-term Block and Slice contract with Bonneville. See “Bonneville Power Administration.” The District is projected to be surplus on an annual firm basis during most months of the year, but this may vary considerably based on water conditions. The District sells into the wholesale power market any surplus it has and may find it necessary from time to time to purchase incidental energy in the market to cover any resource shortfall. The District’s remaining power supply requirements are supplied by power purchase contracts. In recognition of ongoing fundamental changes in the electric industry, the District has restructured its power supply portfolio and developed new relationships with various energy industry entities to enhance the District’s ability to participate and compete in the electric industry environment. The following chart reflects the power supply breakdown for 2014 and 2015.

### Power Supply Resources

Resource	Average MW (aMW)	
	2014	2015
Bonneville Slice	125.5	113.0
Bonneville Block	103.4	105.5
Frederickson	15.8	28.4
Nine Canyon	2.6	2.3
White Creek/Lakeview Light and Power	2.7	1.8
Packwood	2.1	1.4

### Bonneville Power Administration

Bonneville was established by the Bonneville Project Act of 1937. Bonneville markets power from 31 federal hydroelectric projects, one non-federally owned nuclear plant, several small power plants in the Pacific Northwest, and from various contractual rights having an expected aggregate output in Bonneville operating year 2017 (August 1, 2016 through July 31, 2017) of 10,309 annual average megawatts (“aMW”) under median water conditions and 8,089 annual aMW under low water conditions (the “Federal System”). Annual aMW are the number of megawatt-hours of electric energy used, transmitted, or produced over the course of one year and each annual aMW is equal to 8,760 megawatt-hours. These hydroelectric projects, built and operated by the United States Bureau of Reclamation and the United States Army Corps of Engineers, are located in the Columbia River basin. The region’s sole nuclear facility was built and is being operated by Energy Northwest. The Federal System currently produces more than one-third of the region’s electric energy supply. Bonneville’s transmission system includes over 15,000 circuit miles of transmission lines, provides approximately 80% of the Pacific Northwest’s high-voltage bulk transmission capacity, and serves as the main power grid for the Pacific Northwest. Bonneville sells electric power at wholesale rates to more than 125 utility, industrial and governmental customers in the Pacific Northwest. Its service area covers over 300,000 square miles and has a population of about 12 million.

The District and other publicly owned utilities and cooperatives are “preference” customers of Bonneville pursuant to federal legislation, which requires Bonneville to give preference and priority to public agencies and cooperatives in the distribution and marketing of federal power.

The District obtains power from Bonneville under a long-term power purchase agreement. Bonneville supplies the District’s power under a 20-year Block and Slice Power Sales Agreement, which extends from October 1, 2008 through September 30, 2028. Power deliveries under the contract are for a 17-year period that began on October 1, 2011. This contract provides federal power in the form of two products: Block and Slice. The Block product provides power in monthly amounts ranging between 70 MW to 135 MW. The Slice product provides the District 1.36985% of the output of the Federal System. The District’s share of the Slice product is expected to be 122 aMW in an average year, but varies considerably based on water conditions within the Northwest.



Under the Power Sale Agreement, Bonneville requires preference customers to post collateral if Bonneville determines that it is necessary to secure the payments under the contract. Bonneville has not required the District to post collateral, and the District does not expect to be required to post collateral in the future.

Under all of the Bonneville contracts, the amount of power that Bonneville's preference customers may purchase under Bonneville's lowest cost rate is limited to an amount equal to the generating output of the current Federal System, with some limited amounts of augmentation ("Tier 1" power). Any incremental purchases by preference customers from Bonneville above this base amount of power is sold at a higher rate reflecting the incremental cost to Bonneville of obtaining additional power ("Tier 2" power). Bonneville has established for each preference customer a contractually defined level of access to power available at Bonneville's lowest cost preference rate ("Tier 1" rates). This Tier 1 amount is based on the customer's net requirement load for the 12 month period ending September 23, 2010. The District has not and does not expect to purchase any Tier 2 power from Bonneville.

*Bonneville Transmission Services.* Bonneville unbundled its electric transmission services in the late 1990's, and now requires that transmission be purchased separately. The District purchases Network Integration Transmission Service from Bonneville. The District's current contract with Bonneville for transmission services began on May 31, 1997, and expires on September 30, 2031. Bonneville raised its average transmission rates approximately 4.4% effective October 1, 2015.

*Bonneville Power Rates.* Bonneville is required by federal law to recover all of its costs through the rates it charges its customers. Bonneville conducts a rate case every two years. Bonneville's current average preference customer rate is \$33.75 per MWh. Bonneville raised its rates 7.1% overall effective October 1, 2015, 5.2% as applied by contract to the District. Bonneville conducts a rate case every two years, but the rates are subject to a cost recovery adjustment clause that allows power rates to increase during a two-year rate period if certain events occur. There are any number of factors that have and could impact Bonneville's cost of service and rates, including federal legislation, Bonneville's obligations regarding its outstanding federal debt, number of customers, water conditions, fish and other environmental regulations, capital needs of the Federal System, outcome of various litigation, and regional transmission issues. The next rate increase will be effective October 1, 2017.

The District adjusts its rates as required to pass through to its customers any increases or decreases in the cost of Bonneville power. See "THE DISTRICT – District Rate Increases."

*Bonneville Prepay Program.* Beginning in April 2013, the District began receiving a monthly \$50,000 credit on its power bill for participation in the Bonneville prepay program. This program allowed customers to purchase blocks of prepaid credits for future delivery of power in order to help Bonneville fund improvements to its infrastructure. The District purchased one block of prepay credits in the amount of \$6.8 million for the period between April 2013 and September 2028, and payment was made to Bonneville in March 2013. Total monthly credits received by the District will be \$9.3 million, and will result in a net present value savings of approximately \$1.1 million.

*Bonneville and Energy Northwest.* Energy Northwest is a municipal corporation and a joint operating agency organized and existing under the laws of the State. The District is a member of Energy Northwest and a participant in Energy Northwest's Nuclear Projects Nos. 1, 2, and 3. Project No. 2, known as the Columbia Generating Station, currently is operating. The other projects have been terminated. The District, Energy Northwest, and Bonneville have entered into separate Net Billing Agreements with respect to \$5.4 billion in outstanding bonds (as of December 31, 2015) for Energy Northwest's Project No. 1, Project No. 2, and 70% ownership share of Project No. 3 (collectively, the "Net Billed Projects") under which the District has purchased from Energy Northwest and, in turn, assigned to Bonneville a maximum of 4.965%, 5.350%, and 4.295%, of the capability of Projects No. 1, Columbia Generating Station, and Energy Northwest's ownership share of Project No. 3, respectively. Under the agreements, the District is unconditionally obligated to pay Energy Northwest its pro rata share of the total costs of the projects, including debt service, whether or not construction is terminated. Under the Net Billing Agreements, Bonneville is responsible for the District's percentage share of the total annual cost of each project, including debt service on revenue bonds issued to finance the costs of construction. The District's electric revenue requirements are not directly affected by the cost of completion of the Net Billed Projects. The revenue requirements are affected only to the extent that the costs of the projects result in increases in Bonneville's wholesale power rates.

## **Frederickson 1 Generating Station**

In March 2001, the District entered into an agreement with Frederickson Power, L.P. for the purchase of 50 MW of contract capacity from the Frederickson combined-cycle natural-gas fired combustion turbine project near Tacoma, Washington (the “Frederickson CT Project”). The period of power delivery is 20 years commencing on the date of commercial operation in September 2002. Public Utility District No. 1 of Franklin County, Washington (“Franklin PUD”) and Public Utility District No. 1 of Grays Harbor County, Washington (“Grays Harbor PUD”) also purchase contract capacity under separate but substantially similar agreements.

The Frederickson CT Project is used to supplement the District’s variable Bonneville Slice resource. To ensure economic operation, the plant is dispatched based on an economic protocol that has been agreed to by all project capacity owners. Power deliveries and variable energy charges are based on a deemed heat rate of 7,100 British thermal units (“BTUs”) per kilowatt-hour. Power costs include a capacity charge and fixed and variable operation and maintenance charges indexed to performance and escalation factors. Under the contract the District is obligated to pay whether or not the Frederickson CT Project produces energy. The District believes that the cost of Frederickson CT Project generation compares favorably with other similar combined-cycle turbines.

The District, together with Franklin PUD and Grays Harbor PUD, have secured firm pipeline transportation for fuel between the plant and the Canadian receipt point of Huntingdon. The plant is responsible for transporting the gas from Huntingdon, burning the gas and delivering power to the point of delivery on the Bonneville grid at the South Tacoma substation. The District appointed The Energy Authority as its agent for fuel management services for this plant beginning July 2006.

## **Nine Canyon Wind Project**

The Nine Canyon Wind Project is another Energy Northwest generation project. It is located in the Horse Heaven Hills area southwest of Kennewick, Washington. The District entered into a Nine Canyon Wind Farm Project Power Purchase Agreement with Energy Northwest for the purchase of 8.96 MW of generating capacity. The Power Purchase Agreement will terminate on July 1, 2030.

The Wind Project, including Phase I, Phase II, and Phase III, has been created as a separate system of Energy Northwest. The Wind Project does not include Energy Northwest’s other projects, facilities or systems, or any future facilities that are constructed or acquired by Energy Northwest as part of a system declared by Energy Northwest’s Board of Directors to be separate from the Wind Project.

Phase I, which commenced commercial operation in September 2002, consists of 37 wind turbines with an aggregate generating capacity of approximately 48 MW. Phase II commenced commercial operation in December 2003 and consists of an additional 12 wind turbines with an aggregate generating capacity of approximately 15.6 MW. Phase III of the Project commenced commercial operation in May 2008 and consists of an additional 14 wind turbines with an aggregate generating capacity of approximately 32 MW.

Energy Northwest has entered into the Second Amended and Restated Nine Canyon Wind Project Power Purchase Agreement dated October 30, 2006 (the “Power Purchase Agreement”) with the following PUDs: the District, PUD No. 1 of Chelan County, PUD No. 1 of Cowlitz County, PUD No. 1 of Douglas County, PUD No. 1 of Franklin County, PUD No. 2 of Grant County, PUD No. 1 of Grays Harbor County, PUD No. 1 of Lewis County, PUD No. 3 of Mason County and PUD No. 1 of Okanogan County (collectively, the “Phase I Purchasers”). The Power Purchase Agreement sets forth the terms and conditions under which the Phase I Purchasers will obtain shares of project output in exchange for paying certain costs of the project, including amounts equal to debt service on Phase I bonds. In addition, the Power Purchase Agreement sets forth the terms and conditions under which PUDs No. 1 of Chelan, Douglas, Grays Harbor and Okanogan Counties and PUD No. 3 of Mason County will obtain additional shares of project output in exchange for paying certain costs of the project, including debt service on the Phase II bonds whether or not the project is operating. The Power Purchase Agreement also sets forth the terms and conditions under which the District and PUDs No. 1 of Franklin, Grays Harbor and Lewis Counties and PUD No. 3 of Mason County will obtain additional shares of project output in exchange for paying costs of the project including debt service on the Phase III bonds. Energy Northwest issued \$70,675,000 of bonds for Phase I, \$21,720,000 of bonds for Phase II and \$69,410,000 of bonds for Phase III. Energy Northwest refunded a portion of the Phase I

bonds in 2005 and again in 2014, a portion of the Phase II bonds in 2012, and a portion of the Phase III bonds in January 2015.

The District is responsible for 9.39% of the annual operation and maintenance budget for the Nine Canyon Wind Project and is entitled to the same amount of project output. The District is responsible for 6.25% of the debt service of Phase I and 18.63% of the debt service of Phase III. Annual costs, including repayment of debt service of the outstanding revenue bonds, are paid by the purchasers. The District could be required to pay up to an additional 25% of the District's share of debt service in the event of a default by another purchaser or purchasers. In 2015, the District received 19,895 MWh of wind generation output from the Nine Canyon Wind Project at the cost of \$104.09 per MWh. The Nine Canyon Wind Project is a renewable resource and may be used to meet the District's requirement under the Energy Independence Act. See "THE DISTRICT—General" for a discussion of the Energy Independence Act.

### **Packwood Lake Hydroelectric Project**

In 1961, the District executed a contract (the "Packwood Agreement") with Energy Northwest, which expires when Energy Northwest discontinues operation of the Packwood Project, or, upon the election of the District, 24 months prior to any scheduled termination date. Under the terms of this contract, the District's share is 14% of the capability of the Packwood Project, a hydroelectric project with a nameplate rating of 27.5 MW, and the District is unconditionally obligated to pay 14% of the annual cost of the Packwood Project. The Packwood Agreement with Energy Northwest obligates participants to pay annual costs and receive excess revenues.

Until October 2002, the electric power produced at the facility was sold to Bonneville for distribution to the original 12 public utilities who are the Packwood participants. From November 2002 to September 2008, the power produced was sold directly to two of those participants, the District and Franklin County PUD. Public Utility District No. 1 of Snohomish County purchased all the energy output of Packwood from the other participants for the period between October 2008 and October 2011.

In fiscal year 2015, production at Packwood totaled 107,156 net MWhs, down approximately 7% from the previous year primarily due to below average snowfall in the Cascade Mountains. Packwood's average availability during the last 13 years has been 98.6%, and has produced 4,819,445 net MWh since commercial operation began. The electric power produced at the facility is expected to generate enough revenues to pay all Packwood costs. The Packwood participants are required to pay their share of the annual budget of the project, whether or not the project is producing power or capable of producing power.

The District began receiving its 14% share of actual plant output in October 2011. In 2015, the District's cost for its 14% share of the output of Packwood was \$350,000, or approximately \$28.77 per MWh.

### **Lakeview Light and Power (LL&P Wind Energy, Inc.)**

In April 2007, the District entered into a 20-year Energy and Environmental Attributes Purchase Agreement with Lakeview Light and Power Wind Energy, Inc. to purchase three MW of peak capacity at the White Creek Wind Project. The White Creek Wind Project was declared to be in commercial operation in November 2007, and the purchase price began at \$51.97 per MWh escalating 2% per year. The District only pays for the energy and associated environmental attributes generated by the project.

### **White Creek Wind Project**

In September 2008, the District entered into an Assignment Agreement with Klickitat PUD under which Klickitat PUD assigned the District a 3% share of its Energy Purchase Agreement with White Creek Wind I, LLC for \$11.1 million. The purchase cost is being amortized on a straight-line basis over a 19-year term. The 3% share of the 204.7 MW project presents 6.14 MW. The District sold the energy and environmental attributes back to Klickitat PUD through March 2011 to satisfy obligations under an agreement with Powerex related to Klickitat PUD's original share of the White Creek project. The purchase was part of the District's strategy to meet the requirements of the Energy Independence Act.

## **BioFuels Washington, LLC Project/Emerald City Renewables LLC**

In February 2013, the District entered into a contract with BioFuels Washington, LLC to purchase 33,000 renewable energy credits (“REC”) annually, with a contract term of March 1, 2013 through March 31, 2026, with delivery that began on January 1, 2016. This REC purchase counts toward the District’s compliance with the Energy Independence Act.

Subsequently in September 2013, the State Department of Commerce issued an opinion stating that electricity generated by the BioFuels Washington facility qualifies as distributed generation under State law. Therefore, for purposes of compliance with the Energy Independence Act, the RECs purchased from BioFuels count double for compliance purposes; this contract provides 66,000 RECs annually toward the District’s Energy Independence Act requirements.

In 2015, the District consented to the assignment of contracts of the facility to Emerald City Renewables LLC, without any changes to the District’s rights and obligations.

## **Idaho Wind Partners**

In December 2014, the District entered into contracts with Payne’s Ferry Wind Park, LLC and Yahoo Creek Wind Park, LLC, which are owned by Idaho Wind Partners, to purchase RECs with a contract term starting in 2015 through 2024. This REC purchase counts toward the District’s compliance with the Energy Independence Act requirements.

## **Power Scheduling**

The District entered into a Resource Management Agreement (“RMA”) with The Energy Authority (“TEA”) on July 1, 2006, to provide scheduling, dispatching, fuel management and other power management services. The agreement has been extended and expires in 2028. The District has the unilateral right to terminate the agreement upon two years’ written notice. The agreement also provides for annual consulting task orders to provide for a variety of power management services. Under the agreement, TEA is authorized to trade real time and day-ahead transactions as principal (utilizing TEA’s credit and contracts) on behalf of the District. TEA is currently not trading forward transactions as principal. This arrangement allows a financial benefit to the District with TEA trading in aggregated larger power blocks and passing the resulting transaction pricing on to the District. It also provides the advantages of simplified settlement, lower operational and settlement risk, and rigorous documentation and equitable allocation of pricing for like transactions across public utility districts.

TEA is headquartered in Jacksonville, Florida, with a satellite office in Bellevue, Washington. TEA, a Georgia nonprofit entity, was formed in 1997 and is owned by seven public utility systems in the southeast and midwest part of the United States and in Washington state. It serves about 50 public power entities throughout the United States.

## **Agreement with Franklin PUD and Grays Harbor PUD**

In 2001, the District entered into a joint scheduling agreement with Franklin County PUD and Grays Harbor County PUD. Under this agreement, the three PUDs, with the assistance of their scheduling agent, TEA, coordinate operation of their respective systems to maximize the benefits of purchases, sales, and scheduling of electric power and transmission. The agreement has been expanded as TEA has brought on new clients. In addition to the original three members, the following utilities have been added: Clark Public Utilities, Cowlitz County PUD, Klickitat County PUD, Pacific County PUD, Emerald Peoples Utility District and Lewis County PUD. The Joint Scheduling Operating Committee, consisting of a representative from each PUD, meets each month to provide continuing direction and policy to TEA with respect to executing the annual operating plan. All members, like the District, are Slice/Block purchasers, have non-Federal resources, and have developed risk management policies and procedures similar to the District’s policies. The members have diverse generation and load profiles. The joint scheduling agreement seeks to take advantage of the fact that the coincident peak load of the PUDs is lower, hence theoretically less costly to serve, than the total non-coincidental loading. The joint scheduling agreement also affords the parties

greater resource diversity, hence increased resource reliability. The joint scheduling agreement contract requires two years notice in order for a member, or TEA, to terminate. See “Power Scheduling.”

## Risk Management

The District has implemented a risk management program in response to its changing power supply operations. The District manages the volumetric risk under the Bonneville Slice product through conservative financial planning and use of the District’s thermal generating resource (Frederickson CT Project). Most of the District’s market price risk is managed through execution of forward contracts and fixed-for-floating swaps. The District also uses put and call options from time-to-time to manage market price risk associated with Slice generation and load variability. See “Power Swaps” below. Key attributes of the District’s risk management program include the following:

- The Board of Commissioners approved a Policy and Procedures document;
- The Board of Commissioners articulates budget and financial goals and objectives;
- The District does not engage in speculative trading;
- The District’s net position drives all wholesale market trading activity;
- Gas positions for the Frederickson CT must be executed concurrent with an offsetting power transaction or be needed to serve the District’s retail load;
- The District’s Risk Management Committee (“RMC”) holds monthly meetings to discuss strategy and performance;
- Monthly reporting to the RMC of the District’s net position under a range of Slice generation scenarios for the balance of the current year;
- Daily reporting of power budgets marked to current forward power and natural gas prices, as well as current Slice generation outlooks; and
- Daily monitoring of counterparty credit exposures against approved limits.

## Power Swaps

The District has entered into hedging agreements in the form of the International Swaps and Derivatives Association (“ISDA”) agreements with 11 different entities. These agreements provide additional tools for executing risk management strategies, and are used by the District to manage market price risk associated with natural gas and power positions that arise under the District’s resource portfolio. Most of the agreements are fixed-for-floating rate swaps. From time to time, the District may also execute put or call options to hedge an underlying physical position. In all cases, trades are executed to hedge the risk of an underlying physical position. TEA is managing the use of these agreements on the District’s behalf. The District anticipates continuing to execute ISDA agreements with creditworthy counterparties in the future.

At December 31, 2015, the District had the following derivative instruments outstanding:

Cash Flow Hedges	Fair Value at December 31, 2015		Notional
	Classification	Amount	
Commodity Forward	Derivative Asset	\$ 3,063,382	1,420,150 MWh/MMBtu
Commodity Forward	Derivative Liability	(2,490,112)	3,491,540 MWh/MMBtu

The ISDA agreements, along with several power purchase contracts that the District has entered into, require that the District post collateral to secure its obligation to pay under the contracts if certain predetermined thresholds are met. When the total credit exposure with a counterparty reaches a negotiated threshold, the counterparty may request a letter of credit, or other acceptable form of collateral, from the District in an amount equal to the difference between the total credit exposure and the negotiated threshold. Since the contracts require the letter of credit be provided within two to five business days depending upon the agreement, the District set up a revolving line of credit agreement with Bank of America. See “SECURITY FOR THE BONDS—Junior Lien Debt.” The line of credit has not been drawn on to provide any such letter of credit, and the District monitors its potential exposure to counterparties on a daily basis. Collateral provisions are reciprocal, meaning the District has the right to ask its counterparties to post collateral if the forward transaction moves in the District’s favor relative to the contract price. Upon expiration, the District plans to replace or extend this line of credit.

The District has entered into several power purchase contracts in the form of mutual netting/settlement agreements. The agreements establish an arrangement by which monetary amounts that become due and owing to the counterparty by the District are to be set off against monetary amounts that become due and owing to the District by the counterparty. The agreements also provide for remedies in the event of default.

### **Solar Projects**

In early 2015, the Commissioners adopted a resolution authorizing the Solar Connections Program and a community solar project. The Solar Connections Program provides solar power information resources, supports customers who want to install their own solar power equipment, or participate in a community solar project. The program currently has two community solar projects that provide District customers an opportunity to participate in the solar energy without needing to install solar panels on their homes or property. The first solar project is approximately 75 kW and became operational in July 2015, with 112 customers participating and the second project is approximately 25 kW and became operational in March 2016, with 42 customers participating.

### **Conservation Programs**

The District considers conservation a resource. Selection of conservation measures eligible for customer financial incentives is an integral part of the District's power management process. Payback periods and the cost per kWh are important factors considered in determining eligibility of an energy efficiency measure for a financial incentive.

The District offers a variety of conservation services to residential, commercial/industrial, and agricultural customers that encourage energy efficiency improvements to their facilities. Financial incentives in the form of rebates are provided for conservation items such as weatherization, energy efficient lighting systems, new Energy Star stick built homes and manufactured homes, and Energy Star appliances. Agricultural customer incentives are paid for items including irrigation sprinklers and motor upgrades, and Scientific Irrigation Scheduling (SIS) soil moisture monitoring program to optimize watering of irrigated crops and reduce excess electricity consumption due to over watering. The District receives funding from Bonneville to spend on qualifying conservation measures. The District's conservation spending net of the Bonneville rebate was approximately \$417,000 in 2015.

### **Legislation and Initiatives**

Initiative 937 (The Energy Independence Act). State Initiative 937 (the "Energy Independence Act"), which was approved at the November 2006 election, requires electric utilities that serve more than 25,000 customers to obtain at least (a) 3% of their electricity from renewable resources by January 1, 2012, and each year thereafter through December 31, 2015; (b) 9% of their electricity from renewable resources by January 1, 2016, and each year thereafter through December 31, 2019; and (c) 15% of their electricity from renewable resources by January 1, 2020, and each year thereafter. The Energy Independence Act also requires qualifying electric utilities to undertake various cost-effective energy conservation efforts. The District currently has 50,762 customers and, therefore, the Energy Independence Act applies to the District.

The District entered into the BioFuels Washington LLC and Idaho Wind Partners contracts to meet the 2016 target. Total incremental expenses for qualifying renewable resources plus the cost of renewable energy credits are limited to 4% of the annual retail revenue requirement.

The State Auditor examines the District's compliance for renewable energy under the Energy Independence Act and has found the District to have met its 2012, 2013 and 2014 targets. The District fully expects that its available qualifying renewable energy credits will continue to meet the requirements of the Energy Independence Act.

Other Legislation: Climate Change. The State Legislature enacted legislation requiring the Governor to develop policy recommendations for achieving specific greenhouse gas reduction targets and requiring that power supply contracts of five years or more comply with certain emission standards. The State Department of Ecology recently adopted new clean water rules that set standards for pollutants and fish protection. In addition, the Department of Ecology has proposed rules that would set limits on carbon pollution by requiring certain facilities to reduce their carbon emissions by 5% every three years or obtain credits from other participants and carbon markets. The rules

are expected to be finalized by the end of 2016. Various federal energy legislation proposed could set national standards for renewable energy generation, conservation efforts, and encourage greenhouse gas reduction. Bonneville participated in formulating rules to implement the standards.

An initiative will be on the November 2016 ballot in Washington to approve a tax on the carbon pollution from fossil fuels. The carbon-emissions tax would start at \$15 per metric ton in 2017, increase to \$25 in 2018 and increase annually at 3.5% plus inflation, up to \$100 per metric ton. The way the initiative is written, open market purchases by utilities, unspecified as to their source, would be taxed based on one metric ton of carbon per megawatt hour, equivalent to a coal-fired generation plant. The tax would be on the first user of natural gas or electricity in the State. As a result, the majority of the tax will be on the consumer of electricity and added as a tax on customer bills. The utility would be required to collect the tax and remit to the State. The District will have some additional costs as a result of the tax related to the operation of the Frederickson CT plant due to the natural gas used by the plant. The Commission adopted a resolution opposing the initiative.

The U.S. Environmental Protection Agency established a rule under the Federal Clean Air Act, which would regulate carbon emissions in the electricity industry by setting state-specific rate-based goals for carbon dioxide emissions from the power sector. This rule, however, is being challenged in court and has been stayed until the legal challenge is complete. Federal, regional, state and international initiatives have been proposed or adopted to address global climate change by controlling or monitoring greenhouse gas emissions, by encouraging renewable energy development and by implementing other measures. The District cannot predict whether or when new laws and regulations or proposed initiatives would take effect in a manner that would affect the District, and, if so, how they would affect the District. The physical effects of climate change could affect the generation capability of Bonneville to meet the loads of its power purchasers, including the District. Bonneville's generating capacity is primarily hydroelectric generation and is reliant on precipitation and snow pack. Climate change could affect the amount, timing and availability of hydroelectric generation, which could result in increased costs to the District. As noted under the "Electric System Customers, Energy Sales and Peak Demand" table, energy sales in 2015 have decreased because of milder weather.

### **Various Factors Affecting the Electric Utility Industry**

The electric utility industry in general has been, or in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. Such factors include, among others, (1) effects of compliance with changing environmental, safety, licensing, regulatory and legislative requirements, (2) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (3) changes resulting from a national energy policy, (4) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (5) Federal laws and regulations and congressional inaction, including the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many investor owned utilities, (6) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (7) issues integrating solar and wind generation, (8) cybersecurity and other security breaches, (9) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others, (10) increased operating and maintenance costs, (11) changes from projected future load requirements, (12) increases in costs and uncertain availability of capital, (13) shifts in the availability and relative costs of different fuels (including the low cost of natural gas), (14) increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as has occurred in California and the Pacific Northwest, (15) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (16) other legislative changes, voter initiatives, referenda and statewide propositions, (17) effects of the changes in the economy, (18) effects of possible manipulation of the electric markets, (19) natural disasters or other physical calamities, including, but not limited to, earthquakes, tsunamis, mudslides, lahars, wind storms, floods and droughts, (20) man-made physical and operational disasters, including, but not limited to, terrorism, cyber-attacks and collateral damage from untargeted computer viruses, (21) operational issues relating to dams along the Columbia and Snake Rivers, and (22) changes to the climate. See "CERTAIN INVESTMENT CONSIDERATIONS—Natural Disasters." Any of these factors (as well as other

factors) could have an adverse effect on the financial condition of any given electric utility, including the District, and likely will affect individual utilities in different ways.

The District is unable to predict what impact such factors will have on its business operations and financial condition. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

## GENERAL AND ECONOMIC INFORMATION

The District is located in southeastern Washington, encompassing approximately 939 square miles of Benton County and including the incorporated cities of Benton City, Prosser (the Benton County seat) and Kennewick. The District's largest city, Kennewick, as well as the City of Richland in Benton County (outside of the District), and the City of Pasco in adjacent Franklin County, make up what is known as the Tri-Cities.

Benton County's economy is based on four major industries: agriculture, food processing, manufacturing, and nuclear related technology.

Historical population growth for Benton County, the incorporated cities within the District, as well as Richland and Pasco, which are outside the District's service area, are shown below:

### Historical Population

<b>Year</b>	<b>Benton County</b>	<b>Benton City</b>	<b>Prosser</b>	<b>Kennewick</b>	<b>Pasco<sup>(1)(2)</sup></b>	<b>Richland<sup>(1)</sup></b>
2016	190,500	3,325	5,940	79,120	70,560	53,410
2015	188,590	3,285	5,845	78,290	68,240	53,080
2014	186,500	3,255	5,815	77,700	67,770	52,090
2013	183,400	3,240	5,810	76,410	65,600	51,150
2012	180,000	3,295	5,785	75,160	62,670	49,890
2011	177,900	3,145	5,780	74,665	61,000	49,090
2010 <sup>(3)</sup>	175,177	3,038	5,714	73,917	59,781	48,058

(1) Not located within the District's service area.

(2) Not located in Benton County.

(3) Source: U.S. Census Bureau.

Source: Washington State Office of Financial Management.

Following are economic indicators for the District, the City of Kennewick, and Benton County:

### Benton County Personal and Per Capita Income\*

<b>Year</b>	<b>Total Personal Income</b>	<b>Per Capita Income</b>
2014	\$7,637,683	\$40,956
2013	7,385,308	40,039
2012	7,414,775	40,652
2011	7,352,394	40,739
2010	6,893,609	39,067

\*Presented in current dollars. Most current data available.

Source: U.S. Bureau of Economic Analysis.



**City of Kennewick and Benton County  
Taxable Retail Sales**

<b>Year</b>	<b>City of Kennewick</b>	<b>Benton County</b>
2015	\$ 1,930,747,112	\$ 3,612,773,217
2014	1,768,985,161	3,284,581,847
2013	1,723,129,455	3,217,801,278
2012	1,634,408,399	2,937,655,660
2011	1,558,341,345	2,959,959,724

*Source:* Washington State Department of Revenue.

**New Privately-Owned Residential Building Permits  
(Benton County)**

<b>Year</b>	<b>New Single-Family</b>		<b>New Multi-family</b>		<b>Total Valuation</b>
	<b>Number</b>	<b>Valuation</b>	<b>Number of Units</b>	<b>Valuation</b>	
2015	825	\$246,569,471	243	\$28,310,667	\$274,880,138
2014	797	234,965,285	144	12,373,088	247,338,373
2013	793	212,936,590	90	10,811,573	223,748,163
2012	520	142,369,535	191	23,689,347	166,058,882
2011	584	159,957,061	342	31,191,043	191,148,104

(1) Latest available data.

*Source:* US Census Bureau.

**Tri-Cities Area  
Major Employers**

<b>Employer</b>	<b>Product/Service</b>	<b>Number of Employees</b>
Battelle/Pacific NW National Laboratory	Research and Development	4,365
Kadlec Health System	Health Services	3,304
Kennewick School District	Education	2,130
Washington River Protection Solutions	Environmental Remediation Services	2,077
Pasco School District	Education	2,015
Mission Support Alliance	Support Services, Hanford/DOE Site	1,928
Richland School District	Education	1,500
CH2M Hill	Environmental Remediation Services	1,400
Tyson Foods	Food Processing	1,300
Trios Health	Health Services	1,261
Energy Northwest	Utilities	1,089
Broetje Orchards (seasonal)	Food Processing	920
Lourdes Health Network	Health Services	804
Coyote Ridge	Correctional Facility	800
Washington Closure Hanford	Environmental Remediation Services	724
AREVA	Manufacturing	632
Columbia Basin College	Education	511
Columbia Crest Winery	Food Processing	500

*Source:* TRIDEC list of Tri-Cities Major Employers; July 2016.

**Civilian Labor Force  
Benton County**

	Annual Average				
	2012	2013	2014	2015	2016 <sup>(1)</sup>
Civilian Labor Force	92,196	90,159	89,916	91,650	93,437
Total Employment	83,674	82,068	83,233	85,624	86,996
Total Unemployment	8,522	8,091	6,684	6,026	6,441
Unemployment as Percent of Labor Force	9.2%	9.0%	7.4%	6.6%	6.9%

(1) Average through May 2016.

Source: State of Washington Employment Security Department.

**Nonagricultural Wage and Salary Employment  
Richland—Kennewick—Pasco Metropolitan Statistical Area  
(Benton and Franklin Counties)**

	Annual Average				
	2012	2013	2014	2015	2016 <sup>(1)</sup>
Total Nonfarm	101,100	101,500	103,700	106,700	107,600
Total Private	83,000	83,100	85,100	87,700	87,800
Goods Producing	13,400	13,600	14,000	14,700	14,000
Mining, Logging and Construction	6,000	6,200	6,300	6,800	6,800
Manufacturing	7,400	7,400	7,700	7,900	7,300
Services Providing	87,800	87,900	89,700	92,000	93,600
Private Service Providing	69,600	69,500	71,100	73,000	73,800
Trade, Transportation and Utilities	17,100	17,500	18,100	19,000	18,900
Financial Activities	3,800	4,000	3,900	3,900	3,900
Professional and Business Services	21,700	20,800	20,700	21,100	21,400
Education and Health Services	13,400	13,700	14,400	14,400	14,700
Leisure and Hospitality	9,500	9,600	9,800	10,300	10,300
Government	18,200	18,300	18,600	19,000	19,800

(1) Average through May 2016.

Source: State of Washington Employment Security Department.

**LITIGATION**

There is no litigation pending or threatened in any court (either state or federal) to restrain or enjoin the issuance or delivery of the Bonds, or the power and authority of the District to impose, prescribe or collect rates or charges for the services of the Electric System, or questioning the creation, organization, existence, or title to office of the members or officers of the District or the proceedings for the authorization, execution, sale and delivery of the Bonds.

The District is a party to lawsuits in its normal course of business, but the District does not believe any of such litigation will have a significant adverse impact upon the financial condition of the District.

**LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of the Bonds by the District are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Bonds is attached as Appendix C. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds,

and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, P.C., Seattle, Washington. Any opinion of such counsel will be limited in scope, addressed solely to the Underwriter, and cannot be relied upon by investors.

### **Conflicts of Interest**

All or a portion of the fees of the Underwriter, Underwriter's Counsel, Financial Advisor and Bond Counsel are contingent upon the issuance and sale of the Bonds. In addition, Bond Counsel from time to time serves as counsel to the Underwriter with respect to bonds issued by issuers other than the District, and Underwriter's counsel from time to time serves as counsel to the Financial Advisor with respect to bonds other than the Bonds. None of the Commissioners or other officers of the District have any conflict of interest in the issuance of the Bonds that is prohibited by applicable law.

### **LIMITATIONS ON REMEDIES**

Any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Bond Resolution are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the District fails to comply with its covenants under the Bond Resolution or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the Bonds.

In addition to the limitations on remedies contained in the Bond Resolution, the rights and obligations under the Bonds and the Bond Resolution may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C.

### **INITIATIVE AND REFERENDUM**

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. Neither power in Washington may be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon certification of a petition signed by at least 8% (initiative) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws. See "THE DISTRICT'S POWER SUPPLY—Legislation and Initiatives."

### **TAX MATTERS**

#### **Tax Exemption**

***Exclusion From Gross Income.*** In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for

federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

***Continuing Requirements.*** The District is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The District has covenanted in the Bond Resolution to comply with those requirements, but if the District fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the District's compliance with such requirements.

***Corporate Alternative Minimum Tax.*** While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

***Tax on Certain Passive Investment Income of S Corporations.*** Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

***Foreign Branch Profits Tax.*** Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

***Possible Consequences of Tax Compliance Audit.*** The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

#### **Certain Other Federal Tax Consequences**

***Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions.*** Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current

calendar year, and are designated by the governmental unit as “qualified tax exempt obligations,” only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The District is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as “qualified tax exempt obligations” for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

***Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies.*** Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax exempt interest received during the taxable year.

***Effect on Certain Social Security and Retirement Benefits.*** Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

***Other Possible Federal Tax Consequences.*** Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

***Potential Future Federal Tax Law Changes.*** From time to time, there are legislative proposals in Congress which, if enacted into law, could adversely affect the tax treatment, market value or marketability of the Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

## **CONTINUING DISCLOSURE UNDERTAKING**

### **Basic Undertaking to Provide Annual Financial Information and Notice of Material Events**

To meet the requirements of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5) (the “Rule”), as applicable to a participating underwriter for the Bonds, the District will undertake (the “Undertaking”) for the benefit of holders of the Bonds to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (“MSRB”), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB:

- (1) Annual financial information and operating data of the type include in this Official Statement and described below (“annual financial information”); and
- (2) Timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds:
  - principal and interest payment delinquencies;
  - non-payment related defaults, if material;
  - unscheduled draws on debt service reserves reflecting financial difficulties;
  - unscheduled draws on credit enhancements reflecting financial difficulties;
  - substitution of credit or liquidity providers, or their failure to perform;

- adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds;
- modifications to rights of holders of the Bonds, if material;
- Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers;
- defeasances;
- release, substitution, or sale of property securing repayment of the Bonds, if material;
- rating changes;
- bankruptcy, insolvency, receivership or similar event of the District (a “Bankruptcy Event”);
- The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- Appointment of a successor or additional trustee or the change of name of a trustee, if material.

A Bankruptcy Event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

The District also will provide to the MSRB timely notice of a failure by the District to provide required annual financial information on or before the date specified below.

#### **Type of Annual Financial Information Undertaken to be Provided**

The annual financial information that the District undertakes to provide will consist of (1) the annual financial statements of the Electric System prepared (except as noted in the financial statements) in accordance with applicable generally accepted accounting principles applicable to Washington state government entities, as such principles may be changed from time to time; (2) the outstanding long term indebtedness of the Electric System and any other system of the District which provides power or capacity to the Electric System; (3) Electric System customers, energy sales, peak demands and energy resources; and (4) Electric System operating results and debt service coverage on the outstanding Parity Bonds; and will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the District (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the District’s fiscal year ending December 31, 2016.

The annual financial information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

If not submitted as part of the annual financial information described in item (1) above, the District will provide or cause to be provided to the MSRB audited financial statements, when and if available.

### **Amendment of Undertaking**

The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by the Rule.

The District will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

### **Termination of Undertaking**

The District's obligations under the Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition, the District's obligations under the Undertaking shall terminate if those provisions of the Rule which require the District to comply with the Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the District, and the District provides timely notice of such termination to the MSRB.

### **Remedy for Failure to Comply with Undertaking**

If the District or any other obligated person fails to comply with the Undertaking, the District will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the District learns of that failure. No failure by the District or other obligated person to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the District or other obligated person to comply with the Undertaking.

### **Prior Compliance with Continuing Disclosure Undertakings**

The District has complied with all prior undertakings under the Rule for the past five years.

## **DESCRIPTION OF RATINGS**

As noted on the cover page of this Official Statement, Moody's Investors Service, S&P Global Ratings and Fitch Ratings have assigned their municipal bond ratings of "\_\_\_," "\_\_\_" and "\_\_\_," respectively, to the Bonds. Ratings were applied for by the District and certain information was supplied by the District to the rating agencies to be considered in evaluating the Bonds. The ratings reflect only the views of the rating agencies and an explanation of the significance of the ratings may be obtained from the rating agencies. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings would be likely to have an adverse effect on the market price of the Bonds.

## **FINANCIAL ADVISOR**

Piper Jaffray & Co. is financial advisor to the District in connection with the issuance of the Bonds. The financial advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or the other information available from the District with respect to the appropriateness, accuracy and completeness of the disclosure of such information, and the financial advisor makes no guarantee, warrant or other representation on any matter related to such information.

## **UNDERWRITING**

RBC Capital Markets, LLC (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from the District at the price of \$\_\_\_\_\_, which is the par amount of \$\_\_\_\_\_ plus an original issue premium of

\$\_\_\_\_\_, less an Underwriter's discount of \$\_\_\_\_\_. The Underwriter's obligation is subject to certain conditions precedent, and it will be obligated to purchase all Bonds if any such Bonds are purchased. The Bonds may be offered and sold to certain dealers at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter may offer and sell the Bonds to certain dealers or unit investment trusts and money market or other funds and others at lower prices than the initial offering prices corresponding to the yields set forth on the inside cover page of this Official Statement, and such initial offering prices may be changed from time to time by the Underwriter without notice.

The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District.

#### **MISCELLANEOUS**

Any statements made in this Official Statement involving matters of opinion, estimates or projections, whether or not so expressly stated, are set forth as such and not as representations of fact. No representation is made that any of such estimates will be realized. The descriptions contained in this Official Statement of the Bonds, the Bond Resolution, the Enabling Act, and other legislation do not purport to be complete and are qualified in their entirety by reference to the respective documents and laws. Copies of the Bond Resolution are available prior to the sale of the Bonds at the offices of the District. The execution and delivery of this Official Statement by the District's President and General Manager have been duly authorized.

At the time of delivery of the Bonds, one or more officials of the District will furnish a certificate stating that to the best of his, her or their knowledge this Official Statement, as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in light of the circumstances under which they were made, not misleading.

The execution and delivery of this Official Statement have been duly authorized by the District.

Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of any of the Bonds.



**APPENDIX A**

**2015 AUDITED FINANCIAL STATEMENTS**

[THIS PAGE INTENTIONALLY LEFT BLANK]

## REPORT OF INDEPENDENT AUDITORS

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

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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.

**MOSS ADAMS** LLP

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

***Opinion***

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

***Emphasis of Matter***

As discussed in Note 13 to the financial statements, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective January 1, 2014. The beginning-of-year net position has been restated for this change. Our opinion is not modified with respect to this matter.

***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis preceding the financial statements and the schedules of proportionate share of net pension liability and schedules of employer contributions subsequent to the notes to the financial statements 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.

**MOSS ADAMS** LLP*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of Statement of Revenues, Expenses, and Changes in Net Position (10 years), Revenues and Consumption by Customer Class (10 years), Retail Rates (10 years), Principal Ratepayers (2015 & 2006), Ratios of Outstanding Debt (10 years), Debt Service Coverage (10 years), Principal Employers - Tri-Cities Metropolitan Statistical Area (2015 & 2006), Demographic Statistics (10 years), and Operating Indicators (10 years) are not a required part of the financial statements, but are supplemental information presented for the purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

A handwritten signature in blue ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Portland, Oregon  
May 10, 2016

# Management's Discussion and Analysis

---

This section provides an overview and analysis of key data presented in the basic financial statements for the years ended December 31, 2015 and 2014, with additional comparative data for 2013. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

## Overview of the Financial Statements

Public Utility District No. 1 of Benton County (District) accounts for its financial activities within a single proprietary fund titled the Electric System. The Electric System is used to account for the purchase, generation, transmission, distribution, and sale of electric energy, as well as the sale of wholesale telecommunication services.

In accordance with requirements set forth by the Governmental Accounting Standards Board (GASB), the District's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses incurred during the year, regardless of when cash is received or paid.

The basic financial statements, presented on a comparative format for the years ended December 31, 2015 and 2014, consist of:

**Statement of Net Position:** The District presents its statement of net position using the balance sheet format. The Statement of Net Position reflects the assets, liabilities, deferred outflows and inflows of resources, and net position (equity) of the District at year-end. The net position section is separated into three categories: net investment in capital assets, net position - restricted, and net position - unrestricted.

**Statement of Revenues, Expenses, and Changes in Net Position:** This statement reflects the transactions and events that have increased or decreased the District's total economic resources during the period. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or nonoperating based on the nature of the transaction.

**Statement of Cash Flows:** The Statement of Cash Flows reflects the sources and uses of cash separated into four categories of activities: operating, noncapital financing, capital and related financing, and investing.

The notes to the financial statements, presented at the end of the basic financial statements, are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flows.

Restatement of 2014: With the implementation of GASB Statements No. 68 & 71, the District's 2014 financial statements have been restated to conform with the new reporting and accounting requirements. In part, GASB 68 established accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions for which the District recognizes its proportionate share. In part, GASB 71 addressed transition provisions related to certain pension contributions made to pension plans prior to implementation of GASB 68. (See Note 13)

## Condensed Comparative Financial Information

Provided below is a 3-year comparison of key financial information:

### Statement of Net Position *(in thousands)*

	2015	2014 Restated	Increase (Decrease) 2015-2014	% Change 2015-2014	2013
<b>Assets and Deferred Outflows of Resources</b>					
Current & Noncurrent Assets	\$83,118	\$87,372	(\$4,254)	-5%	\$87,115
Utility Plant	120,791	122,401	(1,610)	-1%	123,010
Deferred Outflows of Resources	3,893	1,943	1,950	100%	1,302
Total Assets and Deferred Outflows of Resources	207,802	211,716	(3,914)	-2%	211,427
<b>Liabilities and Deferred Inflows of Resources</b>					
Current Liabilities	18,507	18,630	(123)	-1%	20,707
Noncurrent Liabilities	68,152	68,272	(120)	0%	63,561
Deferred Inflows of Resources	4,836	6,076	(1,240)	-20%	279
Total Liabilities and Deferred Inflows of Resources	91,495	92,978	(1,483)	-2%	84,547
<b>Net Position</b>					
Net Investment in Capital Assets	68,040	65,364	2,676	4%	62,493
Restricted for Debt Service	1,084	140	944	674%	140
Unrestricted	47,183	53,234	(6,051)	-11%	64,247
Total Net Position	\$116,307	\$118,738	(\$2,431)	-2%	\$126,880

### Statement of Revenues, Expenses, and Changes in Net Position *(in thousands)*

	2015	2014 Restated	Increase (Decrease) 2015-2014	% Change 2015-2014	2013
<b>Operating Revenues</b>					
Retail Energy Sales	\$116,820	\$117,642	(\$822)	-1%	\$115,080
Energy Sales for Resale	18,370	23,959	(5,589)	-23%	19,009
Other	3,695	3,663	32	1%	3,230
<b>Nonoperating Revenues</b>					
Interest Income	245	204	41	20%	237
Other Income	504	321	183	57%	376
Unrealized Gain/(Loss) on Investments	25	174	(149)	86%	(241)
Total Revenues	139,659	145,963	(6,304)	-4%	137,691
<b>Operating Expenses</b>					
Power Supply	95,574	97,730	(2,156)	-2%	90,871
Operations, Maintenance and A&G	21,179	20,303	876	4%	19,536
Taxes/Depreciation/Amortization	25,472	25,289	183	1%	24,817
<b>Nonoperating Expenses</b>					
Interest Expense	2,757	2,845	(88)	-3%	2,913
Debt Premium Amortization & Loss on Defeased Debt	(420)	(446)	26	6%	(460)
Total Expenses	144,562	145,721	(1,159)	-1%	137,677
Income/(Loss) before Contributions	(4,903)	242	(5,145)	-2126%	14
Capital Contributions	2,472	3,834	(1,362)	-36%	2,706
Change in Net Position	(2,431)	4,076	(6,507)	-160%	2,720
<b>Beginning Net Position</b>	\$118,738	\$126,880	(\$8,142)	-6%	\$124,160
<b>Cumulative Effect Of Restatement (Note 13)</b>		(12,218)			
<b>Beginning Net Position As Restated</b>		114,662			
<b>Ending Net Position</b>	\$116,307	\$118,738	(\$2,431)	-2%	\$126,880

## Financial Analysis

During 2015, the District's overall financial position and results of operations did not improve over last year. The District's net position decreased by \$2.4 million compared to an increase in net position of \$4.1 million in 2014 as restated. Provided below is a year-over-year analysis of the change in net position by major component of income, with a primary focus on changes between 2015 and 2014.

### Operating Revenues

#### 2014 to 2015:

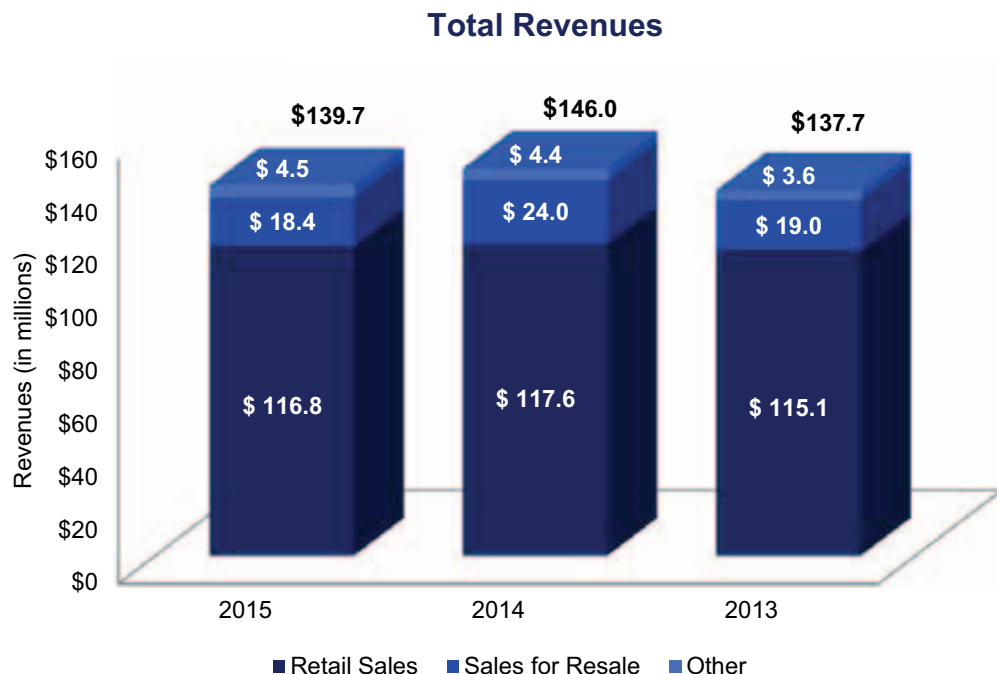
Revenues from sales to retail customers (retail energy sales) in 2015 decreased \$0.8 million (-1%) from 2014. This was primarily a result of 2015 being on average the warmest year on record; leading to a 2% general usage decrease in kilowatt hours (kWh) sold to customers even with a 1.6% growth in active service agreements.

Revenues from wholesale energy and natural gas sales decreased by \$5.6 million (-23%), primarily as a result of lower resale power prices and less power available for resale stemming from less power received through the District's power contract with the Bonneville Power Administration (BPA) as a result of a poor water year.

#### 2013 to 2014:

Revenues from sales to retail customers (retail energy sales) in 2014 increased \$2.6 million (2%) from 2013. This was primarily a result of a 5% general usage increase in kilowatt hours (kWh) sold to customers and 1.1% growth in active service agreements.

Revenues from wholesale energy and natural gas sales increased by \$4.9 million (26%), primarily as a result of increased purchase and sale transactions by the District to manage daily loads, as well as increased power generated by the Frederickson Plant available for sale (see Note 8).





## **Operating Expenses**

### **2014 to 2015:**

Power supply expense decreased by \$2.2 million (-2%), primarily as a result of weather and decreased purchase transactions by TEA to manage daily loads. In addition, net power expense (power supply expense less energy sales for resale) increased by \$3.4 million (5%), primarily attributable to lower energy sales for resale and a rate increase from BPA in 2015 fourth quarter. 2015 was the third worst water year on record, resulting in less available energy for resale. The District's receipt of power is directly related to water flows through the federal Columbia River Power System. The District uses net power expense as a means to measure overall financial performance related to power supply management.

Total operations, maintenance and administrative and general (A&G) expenses increased by \$876,000 (4%). The increase was largely comprised of: \$154,000 in unanticipated substation repairs, \$181,000 in mutual aid expense sending crews to help other utilities that were severely impacted by storms (this amount was reimbursed by the utilities and is reflected as other revenue), and an increase in labor charged to operations and maintenance expense. The District charges internal labor to operations, maintenance, A&G activities, and capital projects. In 2015, the internal labor required for operations and maintenance activities increased \$352,000 from 2014 while internal labor performed on capital projects decreased \$80,000.

Taxes assessed by state and municipal governments decreased by \$130,000 (-1%), primarily as a result of lower retail sales. Depreciation and amortization increased \$313,000 as a result of capital additions.

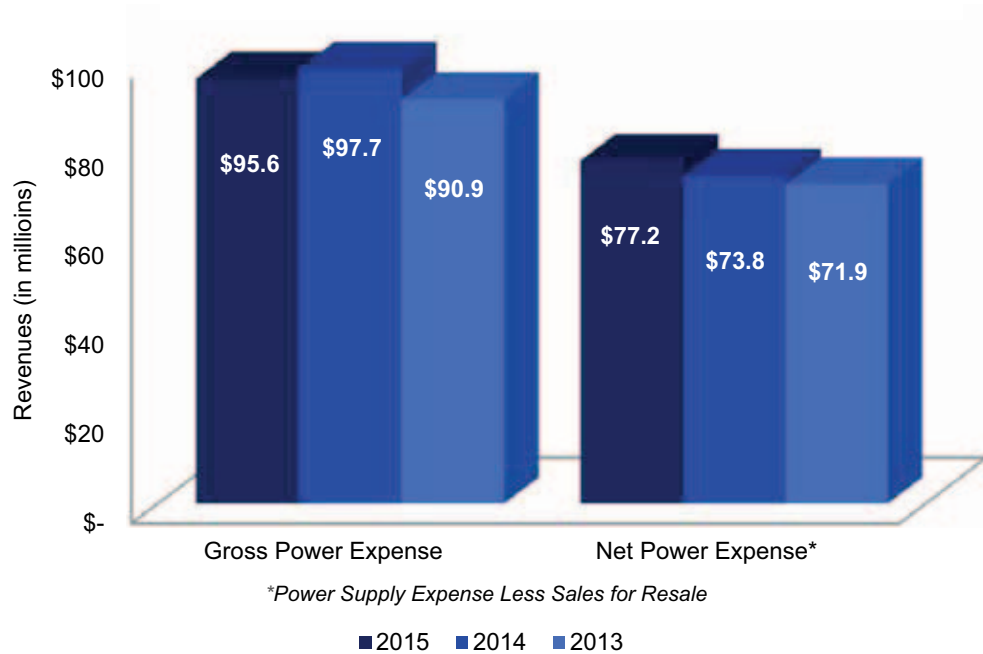
### **2013 to 2014:**

Power supply expense increased by \$6.9 million (8%), primarily as a result of increased purchase transactions by TEA to manage daily loads and additional gas purchases for the Fredrickson Plant. In addition, net power expense increased by \$1.9 million (3%), primarily attributable to a rate increase from the Bonneville Power Administration (BPA). The District uses net power expense as a means to measure overall financial performance related to power supply management.

Total operations, maintenance and administrative and general (A&G) expenses increased by \$767,000 (4%) as restated. The District charges internal labor to operations, maintenance, A&G activities, and capital projects. In 2014, the internal labor required for capital projects decreased \$54,000 from 2013, while internal labor performed on operations and maintenance activities increased \$200,000.

Taxes assessed by state and municipal governments increased by \$250,000 (2%), primarily as a result of higher retail sales. Depreciation and amortization increased \$200,000 as a result of capital additions.

### Gross and Net Power Expenses



#### Other Income & Expense

During 2015, interest income increased by \$41,000 (20%) due to higher interest rates on longer term investments as compared to previous investment purchases. In addition, the average investment rate of the Washington State Treasurer's Local Government Investment Pool (LGIP) increased from 0.10% in 2014 to 0.16% in 2015. At year-end, the District's investments had an unrealized gain of \$25,000.

During 2014, interest income decreased by \$33,000 (-14%) due to lower interest rates on longer term investments as compared to previous investment purchases. In addition, the average investment rate of the Washington State LGIP decreased from 0.14% in 2013 to 0.10% in 2014. At year-end, the District's investments had an unrealized gain of \$173,722.

There were no significant restrictions, commitments, or other limitations that would affect the availability of resources for future use in 2015, 2014, and 2013.

#### Capital Contributions

During 2015, capital contributions decreased by \$1.4 million (-36%), primarily due to the receipt of the District's portion of the Broadband Technology Opportunities Program grant contribution in 2014 and fewer capital activities requested by developers.

During 2014, capital contributions increased by \$1.1 million (42%), primarily due to the completion of the District's portion of the Broadband Technology Opportunities Program grant and capital activities requested by irrigation customers.

### **Summary of Financial Position**

The overall financial position of the District decreased \$2.4 million (-2%), primarily due to reduced energy loads from mild seasonal weather and less power for resale due to the poor water year. Other financial areas of the District remained stable as the District maintained solid cash and investment reserves and achieved a debt service coverage ratio well above policy limits. The District had no electric rate increases during 2013 or 2014. In 2015, the District implemented a 3.9% average rate increase effective September 1.

District financial policies require that financial plans be developed to maintain minimum end-of-year cash and investment balances contained within unrestricted accounts sufficient to provide funding for a specified amount of operating expenses, power supply expenses, catastrophic loss, debt service, and capital improvements. The District's unrestricted cash and investment balances totaled \$45.5 million, \$49.4 million, and \$48.5 million at December 31, 2015, 2014 and 2013, respectively. Actual balances exceeded the minimum required level per District financial policies for each year.

In accordance with District financial policies and covenants established within the District's bond resolutions, the District is required to maintain and collect rates and charges sufficient to provide net revenues (defined as net position less depreciation, amortization, and interest expense) in each fiscal year in an amount at least equal to 1.25 times the annual debt service. For the years ended 2015, 2014 and 2013, the District was in compliance with such policies and covenants.

### **Capital Asset and Long-Term Debt Activity**

During 2015, gross capital additions totaled \$12.0 million. Capital contributions associated with these additions totaled \$2.5 million. Major capital additions included completion of additions and improvements to existing distribution infrastructure and substations, capital additions associated with broadband infrastructure, a 1.6% growth in customers served by the District, and internal capital expenditures to meet District needs. Construction work-in-progress totaled \$2.7 million at year-end, a net increase of \$1.2 million over 2014.

During 2014, gross capital additions totaled \$12.1 million. Capital contributions associated with these additions totaled \$3.8 million. Major capital additions included completion of additions and improvements to existing distribution infrastructure, the receipt of a substation transformer, implementation of other major technology projects, as well as capital additions associated with broadband infrastructure, a 1.5% growth in customers served by the District, and internal capital expenditures to meet District needs. Construction work-in-progress totaled \$1.5 million at year-end, a net decrease of \$1.5 million over 2013.

In the summer of 2015, Fitch Ratings affirmed the District's A+ rating. In the summer of 2014, Standard & Poor's affirmed the District's A+ rating. The District's rating from Moody's remained unchanged at Aa3.

Debt service payments totaled \$4.8 million in 2015, and \$6.0 million in 2014 and 2013. In September 2015, the District called the remaining 2005 bonds of \$1.9 million.

Additional information about the District's capital assets and long-term debt is presented in Notes 2 and 5.

## STATEMENT OF NET POSITION

As of December 31, 2015 and 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2015	2014 Restated
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & Cash Equivalents		
Unrestricted Cash & Cash Equivalents	\$28,597,032	\$25,640,377
Investments (Note 3)	16,887,763	23,806,903
Accounts Receivable, Net	7,663,436	8,359,141
BPA Prepay Receivable (Note 8)	600,000	600,000
Accrued Interest Receivable	33,697	77,857
Wholesale Power Receivable	1,121,675	1,856,483
Accrued Unbilled Revenues	4,400,000	3,800,000
Inventory - Materials & Supplies	5,166,707	4,834,037
Prepaid Expenses & Option Premiums	396,067	696,291
<b>Total Current Assets</b>	<b>64,866,377</b>	<b>69,671,089</b>
<b>NONCURRENT ASSETS</b>		
Restricted Bond Reserve Fund	1,083,997	140,017
BPA Prepay Receivable (Note 8)	7,050,000	7,650,000
Other Receivables (Note 1)	95,707	93,333
Other Charges (Note 4)	10,021,449	9,817,740
<b>Subtotal Noncurrent Assets</b>	<b>18,251,153</b>	<b>17,701,090</b>
Utility Plant (Note 2)		
Land and Intangible Plant	3,416,129	3,383,838
Electric Plant in Service	295,517,712	286,805,545
Construction Work in Progress	2,745,647	1,502,261
Less: Accumulated Depreciation	(180,888,261)	(169,291,281)
<b>Net Utility Plant</b>	<b>120,791,227</b>	<b>122,400,363</b>
<b>Total Noncurrent Assets</b>	<b>139,042,380</b>	<b>140,101,453</b>
<b>TOTAL ASSETS</b>	<b>203,908,757</b>	<b>209,772,542</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized Loss on Defeased Debt	82,981	136,260
Pension Deferred Outflow	1,319,722	608,285
Accumulated Decrease in Fair Value of Hedging Derivatives	2,490,112	1,198,882
<b>Total Deferred Outflows of Resources</b>	<b>3,892,815</b>	<b>1,943,427</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$207,801,572</b>	<b>\$211,715,969</b>
<b>NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>		
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Warrants Outstanding	\$250,248	\$307,635
Accounts Payable	8,857,868	8,967,897
Customer Deposits	1,419,318	1,423,066
Accrued Taxes Payable	3,303,531	2,938,560
Other Accrued Liabilities	1,374,722	1,378,228
Accrued Interest Payable	381,453	464,582
Revenue Bonds, Current Portion (Note 5)	2,920,000	3,150,000
<b>Total Current Liabilities</b>	<b>18,507,140</b>	<b>18,629,968</b>
<b>NONCURRENT LIABILITIES</b>		
Revenue Bonds (Note 5)	49,914,629	54,022,728
Pension Liability	11,212,267	8,695,790
BPA Prepay Incentive Credit (Note 8)	2,056,045	2,217,301
Other Credits & Liabilities (Note 4)	4,969,339	3,335,977
<b>Total Noncurrent Liabilities</b>	<b>68,152,280</b>	<b>68,271,796</b>
<b>Total Liabilities</b>	<b>86,659,420</b>	<b>86,901,764</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Deferred Inflow	1,772,202	3,794,511
Accumulated Increase in Fair Value of Hedging Derivatives	3,063,382	2,281,273
<b>Total Deferred Inflows of Resources</b>	<b>4,835,584</b>	<b>6,075,784</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	68,039,579	65,363,895
Restricted for Debt Service	1,083,997	140,017
Unrestricted	47,182,992	53,234,509
<b>Total Net Position</b>	<b>116,306,568</b>	<b>118,738,421</b>
<b>TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>\$207,801,572</b>	<b>\$211,715,969</b>

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31, 2015 and 2014

	2015	2014 Restated
<b>OPERATING REVENUES</b>		
Retail Energy Sales	\$116,820,422	\$117,641,940
Energy Sales for Resale	17,678,932	23,325,872
Transmission of Power for Others	690,639	632,528
Broadband Revenue	2,024,661	2,191,287
Other Revenue	1,670,466	1,472,425
<i>Total Operating Revenues</i>	<b>138,885,120</b>	<b>145,264,052</b>
<b>OPERATING EXPENSES</b>		
Power Supply (Includes Prepaid Power Amortization, See Note 8)	95,574,158	97,730,310
Transmission Operation & Maintenance	81,305	81,220
Distribution Operation & Maintenance	9,051,462	8,540,568
Broadband Expense	1,022,025	982,869
Customer Accounting, Collection & Information	3,794,832	3,788,799
Administrative & General Expense	7,229,048	6,909,615
Taxes	12,263,706	12,394,110
Depreciation	13,207,539	12,894,915
<i>Total Operating Expenses</i>	<b>142,224,075</b>	<b>143,322,406</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(3,338,955)</b>	<b>1,941,646</b>
<b>NONOPERATING REVENUES &amp; EXPENSES</b>		
Interest Income	244,709	204,120
Other Income	503,511	321,433
Interest Expense	(2,756,755)	(2,844,753)
Debt Premium Amortization & Loss on Defeased Debt	419,819	445,518
Unrealized Gain/(Loss) on Investments	24,568	173,722
<i>Total Nonoperating Revenues &amp; Expenses</i>	<b>(1,564,148)</b>	<b>(1,699,960)</b>
<b>INCOME/(LOSS) BEFORE CONTRIBUTIONS</b>	<b>(4,903,103)</b>	<b>241,686</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>2,471,250</b>	<b>3,834,420</b>
<b>CHANGE IN NET POSITION</b>	<b>(2,431,853)</b>	<b>4,076,106</b>
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<b>118,738,421</b>	<b>126,880,031</b>
<b>ACCUMULATED EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Note 13)</b>		<b>(12,217,716)</b>
<b>TOTAL NET POSITION, BEGINNING OF YEAR AS RESTATED</b>		<b>114,662,315</b>
<b>TOTAL NET POSITION, END OF YEAR</b>	<b>\$116,306,568</b>	<b>\$118,738,421</b>

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF CASH FLOWS

For the years ended December 31, 2015 and 2014

	2015	2014 Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers and Counterparties	\$138,980,826	\$147,322,253
Cash Paid to Suppliers and Counterparties	(101,542,786)	(106,719,632)
Cash Paid to Employees for Services	(13,382,788)	(13,553,816)
Taxes Paid	(11,898,735)	(12,354,400)
<i>Net Cash Provided by Operating Activities</i>	<b>12,156,517</b>	<b>14,694,405</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Other Interest Expense	(52,972)	(26,548)
<i>Net Cash Used by Noncapital Financing Activities</i>	<b>(52,972)</b>	<b>(26,548)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Capital Assets	(11,702,914)	(10,334,635)
2005 Series Bond Call Principal	(1,900,000)	-
Bond Principal Paid	(1,965,000)	(3,035,000)
Bond Interest Paid	(2,456,243)	(2,582,979)
Capital Contributions	2,471,250	1,784,828
Proceeds from Sale of Assets	117,420	102,170
<i>Net Cash Used by Capital and Related Financing Activities</i>	<b>(15,435,487)</b>	<b>(14,065,616)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	288,869	182,105
Proceeds from Sale of Investments	16,983,270	10,315,317
Purchase of Investments	(10,983,542)	(4,000,280)
<i>Net Cash Provided (Used) by Investing Activities</i>	<b>6,288,597</b>	<b>6,497,142</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>2,956,655</b>	<b>7,099,383</b>
<b>CASH &amp; CASH EQUIVALENTS BALANCE, BEGINNING OF YEAR</b>	<b>25,640,377</b>	<b>18,540,994</b>
<b>CASH &amp; CASH EQUIVALENTS BALANCE, END OF YEAR</b>	<b>\$28,597,032</b>	<b>\$25,640,377</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income/(Loss)	(\$3,338,955)	\$1,941,646
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	13,207,539	12,894,915
BPA Prepaid & Power Contracts Amortization	1,178,400	1,178,400
(Increase) Decrease in Unbilled Revenues	(600,000)	900,000
Miscellaneous Other Revenue & Receipts	100,113	30,731
GASB 68 Pension Expense/(Credit)	(157,447)	(245,062)
Decrease (Increase) in Accounts Receivable	695,706	1,158,201
Decrease (Increase) in Inventories	(332,670)	250,806
Decrease (Increase) in Wholesale Power Receivable	734,808	(348,598)
Decrease (Increase) in Miscellaneous Assets	(2,373)	(67,571)
Decrease (Increase) in Prepaid Expense & Option Premiums	300,224	(345,496)
Increase (Decrease) in Warrants Outstanding	(57,387)	(10,751)
Increase (Decrease) in Accounts Payable	(110,029)	(2,457,373)
Increase (Decrease) in Accrued Taxes Payable	364,971	39,710
Increase (Decrease) in Customer Deposits	(3,748)	101,448
Increase (Decrease) in BPA Prepay Incentive Credit	(161,256)	(161,256)
Increase (Decrease) in Other Current Liabilities	(3,511)	96,362
Increase (Decrease) in Other Credits	342,132	(261,707)
<b>Net Cash Provided by Operating Activities</b>	<b>\$12,156,517</b>	<b>\$14,694,405</b>

### NONCASH OPERATING, INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The District's investments had an unrealized gain of \$24,568 at December 31, 2015 and an unrealized gain of \$173,722 at December 31, 2014.

Bond Interest Paid does not include subsidy payments on Series 2010 Revenue Build America Bonds made directly by the US Treasury to the Fiscal Paying agent of \$403,398 in 2015 and \$290,702 in 2014 (see Note 5).

The net effect of accumulated increases and decreases in the fair value of hedging derivatives had no effect on cash flows for 2015 and 2014. For accumulated decreases in fair value, \$2,490,112, the District records an offsetting liability. For accumulated increases in fair value, \$3,063,382, the District records an offsetting asset.

The deferred inflows and outflows relating to GASB 68 had no effect on cash flows for 2015. The pension deferred outflow was \$1,319,722, and \$608,285 as of December 31, 2015 and 2014 respectively. The pension deferred inflow was \$1,772,202, and \$3,794,511 as of December 31, 2015 and 2014, respectively.

In 2014, the total federal share of the Broadband Technology Opportunities Program (BTOP) grant costs allocated to the District's BTOP project were \$2,282,670, with \$1,750,625 allocated to the Paterson segment and \$532,045 to the West Richland segment. Of the total allocated amount, \$2,049,592 was in the form of a non-cash transfer of assets from NoaNet to the District; \$1,686,822 to Paterson and \$362,770 to West Richland.

The accompanying notes are an integral part of the financial statements.

# Notes to Financial Statements - December 31, 2015 & 2014

---

## Note 1 - Summary of Operations and Significant Accounting Policies

Public Utility District No. 1 of Benton County, Washington (the District) is a municipal corporation of the State of Washington established in 1934 for the purpose of engaging in the purchase, generation, transmission, distribution, and sale of electric energy. Additionally, the District is authorized under state law to provide wholesale telecommunication services.

The District serves Benton County exclusive of most of the City of Richland, the U.S. Department of Energy's operations on the Hanford Reservation, the City of West Richland and those rural areas of the County that are served by the Benton Rural Electric Association. Cities in the District's service area include Kennewick, population 78,290, Prosser, population 5,845, and Benton City, population 3,285. The District maintains its administrative offices in the City of Kennewick. The District is governed by an elected three-member board.

The District's service area comprises approximately 939 square miles of Benton County. The District's properties include 37 substations, approximately 89 miles of 115kV transmission lines, 1,662 miles of distribution lines, and other buildings, equipment, stores, and related facilities.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity and has no component units. The following is a summary of the more significant policies:

a) Basis of Accounting and Presentation: The accounting policies of the District conform to generally accepted accounting principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In 2015, the District implemented GASB statements No. 68 Accounting and Financial Reporting for Pensions and No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The requirements of the GASB statements are effective for financial statements beginning after July 15, 2014, they were retro-actively adopted by the District effective January 1, 2014. As a result, the District's 2014 beginning net position was decreased \$12,217,716. (see Notes 6 and 13).

Accounting records are maintained in accordance with methods prescribed by the Washington State Auditor's Office under the authority of Revised Code of Washington (RCW) 43.09 and the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC). The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting where revenues are recognized when incurred, regardless of the timing of the related cash flows. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing, and investing activities are considered to be nonoperating revenues and expenses.

b) Utility Plant and Depreciation: Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs. The District's capitalization threshold is \$5,000 for noninfrastructure capital. All costs related to infrastructure are capitalized. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and improvements is capitalized.

Property, plant, and equipment are depreciated using the straight-line method over these estimated useful lives:

Buildings and Improvements	33 - 40 years
Generation Plant	20 years
Electric Plant - Transmission	25 - 33 years
Electric Plant - Distribution	10 - 33 years
Electric Plant/Equipment - Broadband	5 - 20 years
Transportation Equipment	16 years
General Plant & Equipment	4 - 14 years

Initial depreciation on utility plant is recorded in the month subsequent to purchase or completion of construction. Composite rates are used for asset groups and, accordingly, no gain or loss is recorded on the disposition of an asset unless it represents a major retirement. The composite depreciation rate was approximately 4.7% in 2015 and 4.6% in 2014. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation.

Preliminary survey and investigation costs incurred for proposed projects are deferred pending a final decision to develop the project. Costs relating to projects ultimately constructed are reclassified to utility plant. If the project is abandoned, the costs are expensed.

c) Allowance for Funds Used During Construction (AFUDC): AFUDC represents the estimated costs of financing construction projects and is computed using the District's long-term borrowing rate. The allowance totaled \$72,730 and \$94,106 in 2015 and 2014, respectively, and is capitalized as part of the cost of the project and reflected as a reduction of interest expense.

d) Restricted Assets: In accordance with bond resolutions, related agreements, and laws, separate restricted accounts have been established. These assets are restricted for specific uses including bond reserve and capital additions and are classified as current or noncurrent assets, as appropriate.

e) Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all short-term highly liquid investments with a maturity of 3-months or less when purchased to be cash equivalents.

f) Accounts Receivable: The percentage-of-sales allowance method is used to estimate uncollectible accounts. The reserve is then reviewed for adequacy against an aging schedule of accounts receivable. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis. The reserve for uncollectible accounts totaled \$400,000 in both 2015 and 2014.

g) Other Receivables: Other receivables include a Rural Economic Development Revolving Fund, which was established during 2008 pursuant to RCW 82.16.0491. The District contributed to the fund in 2008 and 2009. Each contribution to the fund was partially offset by a public utility tax credit. The District appointed Benton-Franklin Council of Governments to oversee and direct activities of the fund. The District does not have a reserve for uncollectible accounts related to Other Receivables.

h) Inventories: Inventories are valued at average cost, which approximates the market value.

i) Derivative Instruments: The District has adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Subject to certain exceptions, GASB Statement No. 53 requires every derivative instrument be recorded on the statement of net position as an asset or liability measured at its fair value, and changes in the derivative's fair value be recognized in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred.

It is the District's policy to document and apply as appropriate the normal purchase and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity, natural gas, and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity and natural gas are considered to be derivatives under GASB Statement No. 53, but do not generally meet the "normal purchases and normal sales" criteria.



As of December 31, 2015, the District had the following derivative instruments outstanding:

Changes in Fair Value			Fair Value at December 31, 2015		Notional (MWh/MMBtu)
	Classification	Amount	Classification	Amount	
Cash Flow Hedges:					
Financial Swap Forward	Deferred Inflow	(\$3,063,382)	Derivative Asset	\$3,063,382	1,420,150
Financial Swap Forward	Deferred Outflow	\$2,490,112	Derivative Liability	(\$2,490,112)	3,491,540

These derivative instruments were entered into between November 2013 and December 2015 with maturities between January 2016 and December 2017. The District paid or received no cash to enter into these transactions.

As of December 31, 2014, the District had the following derivative instruments outstanding:

Changes in Fair Value			Fair Value at December 31, 2014		Notional (MWh/MMBtu)
	Classification	Amount	Classification	Amount	
Cash Flow Hedges:					
Financial Swap Forward	Deferred Inflow	(\$1,841,055)	Derivative Asset	\$1,841,055	271,335
Financial Swap Forward	Deferred Outflow	\$1,198,882	Derivative Liability	(\$1,198,882)	1,211,920
Put Option	Deferred Inflow	(\$440,218)	Derivative Asset	\$440,218	35,375

These derivative instruments were entered into between April 2013 and December 2014 with maturities between January 2015 and September 2016. The District paid \$210,503 in cash to enter into these transactions.

The fair values of the commodity swap contracts were based on the futures price curve for the Mid-Columbia Intercontinental Exchange (ICE) index for electricity and the Sumas index for natural gas; additionally, all instruments close at the same index, respectively. The fair value of the options was calculated using the Black-Scholes-Merton options pricing model.

#### **Objective & Strategies:**

The District enters into derivative energy transactions to hedge its known or expected positions within its approved Risk Management policy. Decisions are made to enter into forward transactions to protect its financial position, specifically to deal with expected long and short positions as determined by projected load and resource balance positions. Generally, several strategies are employed to hedge the District's resource portfolio, including:

- *Combustion Turbine* - The District purchases gas for future periods to generate electricity when the Frederickson Plant (see Note 8) is economically viable on a marginal basis for that period based on parameters set by the Risk Management Committee. If load projections indicate the District does not require the electricity to serve its customers, an equivalent quantity of power will concurrently be sold or otherwise hedged for the same period.
- *Surplus Purchased Power Resources* - The District hedges projected surpluses in future periods by selling power or by purchasing put options. Surplus power is generally sold forward at a fixed price, either physically or financially, when the probability of surplus is very high; surplus power is hedged through the purchase of physical or financial put options when the projected surplus is less certain, but nevertheless expected to be available under expected scenarios. From time to time, the District will sell physical power forward in the next calendar month at a price based on the Mid-Columbia ICE index to perfect financial forward sales that settle based on the same index.
- *Deficit Power Resources* - The District hedges projected power resource deficits in future periods by purchasing power or by purchasing power call options (or if the Frederickson Plant is economically viable for the period, by buying gas). Power is generally purchased to cover projected deficits at a fixed price, either physically or financially, when the probability of the deficit position is very high; such deficit positions are hedged through the purchase of physical or financial call options when the projected deficits are less certain, but nevertheless expected under the approved planning conditions.

Derivatives authorized under the Risk Management policy by the District include:

- Physical power and natural gas forward purchases and sales
- Monthly and daily power and gas physical calls and puts
- Power and natural gas fixed for floating swaps
- Currency swaps relating to managing US/Canadian exchange rate risk resulting from transactions denominated in Canadian dollars
- Quarterly and monthly financial power and gas put and call options
- Financial daily power and gas put and call options
- Quarterly and monthly power and natural gas swaptions
- Financial natural gas swing and basis swaps

### **Risks**

*Credit Risk* - The District has developed a credit policy that establishes guidelines for setting credit limits and monitoring credit exposure on a continuous basis. The policy addresses frequency of counterparty credit evaluations, credit limits per specific counterparty, and counterparty credit concentration limits. A summary of counterparty credit exposure related to derivatives is provided in Note 8.

Commodity transactions, both physical and financial, are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness. The District had 52 counterparties with approved credit limits for electric power and natural gas sales and purchases as of December 31, 2015, and 50 counterparties at December 31, 2014. Counterparty credit limits are based on The Energy Authority's (TEA) (see Note 8) proprietary credit rating system and other factors. Credit ratings for counterparties range from "not-rated" to AAA, with a majority of counterparties rated between BBB- and AAA. Not-rated counterparties either provide additional security or are assigned credit limits of \$25,000 or less.

The District's counterparty credit limits are scaled against TEA credit limits with a maximum credit limit of \$3 million. This mitigates the District's credit exposure by netting and setting off the District's sales with purchases made by other TEA members. Credit concentration limits based on market conditions and available qualified counterparties are established by the Risk Management Committee.

The District has entered into master enabling agreements with various counterparties, which enable hedging transactions. Such agreements include the Western Systems Power Pool (WSPP) form of agreement for physical power transactions, various forms of enabling agreements for physical gas transactions, and International Swaps and Derivatives Association Agreements (ISDA) for financial transactions. All of the enabling agreements have provisions addressing credit exposure and provide for various remedies to assure financial performance, including the ability to call on additional collateral as conditions warrant, generally as determined by the exposed party. The District also uses netting provisions in the agreements to diffuse a portion of the risk.

Forward transactions under the physical enabling agreements are used to deal with long and short physical positions under the direction of the Risk Management Committee and pursuant to the Risk Management policy. Transactions under the ISDA agreements are used to financially hedge long or short positions so that the District will pay or receive the equivalent of a fixed or known price for energy purchased or sold. The agreements also permit the District to hedge the risk of an underlying physical position by using call options, put options, runoff insurance, and weather insurance.

The aggregate fair value of hedging derivative instruments in asset positions was \$3,063,382 and \$2,281,273 at December 31, 2015 and 2014, respectively. There was no collateral held or liabilities included in the netting arrangements.

Although the District executes hedging derivative instruments with various counterparties, three counterparties comprise 89% of the net exposure to credit risk as of December 31, 2015. These counterparties are rated A/Baa1 (26 contracts comprising 26% of net exposure), Not Rated/Baa1 (42 contracts comprising 29% of net exposure) and BBB+/A3 (32 contracts comprising 34% of net exposure). At December 31, 2014, three counterparties comprise 99% of the net exposure to credit risk. These counterparties are rated A-/Baa2 (28 contracts comprising 51% of net exposure) and A/Baa1 (15 contracts comprising 35% of net exposure) and A/A3 (five contracts comprising 13% of net exposure).

*Basis Risk* - The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. There are no derivative transactions outstanding that carry basis risk as of December 31, 2015 or 2014. As applicable, all power related transactions are to be settled on the relevant Mid-Columbia index, and all gas transactions are to be settled on the relevant Sumas/Huntingdon index or be converted to the Sumas/Huntingdon index within 6 months of delivery. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

*Termination Risk* - As of December 31, 2015 and 2014, no termination events have occurred, and there are no outstanding transactions with material risk. None of the outstanding transactions have early termination provisions except in the event of default by either counterparty. Events of default are generally related to (i) failure to make payments when due, (ii) failure to provide and maintain suitable credit assurances as required, (iii) bankruptcy or other evidence of insolvency, or (iv) failure to perform under any material provision of the agreement. Failure to provide or receive energy or natural gas under physical commodity transactions generally does not fall under the events of default provisions, unless the nonperforming party fails to pay the resulting liquidated damages when due.

There is no rollover, interest rate, or market access risk for these derivative products at December 31, 2015 or 2014.

j) Debt Premium Amortization and Loss on Defeased Debt: Original issue and reacquired bond premiums relating to revenue bonds are amortized over the terms of the respective bond issues using the bonds outstanding method. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, losses on debt refundings have been deferred and amortized over the shorter of the remaining life of the old or new debt. Effective with GASB 65, bond issuance costs are expensed in the period incurred.

k) Revenue Recognition: Revenues from retail sales of electricity are recognized when billed and reported net of bad debt expense of \$123,811 and \$198,362 at December 31, 2015 and 2014, respectively. Revenues include an estimate for energy delivered to customers between the last billing date and the end of the year. This amount is reflected in the accompanying financial statements as Accrued Unbilled Revenue in the amount of \$4.4 million at December 31, 2015, and \$3.8 million at December 31, 2014.

l) Capital Contributions: Capital contributions for the District consist mainly of line extension fees. Line extension fees represent amounts collected to recover the costs of installing new lines. Capital contributions are recorded as deferred revenues when received and reclassified to revenue when the related project is completed. In 2014, a significant portion of the capital contribution balance, \$2,049,592, was related to the Broadband Technology Opportunities Program (BTOP) of the American Recovery and Reinvestment Act (See Note 10 for more detail).

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

n) Compensated Absences: The District consolidated its vacation and sick leave program to a personal leave program May 1, 1993. Accrued unused sick leave balances for active employees as of April 30, 1993, were frozen and converted to a supplemental leave benefit (SLB). The SLB may be used by employees to make up the difference between short-term disability benefit payments and 100% of gross, straight-time pay. Additionally, an employee may restore work hours required for short-term disability eligibility one-time per Collective Bargaining Agreement Contract cycle (3 years). At death, the District is obligated to pay 100% of the SLB cash value to the employee's beneficiary. At retirement, the District is obligated to deposit 30% of the SLB cash value into the retiring employee's Voluntary Employee Beneficiary Association Trust account. The liability for unpaid supplemental leave benefits was \$28,290 and \$29,950 at December 31, 2015 and 2014, respectively.

Employees earn personal leave in accordance with length of service. The District accrues the cost of personal leave in the year when earned. Personal leave may accumulate to a maximum of 1,200 hours for employees hired prior to April 1, 2011, and is payable upon separation of service, retirement, or death. For employees hired on or after April 1, 2011, personal leave may accumulate to a maximum of 700 hours.

The liability for unpaid leave, benefits, and related payroll taxes was \$2,656,510 and \$2,559,263 at December 31, 2015 and 2014, respectively. Of the liability for unpaid leave, \$1,062,160 and \$1,051,933 at December 31, 2015 and 2014, respectively, were classified as a current liability and the remainder as a long-term liability (see Note 4).

o) Use of Estimates: The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

p) Investments: It is the District's policy to record investments at fair value. For various risks related to the investments see Note 3.

q) Significant Risk and Uncertainty: The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include prices on the wholesale market for short-term power, interest rates, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other Endangered Species Act issues, Environmental Protection Agency and other federal government regulations, or orders concerning the operation, maintenance, and/or licensing of facilities, other governmental regulations, and the deregulation of the electrical utility industry.

The District's accounts receivable are concentrated with a diverse group of customers and counterparties who have purchased energy or other products and services. These customers generally do not represent a significant concentration of credit risk. The District mitigates credit risk by requiring large customers to provide an acceptable means of payment assurance and by an ongoing financial review of counterparties and establishment of credit limits based on the results of that review.

r) Bonneville Power Administration Prepay Program: In March 2013, the District participated in BPA's Prepay Program making a lump-sum up-front payment of \$6.8 million. The District will receive \$9.3 million in credits which started in April 2013 and continues until September 2028. (See Note 8)

## Note 2 - Utility Plant

Utility plant activity for the years ended December 31 was as follows:

### Activity for 2015

Electric Plant Assets	Restated Balance			Balance
	Dec. 31, 2014	Increase	Decrease	Dec. 31, 2015
Capital Assets Not Being Depreciated:				
Land and Intangible Plant	\$3,383,838	\$32,291	-	\$3,416,129
Construction Work in Progress	1,502,261	7,219,123	(5,975,737)	2,745,647
Capital Assets Being Depreciated:				
Transmission	7,817,065	26,892	(14,132)	7,829,825
Generation	1,403,851	351,014	-	1,754,865
Distribution	203,429,431	6,867,374	(956,569)	209,340,236
General	74,155,198	3,518,236	(1,080,648)	76,592,786
<b>Subtotal</b>	<b>286,805,545</b>	<b>10,763,516</b>	<b>(2,051,349)</b>	<b>295,517,712</b>
Less Accumulated Depreciation for:				
Transmission	(5,582,374)	(282,704)	14,131	(5,850,947)
Generation	(883,312)	(65,259)	-	(948,571)
Distribution	(123,885,265)	(8,000,060)	762,523	(131,122,802)
General	(38,940,330)	(5,657,688)	1,632,077	(42,965,941)
<b>Total Accumulated Depreciation</b>	<b>(169,291,281)</b>	<b>(14,005,711)</b>	<b>2,408,731</b>	<b>(180,888,261)</b>
<b>Net Utility Plant</b>	<b>\$122,400,363</b>	<b>\$4,009,219</b>	<b>(\$5,618,355)</b>	<b>\$120,791,227</b>

### Activity for 2014

Electric Plant Assets	Balance	Increase	Decrease	Restated Balance
	Dec. 31, 2013			Dec. 31, 2014
Capital Assets Not Being Depreciated:				
Land and Intangible Plant	\$3,353,346	\$30,492	-	\$3,383,838
Construction Work in Progress	2,958,673	6,982,365	(8,438,777)	1,502,261
Capital Assets Being Depreciated:				
Transmission	7,804,844	27,890	(15,669)	7,817,065
Generation	1,403,851	-	-	1,403,851
Distribution	196,314,665	8,609,513	(1,494,747)	203,429,431
General	69,307,988	5,658,035	(810,825)	74,155,198
Subtotal	274,831,348	14,295,438	(2,321,241)	286,805,545
Less Accumulated Depreciation for:				
Transmission	(5,302,400)	(282,268)	2,294	(5,582,374)
Generation	(818,053)	(65,259)	-	(883,312)
Distribution	(116,994,426)	(8,214,119)	1,323,280	(123,885,265)
General	(35,018,736)	(4,705,788)	784,194	(38,940,330)
Total Accumulated Depreciation	(158,133,615)	(13,267,434)	2,109,768	(169,291,281)
Net Utility Plant	\$123,009,752	\$8,040,861	(\$8,650,250)	\$122,400,363

### Note 3 - Deposits and Investments

As of December 31, 2015, the District had the following investments:

Investment Type	Maturities	Fair Value
Federal Home Loan Bks	9/19/2016	1,999,260
Federal Natl Mtg Assn	11/28/2016	1,997,940
Federal Natl Mtg Assn	6/1/2017	1,967,280
Federal Home Loan Bks	9/8/2017	2,037,240
Federal Home Loan Bks	12/28/2017	2,001,180
Federal Home Loan Bks	4/24/2018	1,989,000
Federal Natl Mtg Assn	5/21/2018	1,981,880
Federal Home Loan Bks	12/28/2018	1,997,940
Federal Farm Credit Bks	4/29/2019	2,000,040
<b>Total</b>		<b>\$17,971,760</b>
<b>Reconciliation to Statement of Net Position</b>		
Investments		\$16,887,763
Restricted Bond Reserve Fund		1,083,997
<b>Total</b>		<b>\$17,971,760</b>

As of December 31, 2014, the District had the following investments:

Investment Type	Maturities	Fair Value
Federal Home Loan Mtg Corp	4/17/2015	\$2,001,900
Federal Home Loan Mtg Corp	9/4/2015	2,002,620
Federal Natl Mtg Assn	12/21/2015	2,000,460
Federal Home Loan Mtg Corp	9/14/2016	1,994,460
Federal Home Loan Bks	9/19/2016	1,995,200
Federal Natl Mtg Assn	11/28/2016	1,994,740
Federal Natl Mtg Assn	6/1/2017	1,950,740
Federal Home Loan Bks	9/8/2017	2,058,520
Federal Home Loan Bks	12/18/2017	1,994,980
Federal Home Loan Bks	12/28/2017	1,980,160
Federal Natl Mtg Assn	5/21/2018	1,972,900
Federal Home Loan Bks	9/26/2018	2,000,240
<b>Total</b>		<b>\$23,946,920</b>
<b>Reconciliation to Statement of Net Position</b>		
Investments		\$23,806,903
Restricted Bond Reserve Fund		140,017
<b>Total</b>		<b>\$23,946,920</b>

It is the District's policy to record investments at fair value. Due to the lack of restrictions on the District's ability to sell these investments, they are all classified as current. The restricted bond reserve fund is classified as noncurrent.

*Interest Rate Risk* - In accordance with its investment policy, the District manages its exposure to declines in fair values by matching investment maturities to meet anticipated cash flow requirements. The policy limits investment maturities to less than 5-years from the date of the purchase, unless the maturities coincide as nearly as practicable with the expected use of the funds.

*Credit Risk* - The District's investment policy conforms with state law, which restricts investments of public funds to debt securities and obligations of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit, and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), bankers' acceptances, investment-grade general obligation debt of state and local governments and public authorities, and the Washington State Treasurer's Local Government Investment Pool (LGIP). The LGIP is an unrated 2a7-like pool and investments in the LGIP are reported based on the pool's share price. The reported value of the pool is the same as the fair value of the pool shares. The LGIP is governed by the State Finance Committee and is administered by the State Treasurer. The District's investments in the Federal National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation were rated Aaa by Moody's Investor Services and AA+ by Standard & Poor's. The District has a third-party safekeeping agreement for investments through Bank of New York Mellon.

*Concentration of Credit Risk* - The District's investment policy limits investments at the time of purchase to a percentage of the total investment portfolio in the following manner:

- Direct obligations of the U.S. Government, up to 100%
- Washington State Treasurer's Local Government Investment Pool, up to 100%
- U.S. Government agency debt, up to 30% for any single agency
- Certificate of Deposit, up to 50% from any single bank provided they are PDPC approved

*Custodial Credit Risk Deposits* - For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District's deposits and certificates of deposit are held by public depositaries authorized by the PDPC and are not subject to custodial credit risk. State law requires public depositaries to fully collateralize their uninsured public deposits with approved third-party safekeeping agents and provides for independent oversight of this program.

## Note 4 - Other Charges and Other Credits

As of December 31, other charges consisted of the following:

Other Charges	2015	2014
Derivative Asset (Note 8)	\$3,063,382	\$2,281,273
White Creek Wind Project (Note 8)	6,893,067	7,471,467
Preliminary Surveys	65,000	65,000
<b>Total</b>	<b>\$10,021,449</b>	<b>\$9,817,740</b>

During the year ended December 31, 2015, the following changes occurred in other credits:

Other Credits & Other Liabilities	Balance			Balance
	Dec. 31, 2014	Increase	Decrease	Dec. 31, 2015
Unclaimed Property	\$32,775	\$5,348	\$5,087	\$33,036
Contract Deposit	100,000	-	-	100,000
Derivative Liability (Note 8)	1,198,882	4,322,034	3,030,804	2,490,112
Unearned Revenue	333,622	1,263,932	1,017,249	580,305
Asset Retirement Obligation - Finley CT	163,368	8,168	-	171,536
Personal Leave and Benefits*	1,507,330	1,516,916	1,429,896	1,594,350
<b>Total</b>	<b>\$3,335,977</b>	<b>\$7,116,398</b>	<b>\$5,483,036</b>	<b>\$4,969,339</b>

\* In addition to this amount, \$1,062,160 is recorded as a current liability for personal leave and related benefits.

During the year ended December 31, 2014, the following changes occurred in other credits:

Other Credits & Other Liabilities	Balance	Increase	Decrease	Balance
	Dec. 31, 2013			Dec. 31, 2014
Unclaimed Property	\$29,437	\$6,219	\$2,881	\$32,775
Contract Deposit	100,000	-	-	100,000
Derivative Liability (Note 8)	1,111,575	1,198,882	1,111,575	1,198,882
Unearned Revenue	587,720	1,267,849	1,521,947	333,622
Asset Retirement Obligation - Finley CT	155,588	7,780	-	163,368
Other Postemployment Benefits	27,448	10,767	38,215	-
Personal Leave and Benefits*	1,498,609	8,721	-	1,507,330
<b>Total</b>	<b>\$3,510,377</b>	<b>\$2,500,218</b>	<b>\$2,674,618</b>	<b>\$3,335,977</b>

\* In addition to this amount, \$1,051,933 is recorded as a current liability for personal leave and related benefits.

## Note 5 - Long-Term Debt

During the year ended December 31, 2015, the following changes occurred in long-term debt:

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2005 Revenue Refunding Bonds, due in annual installments of \$90,000 - \$1,185,000 through November 1, 2017; interest at 2.9% - 4.0%; Original issue amount: \$9,655,000	\$1,900,000	-	\$1,900,000	-	-
2010 Revenue Build America Bonds, due in annual installments of \$1,645,000 - \$2,250,000 beginning November 1, 2022 through November 1, 2030; interest at 5.86% - 6.546%; Original issue amount: \$17,345,000	17,345,000	-	-	17,345,000	-
2011 Revenue and Refunding Bonds, due in annual installments of \$460,000 - \$4,135,000 through November 1, 2035; interest at 2.0% - 5.0% Original issue amount: \$38,545,000	34,355,000	-	1,965,000	32,390,000	2,920,000
<i>Sub total</i>	53,600,000	-	3,865,000	49,735,000	2,920,000
Plus: Unamortized premium	3,572,728	-	473,099	3,099,629	-
<b>Total Long-Term Debt</b>	<b>\$57,172,728</b>	<b>-</b>	<b>\$4,338,099</b>	<b>\$52,834,629</b>	<b>\$2,920,000</b>



During the year ended December 31, 2014, the following changes occurred in long-term debt:

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2005 Revenue Refunding Bonds, due in annual installments of \$90,000 - \$1,185,000 through November 1, 2017; interest at 2.9% - 4.0%; Original issue amount: \$9,655,000	\$3,040,000	-	\$1,140,000	\$1,900,000	\$1,185,000
2010 Revenue Build America Bonds, due in annual installments of \$1,645,000 - \$2,250,000 beginning November 1, 2022 through November 1, 2030; interest at 5.86% - 6.546%; Original issue amount: \$17,345,000	17,345,000	-	-	17,345,000	-
2011 Revenue and Refunding Bonds, due in annual installments of \$460,000 - \$4,135,000 through November 1, 2035; interest at 2.0% - 5.0% Original issue amount: \$38,545,000	36,250,000	-	1,895,000	34,355,000	1,965,000
<i>Sub total</i>	56,635,000	-	3,035,000	53,600,000	3,150,000
Plus: Unamortized premium	4,072,098	-	499,370	3,572,728	-
<b>Total Long-Term Debt</b>	<b>\$60,707,098</b>	<b>-</b>	<b>\$3,534,370</b>	<b>\$57,172,728</b>	<b>\$3,150,000</b>

Future debt service requirements on these bonds are as follows:

Year	Principal	Interest	Total
2016	\$2,920,000	\$2,664,787	\$5,584,787
2017	3,045,000	2,547,987	5,592,987
2018	3,570,000	2,395,737	5,965,737
2019	3,750,000	2,217,237	5,967,237
2020	3,940,000	2,029,737	5,969,737
2021-2025	14,460,000	7,408,566	21,868,566
2026-2030	13,745,000	3,678,308	17,423,308
2031-2035	4,305,000	666,250	4,971,250
<b>Total</b>	<b>\$49,735,000</b>	<b>\$23,608,609</b>	<b>\$73,343,609</b>

In March 2005, the District issued \$9,655,000 of Electric Revenue Refunding Bonds, Series 2005. The proceeds were used to refund certain of the District's outstanding 1995 Bonds, the callable 1997 Bonds, and to pay issuance costs. The refunding resulted in a net present value savings of 9% of the refunded bonds. In September 2015, the District called the outstanding balance of the bonds.

In October 2007, the District purchased a debt service reserve surety bond issued by MBIA Insurance Corporation to satisfy the reserve requirement for the outstanding 2005 bonds. This policy continues in place as of December 31, 2015. During 2011, the District established a designated Bond Insurance Replacement account and funded \$2 million in anticipation of the retirement of the debt service insurance policy and surety bond during the next 5 to 10 years. The District added \$2 million to the designated Bond Insurance Replacement account in 2012 to increase the balance to \$4 million.

In March 2010, the District issued \$17,345,000 of taxable Electric Revenue Build America Bonds. The proceeds were used to fund capital projects. The U.S. Treasury subsidizes a portion of the interest debt service payments which it pays directly to the Fiscal Paying Agent.

In October 2011, the District issued \$38,545,000 of Electric Revenue and Refunding Bonds, Series 2011. The bond proceeds were used to fund \$10 million of improvements and replacements in the District's electric utility system and to refund all of the 2001A bonds maturing on or after November 1, 2011, and all of the 2002 bonds maturing on or after November 1, 2012. The portion of bond proceeds for the refunding was placed in an irrevocable trust for future debt service on the refunded bonds.

These issuances are subject to certain bond reserve requirements satisfied by bond insurance and a bond reserve fund of \$1,083,997.

In March 2008, the District established a three-year \$10 million revolving line of credit, the Electric System Revenue Note, 2008, with Bank of America maturing May 15, 2011. In early 2011, the line of credit was extended for an additional one-year term expiring May 15, 2012. In early 2012, the line of credit was extended for an additional three-year term expiring May 15, 2015, and in late 2014, the line of credit was extended for an additional two-year term expiring December 31, 2016. The line of credit was established in support of District financial policies that require additional liquidity be maintained above minimum cash and investment reserve levels for the purpose of meeting unforeseen short-term cash needs. Specifically, the line of credit can be used in support of general District operations or for irrevocable letters of credit as may be required to satisfy collateral posting requirements under contracts and agreements within the ordinary course of business. Draws on the Note will bear interest based on a pricing grid and formula using the bank's prime rate or the LIBOR rate. This Note is a special obligation of the District payable solely out of a special fund and has a lien on revenues junior to the payment of operating expenses of the electric system and outstanding electric system bonds. No draws on the line of credit have been made.

## Note 6 - Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015 and 2014:

Aggregate Pension Amounts - All Plans		
	2015	2014
Pension liability	\$11,212,267	\$8,695,790
Deferred outflows of resources	\$1,319,722	\$608,285
Deferred inflows of resources	\$1,772,202	\$3,794,511
Pension expense/(Credit)	(\$217,269)	(\$335,700)

### State Sponsored Pension Plans

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

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

Department of Retirement Systems  
 Communications Unit  
 P.O. Box 48380, Olympia WA 98504-8380

Or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

## Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as 2 percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

*Contributions* - The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 and 2014 were as follows:

### 2015 PERS Plan 1

<u>Actual Contribution Rates:</u>	<u>Employer</u>	<u>Employee</u>
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

### 2014 PERS Plan 1

<u>Actual Contribution Rates:</u>	<u>Employer</u>	<u>Employee</u>
January through December 2014	9.21%	6.00%

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as 2 percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least 5 years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3 percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 years of service if 12 months of that service are earned after age 44.

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

*Contributions* - The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

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

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2014 were as follows:

PERS Plan 2/3		
<u>Actual Contribution Rates:</u>	<u>Employer 2/3</u>	<u>Employee 2</u>
January through December 2014	9.21%	4.92%
Employee PERS Plan 3		varies

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

	<u>2015</u>	<u>2014</u>
PERS Plan 1	\$10,560	\$12,606
PERS Plan 1 UAAL	\$561,091	\$501,611
PERS Plan 2/3	<u>\$720,845</u>	<u>\$612,316</u>
Total	\$1,292,496	\$1,126,533

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuations completed in 2015 and 2014 with a valuation date of June 30, 2014, and June 30, 2013 respectively. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 and 2013 actuarial valuation reports. The TPL was calculated as of the valuation dates and rolled forward to the measurement dates of June 30, 2015 and June 30, 2014. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015 and June 30, 2013 to June 30, 2014 for the respective fiscal years, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

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

The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

#### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent. To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

#### **Long-Term Expected Rate of Return**

The long-term expected rate of return on DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon, increased slightly to remove WSIB's implicit, small, short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

### Estimated Rates of Return by Asset Class

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>% Long-Term Expected Real Rate of Return Arithmetic</u>
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	<u>23%</u>	9.60%
	100%	

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the table below. The inflation component used to create the table is 2.7 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>% Long-Term Expected Real Rate of Return Arithmetic</u>
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	<u>23%</u>	9.05%
	100%	

### Sensitivity of NPL

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

	<b>1% Decrease 6.5%</b>	<b>Current Discount Rate 7.5%</b>	<b>1% Increase 8.5%</b>
2015			
PERS 1	\$7,313,845	\$6,007,252	\$4,883,702
PERS 2/3	\$15,219,734	\$5,205,015	(\$2,462,880)
2014			
PERS 1	\$7,149,478	\$5,800,332	\$4,642,224
PERS 2/3	\$12,077,577	\$2,895,458	(\$4,117,971)

### Pension Plan Fiduciary Net Position

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

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.**

The State's pension plans year-end is June 30, the District's proportionate balances have been rolled forward to the District's year-end of December 31.

At December 31, 2015, the District reported a total pension liability of \$11,212,267 for its proportionate share of the net pension liabilities as follows:

	<u>Liability (or Asset)</u>
PERS 1	\$6,007,252
PERS 2/3	\$5,205,015

At December 31, 2014, the District reported a total pension liability of \$8,695,790 for its proportionate share of the net pension liabilities as follows:

	<u>Liability (or Asset)</u>
PERS 1	\$5,800,332
PERS 2/3	\$2,895,458

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

	<u>Proportionate Share 12/31/14</u>	<u>Proportionate Share 12/31/15</u>	<u>Change in Proportion</u>
PERS 1	0.115142%	0.114841%	(0.000301%)
PERS 2/3	0.143243%	0.145674%	0.002431%

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

**Pension Expense**

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

<u>2015</u>	<u>Pension Expense</u>	<u>2014</u>	<u>Pension Expense</u>
PERS 1	(\$217,421)	PERS 1	(\$195,199)
PERS 2/3	\$ 152	PERS 2/3	(\$140,501)
Total	(\$217,269)	Total	(\$335,700)

### Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2015	2014	2015	2014
Effect of change in the employer's proportionate share	(\$15,163)	-	(\$1,896)	-
Net difference between projected and actual investment earnings on pension plan investments	-	-	328,662	725,299
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	2,873	-
Contributions subsequent to the measurement date	317,445	273,601	-	-
<b>TOTAL</b>	<b>\$302,282</b>	<b>\$273,601</b>	<b>\$329,639</b>	<b>\$725,299</b>

PERS 2/3	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2015	2014	2015	2014
Effect of change in the employer's proportionate share	\$49,139	-	\$52,088	-
Differences between expected and actual experience	553,295	-	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	-	1,389,493	3,069,212
Changes of assumptions	8,386	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	982	-
Contributions subsequent to the measurement date	406,620	334,684	-	-
<b>TOTAL</b>	<b>\$1,017,440</b>	<b>\$334,684</b>	<b>\$1,442,563</b>	<b>\$3,069,212</b>
<b>TOTAL ALL PLANS</b>	<b>\$1,319,722</b>	<b>\$608,285</b>	<b>\$1,772,202</b>	<b>\$3,794,511</b>

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.



Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2016	(\$98,306)	(\$183,156)
2017	(82,166)	(183,156)
2018	(82,165)	(183,156)
2019	(82,165)	(282,275)
2020	-	-
Thereafter	-	-

#### Excess Compensation

A cash-out of accrued personal leave at termination in excess of 240 hours qualifies as “excess compensation” for PERS Plan 1 members. Excess compensation is included as part of a participant’s AFC. When a payment is made that qualifies as excess compensation, the employer is billed for the resulting increase to the retiree’s benefit to offset the increased cost to the Department of Retirement Systems. The bill is based on the present value of the increase to the retiree’s benefit. Present value is calculated using actuarial tables developed by the Office of the State Actuary and adopted into Washington Administrative Code by the Department of Retirement Systems. Beginning in 2003, the District accrued a liability for future “excess compensation” bills based on personal leave bank balances of PERS Plan 1 employees and actuarial numbers provided by the Office of the State Actuary. The liability for PERS Plan 1 excess compensation at December 31, 2015 and 2014 was \$44,165 and \$43,688, respectively.

## **Note 7- Deferred Compensation and Health Benefit Plans**

### **Deferred Compensation Plans**

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(a) permitting employees to defer a portion of their salary until future years. The District match was locked at a maximum rate of 2% on January 1, 2007. The deferred compensation is not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

### **Health Benefit Plans - Health Reimbursement Arrangement (HRA)**

The District, effective January 1, 2015, converted the employee incentive for voluntarily participation in the employer provided wellness program to a monthly \$150 into a HRA. This payment is intended to help employees pay for qualified health care costs and insurance premiums upon retirement. Contributions are held in trust for the exclusive benefit of participants and beneficiaries.

During 2014, the District contributed 1% of an employee’s regular straight-time wages for the pay period into a health reimbursement arrangement (HRA) intended to help employees pay for health insurance premiums upon retirement. In addition, employees may elect to participate in a District provided wellness program and receive an additional 1% contribution of regular straight-time wages each pay period into the HRA. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

## Note 8 - Long-Term Purchased Power Commitments

### Bonneville Power Administration (BPA) Contracts Effective October 2011-September 2028

The District has executed a Slice/Block Power Sales Agreement with BPA for the period commencing October 1, 2011, and expiring September 30, 2028. Compared to the previous agreement, the new Slice agreement has changes in operational flexibility and clarification of within hour capacity rights as shown below:

- The Slice Product is a system sale of power that includes requirements power, surplus power, and hourly scheduling rights, all of which are indexed to the variable output capability of the FCRPS resources that comprise the Slice System, and to the extent such capability is available to Power Services after System Obligations and Operating Constraints are met. These capabilities are accessed by the District through the Slice Computer Application, which will reasonably represent and calculate the capabilities available to BPA Power Services from such FCRPS resources after System Obligations and Operating Constraints are met, including energy production, peaking, storage and ramping capability, and which the Slice Computer Application applies the District's Selected Slice Percentage to such capabilities.
- No ability to self-supply ancillary services such as operating reserves, energy imbalance, or dynamic scheduling.
- Slice schedules continue to be firm across the hour of delivery.
- The District's new Slice percentage is 1.36985%.
- The monthly block amounts range from 70 aMW to 135 aMW.

In conjunction with the new Slice/Block agreement, BPA implemented a Tiered Rates Methodology (TRM). Under the TRM and new agreements, BPA has implemented a cap on the amount of power that the District can purchase at the lowest cost based rates (Tier 1). The cap is referred to in the contract as a Contract High Water Mark (CHWM). The District's CHWM is 204.6 aMW. The maximum amount of power the District can purchase in any federal fiscal year (FFY) is referred to as the Rate Period High Water Mark (RHWM), which adjusts the CHWM for changes in Federal System Capability. For FFY's 2014 and 2015 the RHWM was 202.4 aMW, for FFY 2016 it is 199.6. BPA has a fiscal year of October through September. The amount of power the District can purchase in a FFY is the lesser of its Net Requirement (Forecast load less its share of Packwood) or RHWM and is the Tier 1 amount. This amount for FFY 2014 and FFY 2015 was 201.9 and FFY 2016 it is 199.6.

The TRM provides for the determination of Tier One Cost Allocators (TOCA) to determine monthly charges. The TOCA is determined by dividing the Tier 1 amount by the sum of all BPA customers' RHWM. For FFY's 2014 and 2015, this value for the District was 2.837%; for FFY 2016, this value is 2.859%. The TOCA is multiplied by BPA's monthly Composite Charge to determine that portion of the District's monthly BPA power bill that represents BPA's costs. The nonslice TOCA is the TOCA minus the slice percentage resulting in a FFY 2014 and FFY value of 1.466%, and FFY 2016 value of 1.489%. The nonslice TOCA is multiplied by BPA's nonslice charge to determine that portion of the District's monthly BPA power bill that represent several BPA revenues, primarily their wholesale sales.

BPA has put in place a Cost Recovery Adjustment Clause (CRAC) that applies to the District's Block purchases. The CRAC will trigger if BPA's forecasted Accumulated Modified Net Revenues (AMNR) were lower than expected. For FFY 2014 and 2015, AMNR represents the Power Services net revenues, modified by certain items, as accumulated since 1999 through the end of each year for FFY 2006 through 2010. The amount of the CRAC would have been determined by the amount AMNR is forecasted to be less than certain values and is capped at \$300 million per year. For FFY 2016, the trigger is based on BPA Power function cash reserves for risk levels. If these levels drop below zero, the CRAC could trigger. It is still capped at \$300 million per year. If triggered, the CRAC amount would be converted to a percentage and would increase the Block rates charged to the District. The \$300 million per year cap would then be increased if BPA triggered a National Marine Fisheries Service FCRPS BiOp (NFB) adjustment. The NFB adjustment would have been triggered if a court ordered additional expenditures for Fish and Wildlife mitigation, an Endangered Species Act (ESA) litigation settlement occurred which resulted in higher costs, a new, more expensive, Biological Opinion (BiOp) was implemented, or BPA committed to implement a recovery plan under the ESA. The NFB adjustment would have started at the beginning of a fiscal year, or during the fiscal year if an emergency was declared. The CRAC did not trigger for FFY 2014, 2015, or 2016.

The rates also contained a Dividend Distribution Clause (DDC), which would operate similar to the CRAC but would have lowered the Block rates charged to the District. The DDC would have been triggered when generation function reserves exceed \$1.05 billion in FFY 2014 and 2015. For FFY 2016, the trigger is \$750 million. There was no cap in FFY 2014 and 2015. In FFY 2016, the cap is \$1 billion. The DDC did not trigger for FFY 2014, 2015, or 2016.

To obtain needed transmission services, the District entered into a service agreement with BPA for point-to-point transmission services commencing May 31, 1997 and terminating on the earlier of September 30, 2031, or the date of termination established pursuant to BPA's Open Access Transmission Tariff. Effective October 1, 2000, the District obtained transmission demand of 468 MW. It was reduced to 428 MW on October 1, 2003, and 423 MW on October 1, 2005. This service level exceeds requirements needed to meet projected retail loads.

The District, along with over 80% of BPA's Consumer Owned Utility (COU) customers and the region's IOUs entered into an agreement to settle the amount of the residential exchange benefits paid by BPA to the IOUs. The settlement included a provision for BPA to continue to provide COU's a discount on BPA power bills. For the FFY 2014 period, the discount for the District was \$179,832, and for FFY 2015, the discount was \$179,788/month. For FFY 2016, the discount is \$182,597.

### **BPA Prepay Program**

BPA developed a Prepay Program to help fund hydro system infrastructure and as a means to allow customers to prepay for the future delivery of power consistent with the existing power supply agreements, except that payment provisions would be revised to reflect the prepayment. The District submitted an offer for one block in the amount of \$6.8 million that was accepted and, in return, would receive a total of \$9.3 million in credits resulting in net present value savings of \$1.1 million. The District made a lump-sum up-front payment in March 2013, and began receiving a \$50,000 credit each month on its power bill beginning April 2013 and continues until September 2028.

### **Energy Northwest (ENW)**

The District, ENW, and BPA have entered into separate agreements with respect to certain ENW projects. Under these agreements, the District has purchased 4.965%, 5.350%, and 4.295% capability of Project No. 1, Columbia Generating Station, and ENW's 70% share of Project No. 3, respectively. All project participants, including the District, have assigned their respective rights to the capability of these projects to BPA under contracts referred to as net-billing agreements. Project participants are obligated to pay ENW their pro rata share of total project costs, and BPA in turn is obligated to pay the participants identical amounts by reducing amounts due to BPA under power sales agreements. The net-billing agreements provide that participants and BPA are obligated to make such payments whether or not the projects are completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction, or curtailment of the projects' output.

BPA and ENW received a favorable private letter ruling from the IRS allowing for direct-pay agreements effective June 2006. The ruling assures that the proposed direct-pay agreements do not adversely affect the existing federal income tax-exemption on the BPA-backed bonds issued by ENW for three nuclear projects. Under the direct-pay agreements, BPA pays amounts directly to Energy Northwest to cover the costs of the projects. This enables ENW to reduce to zero the amounts it bills to project participants and also reduces to zero the amount of net-billing credits BPA provides. The direct-pay agreements improve BPA's cash flows and provide an opportunity for rate relief for the region. The District began participation in the direct-pay program in June 2006.

Additionally, the District entered into a Nine Canyon Wind Project Power Purchase Agreement with ENW for the purchase of 3 MW of the project generating capacity (1 aMW) of Phase I through July 1, 2023. The project reached commercial operation in late 2002. The District on October 30, 2006, signed an Amended and Restated Agreement with ENW and the other purchasers, which extended the term of the Agreement through July 1, 2030 (with rights to extend the agreement for 5-year terms) and provided the District with 6 MW (2 aMW) from the Phase III expansion (see Note 12).

**Packwood Lake Hydroelectric Project (Packwood)**

The District is a 14% participant in ENW's 27 MW Packwood Project, located in the Cascade Mountains south of Mount Rainier. The Packwood Agreement with ENW obligates participants to pay annual costs and receive excess revenues. ENW recognizes revenues equal to expenses for each period. No net revenue or loss is recognized, and no equity is accumulated. Accordingly, no investment for the joint venture is reflected on the District's statement of net position. No distributions were made in 2015 or 2014.

**Frederickson Plant**

In March 2001, the District entered into a 20-year agreement with Frederickson Power LP for the purchase of 50 MW of contract capacity from the 249 MW Frederickson 1 Generating Station combined-cycle natural gas fired combustion turbine plant near Tacoma, Washington. The agreement includes firm gas transportation from the Canadian border to the plant. Power deliveries and variable energy charges are based on a deemed heat rate of 7,100 British thermal units (Btu) per kilowatt-hour (kWh). Up to 40% of the contract capacity may be displaced regardless of the dispatch decisions of other purchasers. Power costs include a capacity charge and fixed and variable operation and maintenance charges indexed to performance and escalation factors. The District receives fuel management services for the Frederickson Plant from The Energy Authority (TEA).

**Lakeview Light and Power (LL&P) Wind Energy, Inc.**

In April 2007, the District entered into a 20-year Energy and Environmental Attributes Purchase Agreement with LL&P to purchase 3 MW of capacity (1 aMW) at the White Creek Wind Project. This project is a wind generation facility with capacity of 204.7 MW. It is located in Klickitat County and was declared to be in commercial operation in November 2007. The purchase is part of the District's strategy for meeting renewable resource requirements of the Energy Independence Act (EIA) (see Note 12). The District pays for only the energy and associated environmental attributes generated by the project.

**White Creek Wind Project**

In September 2008, the District entered into an Assignment Agreement with Klickitat PUD under which Klickitat PUD assigned the District a 3% share of its Energy Purchase Agreement with White Creek Wind I, LLC for \$11.1 million. The purchase is part of the District's strategy for meeting renewable resource requirements of EIA (see Note 12). The purchase cost is being amortized on a straight-line basis over a 19-year term. In both 2014 and 2015, power supply expense includes \$578,400 each year in amortization of the purchase cost. This 3% share of the 204.7 MW project represents 6.14 MW (2 aMW).

**BioFuels Washington, LLC Project/Emerald City Renewables LLC**

In February 2013, the District entered into a contract with BioFuels Washington, LLC of Encinitas, CA, to purchase 33,000 Renewable Energy Credits (REC) annually, with a contract term of March 1, 2013, through March 31, 2026, with delivery beginning January 1, 2016. This REC purchase counts toward the District's compliance with the EIA target of 9% renewable energy beginning in 2016.

Subsequently, on September 18, 2013, the State of Washington Department of Commerce issued an advisory opinion stating that electricity generated by the BioFuels Washington facility qualifies as distributed generation under RCW 19.285.040(2)(b). For purposes of the compliance with EIA, the Renewable Energy Credits purchased from BioFuels will count double. Therefore, for compliance purposes, this contract provides 66,000 RECs annually toward the District's 9% renewable energy target.

In October 2015, the District consented to the assignment of contracts of the facility to Emerald City Renewables LLC. There were no changes to the District's rights or obligations.

**Idaho Wind Partners**

In December 2014, the District entered into contracts with Payne's Ferry Wind Park, LLC and Yahoo creek Wind Park, LLC, which are owned by Idaho Wind Partners, to purchase Renewable Energy Credits (REC) with a contract term starting in 2015 through 2024. This REC purchase counts toward the District's compliance with the EIA target of 9% renewable energy beginning in 2016.

### **Other Power Supply Contracts and Purchases**

The District entered into a Resource Management Agreement (RMA) with TEA on July 1, 2006, to provide scheduling, dispatching, fuel management, and other power management services. The agreement was restated and extended in 2009 and continues until terminated by either party. The District and TEA have the right to terminate the agreement upon 2 years written notice. The agreement also provides for annual consulting task orders to provide for a variety of power management services. Under the agreement, TEA is authorized to trade real time, day-ahead transactions, and forward transactions as principal on behalf of the District. TEA is currently not trading forward transactions as principal. This arrangement allows a financial benefit to the District with TEA trading in aggregated larger power blocks and passing the resulting transaction pricing on to the District. It also provides the advantages of simplified settlement, lower operational and settlement risk, and rigorous documentation and equitable allocation of pricing for like transactions across PUDs. In December 2008, the RMA was amended to allow these transactions to be traded utilizing TEA's credit and contracts as discussed in Note 1(i).

As discussed in Note 1(i), the District entered into other power supply contracts and purchases as follows:

- At December 31, 2015, the District had entered into various short-term financial forward sales and purchase contracts committing the District through September 2017. Financial forward contracts for electricity and gas had a net positive fair value of \$573,270 at December 31, 2015, and are reflected in the financial statements as deferred inflows of resources and deferred outflows of resources.
- At December 31, 2014, the District had entered into various short-term financial forward sales and purchase contracts committing the District through September 2016. Financial forward contracts for electricity and gas had a net positive fair value of \$642,173 at December 31, 2014, and are reflected in the financial statements as deferred inflows of resources and deferred outflows of resources. In addition, the District had entered into put options expiring the first quarter of 2015. These options had a positive fair value of \$440,218 at December 31, 2014, and are reflected in the financial statements as deferred inflows of resources and deferred outflows of resources.

## **Note 9 - Self-Insurance**

In the normal course of business, the District is exposed to various risks of loss related to liability claims, property damage, and employee health and welfare programs. The District participates in the following self-insurance programs to protect against such losses.

### **Public Utility Risk Management Services Self-Insurance Fund**

The District is a member of the Public Utility Risk Management Services (PURMS) Self-Insurance Fund. PURMS is a public entity risk pool organized on December 30, 1976, in the State of Washington under RCW 54.16.200 and interlocal governmental agreements. It currently operates under RCW 48.62. Its members include 18 public utility districts and one non-profit mutual corporation. The objectives of PURMS are to formulate, develop, and administer a program of self-insurance in order to obtain lower costs for the various coverages provided to its members and to develop a comprehensive loss control program.

The risks shared by the members are defined in the Self-Insurance Agreement (SIA). The fund consists of three pools for liability, property, and health and welfare coverage. The pools operate independently of one another. All members do not participate in all pools. The District does not participate in the health and welfare pool.

The pools are governed by a Board of Directors which consists of one designated representative from each participating member. The Administrator and an elected Administrative Committee are responsible for conducting the business affairs of the Pool.

PURMS engages an independent qualified actuary on an annual basis to determine the claim financing levels, liabilities for unpaid claims, and claims adjustment expenses for the Liability Pool and the Property Pool. A copy of these reports is provided to the Washington State Risk Manager and to the Washington State Auditor's Office. Audit reports for the Trust are available from the Washington State Auditor's Office (Report Nos. 1015654 and 1015659).

The pools are fully funded by its current and former members. Members that withdraw from PURMS are responsible for their share of contributions to the pools for any unresolved, unreported, and in-process claims for the period they were signatory to the SIA. Claims are filed by members with the Administrator, Pacific Underwriters, Seattle, WA, which serves by contract as the fund's Administrator and provides claims adjustment and loss prevention services.

Settled claims have not exceeded insurance coverage in any of the past 3 fiscal years.

#### **Liability Risk Pool**

The liability pool has a \$1 million liability coverage limit per occurrence. In addition, the fund maintains \$35 million of excess general liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$25 million is also maintained over the first layer of \$35 million. The fund maintains \$35 million in directors and officers liability coverage with a retention level of \$500,000. The deductible is \$250.

The liability pool reserve balance is \$3 million. Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop to \$500,000 less than the designated level. The minimum reserve balance may be increased above \$3 million through member assessments to meet legal funding requirements based on annual actuarial reviews.

#### **Property Risk Pool**

The majority of the property in the property pool has a self-insured retention of \$250,000 per property loss. Certain classes of property have higher retention requirements up to \$750,000. In addition, the fund purchases \$200 million of excess insurance over the \$250,000 (or higher) retention level. The deductible varies but for most classes of property it is \$250.

The designated property pool reserve balance is \$750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below \$500,000. The minimum reserve balance may be increased above \$750,000 through member assessments to meet legal funding requirements based on annual actuarial reviews.

#### **Central Washington Public Utilities Unified Insurance Program Trust**

The District is a member of the Central Washington Public Utilities Unified Insurance Program Trust (Trust). The Trust was organized October 1, 1982, pursuant to the provisions of RCW Title 54 and interlocal governmental agreements. The Trust's general objectives are to provide a central fund for the collection and disbursement of employee benefit premiums and claims involving medical, dental, life, and long-term disability coverage. The Trust is administered by a Board of Trustees consisting of an appointed Trustee and Alternate Trustee from each of the seven member Districts. The Trustees are authorized to negotiate, obtain, maintain insurance policies, and authorize disbursements made from the Trust to Third-Party Administrators or other entities. Effective August 1, 2002, the Trust established a self-insured medical plan. Effective January 1, 2009, the Trust established a self-insured dental plan. Both plans are approved by the State Risk Office. The audit reports for the Trust are available from the Washington State Auditor's Office (Report Nos. 1014507 and 1013088).

#### **Unemployment Claims**

The District pays unemployment claims on a reimbursement basis with claims administered by the Washington State Department of Employment Security.

**Short-Term Disability Insurance**

The District self-pays short-term disability benefits through a 70% salary continuation program from the 41<sup>st</sup> consecutive scheduled hour of inability to work until the employee either recovers and returns to work or completes the waiting period required for long-term disability insurance eligibility, whichever is earlier. Certification of illness or injury by a licensed, competent medical authority is required. The District utilizes a Third-Party Administrator who provides medical oversight and advice-to-pay for disability claims.

**Note 10 - Participation in Northwest Open Access Network, Inc. (NoaNet)**

The District, along with nine other Washington State public entities, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout Washington. The network began commercial operation in January 2001.

As a member of NoaNet and as allowed by RCW 54.16, the District has guaranteed certain portions of NoaNet debt based on its proportionate membership share (see Note 12). The District's membership interest in NoaNet was 20.72% in 2015 and 2014. NoaNet continues to meet its debt obligations through profitable operations. NoaNet reserves the right to assess members to cover deficits from operations. There have been no member assessments since 2011.

NoaNet recorded a decrease in net position (excluding grant proceeds) of \$4,251,792 (unaudited) for 2015 and a decrease of \$4,950,166 for 2014. In accordance with generally accepted accounting principles a proportionate share of these gains/losses has not been recorded by the District. In accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the District has included all required disclosures for its guarantees of NoaNet debt (see Note 12).

NoaNet was awarded two grants totaling \$138.8 million by the U.S. Department of Commerce under the Broadband Technology Opportunities Program (BTOP) of the American Recovery and Reinvestment Act in 2010. The District participated in phase two of the grant as a subrecipient with a total project budget of \$3.5 million. The District's actual project costs were approximately \$2.3 million. While the original BTOP budget included a cash contribution from the District of \$348,813, final project and grant reconciliations resulted in no contribution being needed. There were no reimbursable costs in 2014. These costs are reported within electric plant in service for 2014 on the statement of net position. The District received its closeout notification in July 2014.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Chief Financial Officer, 7195 Wagner Way, Suite 104, Gig Harbor, WA 98335.

**Note 11 - Telecommunications Services**

The District has installed and continues to build out a fiber optic backbone system in its service area to provide wholesale telecommunication services and for internal use by the electric system. The District has connected its fiber optic system to NoaNet's fiber optic communications system. Broadband coverage is also being extended through the development of a wireless network to deliver high-speed Internet service.

Broadband operations and capital activity for the years ended December 31, 2015 and 2014, follows:

Broadband	2015	2014
<b>Operating Revenues</b>		
Ethernet	\$1,381,900	\$1,523,071
TDM	86,428	146,124
Wireless	364	468
Internet Transport Service	119,181	135,091
Fixed Wireless	89,610	97,395
Other Revenue	345,737	286,892
NoaNet Maintenance Revenue	1,441	2,474
<b>Total Operating Revenues</b>	<b>\$2,024,661</b>	<b>\$2,191,515</b>
<b>Operating Expenses</b>		
NoaNet Maintenance Expense	\$622	\$3,358
General Expenses	855,509	805,331
Other Maintenance	144,309	169,145
Network Operating Center Maint.	13,538	-
Wireless Maintenance	8,047	5,263
<i>Subtotal before depreciation</i>	<i>1,022,025</i>	<i>983,097</i>
Depreciation	1,019,060	927,007
<b>Total Operating Expenses</b>	<b>\$2,041,085</b>	<b>\$1,910,104</b>
Nonoperating Expenses	\$5,938	\$15,152
Capital Investment (Annual)	\$1,363,013	\$2,958,799
Capital Investment (Cumulative)	\$19,841,821	\$18,478,807

*The above amounts are included in summarized line items on the Statement of Revenues, Expenditures, and Changes in Net Position*

## NOTE 12 - Other Commitments and Contingent Liabilities

### Repayment Agreement Relating to NoaNet Revenue Bonds (see Note 10)

In July 2001, NoaNet issued \$27 million in Telecommunications Network Revenue Bonds (2001 Bonds) to finance the repayment of the founding members and the costs of initial construction, operations, and maintenance. The Bonds became due beginning in December 2003 through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. In June 2011, NoaNet issued \$13,165,000 in Telecommunications Network Revenue Refunding Bonds (2011 Refunding Bonds) to refinance certain 2001 Bonds. The 2011 Refunding Bonds become due in December 2012 through December 2016 with interest due semi-annually at rates ranging from 0.75% to 3.0%. The final principal payment on the nonrefunded 2001 Bonds was made in December 2011. The amount of outstanding Bonds was \$2,790,000 and \$5,510,000 at December 31, 2015 and 2014, respectively.

Current and former Members of NoaNet have entered into a Repayment Agreement to guarantee the debt of NoaNet. Under the Repayment Agreement, each guarantor acknowledges and agrees that it is a guarantor of the payment of the principal of and interest on the Bonds and is liable by assessment or otherwise to repay NoaNet for amounts due



and owing with respect to such principal and interest up to each Member's percentage interest. The District's guarantee is 14.06% of the outstanding Bonds, or \$392,274 and \$774,706 as of December 31, 2015 and 2014, respectively.

In the event of a failure by any guarantor to pay such amounts when due, NoaNet may bill from time to time as necessary, and each guarantor is obligated to pay 30 days after receipt of the bill, an additional amount up to a maximum of 25% of such Member's percentage interest (the "Step-Up"), up to the maximum percentage interest, in order to cover the deficiency caused by such Member's or Members' failure to pay. Any Member that pays an additional amount to cover a deficiency reserves all rights to seek reimbursement from the Member or Members that failed to pay. The District's maximum percentage interest is 17.57% or \$490,203 and \$968,107 as of December 31, 2015 and 2014, respectively.

#### **Repayment Agreement Relating to NoaNet Line of Credit (see Note 10)**

In July 2014, NoaNet opened a \$8.0 million line of credit with Bank of America to fund capital expenditures. This Note was guaranteed by the Members. Then in December 2014, NoaNet approved and signed a bank note with Wells Fargo Bank. The note will be paid from NoaNet's revenues and is not guaranteed by the Members. Proceeds from the bank note were, in part, used to pay the outstanding balances of the 2014 and 2012 lines of credit.

#### **Energy Northwest - Nine Canyon Wind Project**

The Nine Canyon Wind Energy Project is owned and operated by Energy Northwest. The District, along with nine other public utilities, is a participant in Phases I and III of the Project. Under its Power Purchase Agreement, the District is obligated to pay its percentage share of the annual debt service of each project Phase and the operation and maintenance costs of the project in return for its percentage share of project output, whether or not the project is operating or capable of operating. Under the agreement, the District is obligated to pay an amended percentage share effective May 2008 when Phase III achieved commercial operation. Under a step-up provision, the District could be required to pay up to a maximum of 125% of its percentage share in the event of default by another purchaser. The Agreement limits Energy Northwest's total annual operation and maintenance cost to \$4 million prior to Phase III Commercial Operation and to \$7 million post Phase III Commercial Operation. These limits will change annually based on certain inflation indexes.

The agreement terminates July 1, 2030. The District's applicable percentage share obligations are:

Allocation of Cost	District % Share	District % Share under Step-up Provision
Debt Service - Phase I	6.25%	7.81%
Debt Service - Phase III	18.63%	23.29%
O&M Costs - Prior to Phase III Commercial Operation	4.72%	5.90%
O&M Costs - Post Phase III Commercial Operation	9.39%	11.74%

#### **Energy Independence Act (Initiative 937)**

With the passage of Initiative 937 by Washington voters in November 2006, all electric utilities with more than 25,000 customers are required to purchase renewable energy in gradually increasing percentages and to establish and meet a minimum biennial energy conservation target. As of December 31, 2012, the District had renewable energy contracts in place that satisfy the Initiative's initial renewable target of 3% by 2012. The renewable requirement increases to 9% of retail load in 2016, and finally to 15% of retail load in the year 2020. Total incremental expenses for qualifying renewable resources plus the cost of renewable energy credits are limited to 4% of the annual retail revenue requirement.

In 2013, the Commission established the minimum Biennial Conservation Target for 2014–2015 of 23,740 MWh. At the end of 2015, the District has met the target.

### **Operating Leases**

The District leases electrical testing equipment on an annual basis. The annual rental cost was \$25,749 and \$25,678 for 2015 and 2014, respectively.

The District has entered into an agreement with Agrium U.S. Inc., to lease a parcel of land upon which the District constructed the Finley CT in 2001. The agreement is in effect from June 1, 2001, to June 1, 2021. The agreement may be extended up to an additional 20 years with the consent of both parties. The agreement is classified as a non-cancellable operating lease of more than 1 year.

The annual rental cost for the land was \$55,693 and \$54,444 for 2015 and 2014, respectively.

The future minimum rental payments are:

Year	Minimum Rental Payment
2016	\$56,384
2017	56,384
2018	56,384
2019	56,384
2020	56,384
2021	28,192
Total	\$310,112

### **NOTE 13 – Restatement of Prior Year**

With implementation of GASB Statements No. 68 and 71, the District restated its 2014 financial statements and reclassified certain 2014 account balances to conform with 2015 presentation. The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB Board's stated goals for the new standards are to improve decision-usefulness information, support users' ability to assess accountability and interperiod equity, and to create additional transparency.

#### **Change in Accounting Principle**

In accordance with GASB Statement Nos. 68 and 71, the District now recognizes liabilities, deferred outflows of resources, deferred inflows of resources, and expenses relating to future pension liabilities.

The table below shows the changes in balances due to the restatement:

	2014 Restated	2014 Audited	Increase (Decrease)
<b>Statement of Net Position</b>			
Electric Plant in Service	\$286,805,545	\$286,896,183	(\$90,638)
Pension Deferred Outflow	608,285	-	608,285
Pension Liability	8,695,790	-	8,695,790
Pension Deferred Inflow	3,794,511	-	3,794,511
Net Investment in Capital Assets	65,363,895	65,454,533	(90,638)
Unrestricted	53,234,509	65,116,525	(11,882,016)
Accumulated Effect of Change in Accounting Principle	(12,217,716)	-	(12,217,716)
<b>Statement of Revenues, Expenses, and Changes in Net Position</b>			
Distribution Operation & Maintenance	8,540,568	8,596,798	(56,230)
Customer Accounting, Collection & Information	3,788,799	3,853,026	(64,227)
Administrative & General Expense	6,909,615	7,034,220	(124,605)
<b>Statement of Cash Flows</b>			
Operating Income	1,941,646	1,696,584	245,062
GASB 68 Pension Expense/(Credit)	(245,062)	-	(245,062)

#### Reclassification

In 2015, the District reclassified the 2014 presentation of unamortized premium and discount to include it with the face amount of the revenue bonds debt it is associated with. With this reclassification there was no change in the total liabilities presented.

## Required Supplementary Information

### Schedule of Proportionate Share of the Net Pension Liability

	PERS Plan 1 As of June 30, 2015 Last 10 Fiscal Years	
	2015	2014
Employer's proportion of the net pension liability (asset)	0.114841%	0.115142%
Employer's proportionate share of the net pension liability	\$6,007,252	\$5,800,332
Employer's covered employee payroll	\$100,338	\$188,586
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	5987%	3076%
Plan fiduciary net position as a percentage of the total pension liability	59%	61%

**Notes to Schedule:**

There are no factors at year-end that significantly affect trends in the amounts reported above.

The ten year information will be provided as it is available.

### Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 2/3  
As of June 30, 2015  
Last 10 Fiscal Years

	2015	2014
Employer's proportion of the net pension liability (asset)	0.145674%	0.143243%
Employer's proportionate share of the net pension liability	\$5,205,015	\$2,895,458
Employer's covered employee payroll	\$12,446,584	\$12,271,821
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	42%	24%
Plan fiduciary net position as a percentage of the total pension liability	89%	93%

**Notes to Schedule:**

There are no factors at year-end that significantly affect trends in the amounts reported above.

The ten year information will be provided as it is available.

### Schedule of Employer Contributions

PERS Plan 1  
As of December 31, 2015  
Last 10 Fiscal Years

	2015	2014
Statutorily or contractually required	<u>\$571,651</u>	<u>\$514,217</u>
Contributions in relation to the statutorily or contractually required contributions	<u>(571,651)</u>	<u>(514,217)</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>
Covered employer payroll	\$105,271	\$139,599
Contributions as a percentage of covered employee payroll	543%	368%

**Notes to Schedule:**

There are no factors at year-end that significantly affect trends in the amounts reported above.

The ten year information will be provided as it is available.

### Schedule of Employer Contributions

PERS Plan 2/3  
As of December 31, 2015  
Last 10 Fiscal Years

	2015	2014
Statutorily or contractually required contributions	\$720,845	\$612,316
Contributions in relation to the statutorily or contractually required contributions	(720,845)	(612,316)
Contribution deficiency (excess)	-	-
Covered employer payroll	\$12,790,442	\$12,335,880
Contributions as a percentage of covered employee payroll	6%	5%

**Notes to Schedule:**

There are no factors at year-end that significantly affect trends in the amounts reported above.  
The ten year information will be provided as it is available.

[THIS PAGE INTENTIONALLY LEFT BLANK]



## **APPENDIX B**

### **SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION**

The following summary is a brief outline of certain provisions of the Bond Resolution, is not to be considered a full statement thereof and is qualified by reference to the complete Bond Resolution. Capitalized words or phrases which are not defined in this summary or conventionally capitalized have the meanings given such words or phrases in the Bond Resolution.

#### **Certain Definitions**

Certain words and phrases used in the Bond Resolution and in this Official Statement have the meanings set forth below, unless the context shall clearly indicate another meaning is intended:

“Additional Bonds” means any Parity Bonds issued on a parity with the Outstanding Parity Bonds and the Bonds pursuant to Article IV of the Bond Resolution.

“Annual Debt Service” for any fiscal year shall mean the sum of:

- (a) the interest due in such fiscal year on all outstanding Parity Bonds, excluding interest to be paid from the proceeds of Parity Bonds,
- (b) the principal of all outstanding Serial Bonds due in such fiscal year,
- (c) the Sinking Fund Requirement for any Term Bonds for such fiscal year, and
- (d) any regularly scheduled District Payments adjusted by regularly scheduled Reciprocal Payments.

With the consent of the appropriate percentage of owners of the Outstanding Parity Bonds and the Bonds, the District may pass a supplemental resolution supplementing the Bond Resolution for the purpose of providing that in calculating the Annual Debt Service, the District may exclude the direct payment the District is expected to receive in respect of 2010 Bonds and any Additional Bonds for which the federal government will provide the District with a direct payment of a portion of the interest from the interest portion of Annual Debt Service. The owners of the 2011 Bonds and the Bonds by taking and holding the same shall be deemed to have consented to the adoption by the District of such supplemental resolution.

“Average Annual Debt Service” means the amount determined by dividing (a) the sum of all interest, principal and Sinking Fund Requirements on outstanding Bonds from the dates of determination to the last maturity of such Bonds by (b) the number of Fiscal Years that the Bonds are outstanding.

“Commission” means the legislative body of the District as the same may be duly and regularly constituted from time to time.

“Consulting Engineer” means an independent licensed professional engineer or engineering firm chosen by the District and experienced in the design and operation of electric utilities.

“Construction Fund” means the Construction Fund as provided in the Bond Resolution.

“Distribution and Transmission Facilities” means the electric utility properties and assets, real and personal, tangible and intangible, including telecommunication facilities, now owned and operated by the District, and used or useful in the transmission, distribution or sale of electric current or electric service, and business incidental thereto, and any additions, improvements and betterments thereto and extensions thereof hereafter constructed or acquired. Distribution and Transmission Facilities shall not include Generating Facilities.

“Electric System” means the Distribution and Transmission Facilities and any Generation Facilities acquired after the time of adoption of the Bond Resolution, but such Electric System shall not include any property and facilities as may be acquired or constructed and established after the time of adoption of the Bond Resolution as a separate utility system not financed from the Revenues except on a basis junior and inferior to the lien on Revenues pledged to pay and secure the Parity Bonds, the revenue of which separate utility system may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire such separate utility system.

“Generating Facilities” means any electric utility properties and assets, real and personal, tangible and intangible, and used or useful in the generation of electric energy, hereafter acquired or constructed by the District and declared to be part of the Electric System, including, any common undivided interest therein, related transmission facilities, and additions, improvements and betterments to and extensions of such properties and assets.

“Net Revenues” means, for any period, the excess of Revenues over Operating Expenses for such period, excluding from the computation of Revenues (a) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets or resulting from the early extinguishment of debt and (b) insurance proceeds.

“Operating Expenses” means (i) the District’s expenses for operation and maintenance of the Electric System, and ordinary repairs, renewals, replacements and reconstruction of the Electric System including all costs of delivering electric power and energy and shall include, without limiting the generality of the foregoing, all costs of purchase power, costs of transmission and distribution operation and maintenance expenses, rents, administrative and general expenses, engineering expenses, legal and financial advisory expenses, required payments to pension, retirement, health and hospitalization funds, insurance premiums and any taxes, assessments or payments in lieu of taxes, all to the extent properly allocable to the Electric System; (ii) any current expenses required to be paid by the District under the provisions of the Bond Resolution or by law, all to the extent properly allocable to the Electric System, and (iii) the fees and expenses of any Paying Agent or Bondowner Trustee. Operating Expenses shall not include any costs or expenses for new construction, interest, amortization or any allowance for depreciation or other non-cash expenses related to the marking to market of financial or energy-related contracts.

“Outstanding Parity Bonds” means the 2010 Bonds and the 2011 Bonds.

“Parity Bonds” means the Outstanding Parity Bonds, the Bonds, and any Additional Bonds. “Parity Bonds” may include bonds, notes, warrants, certificates of indebtedness or any other evidence of indebtedness.

“Parity Lien Obligations” means all charges and obligations against Revenues ranking on a parity of lien with Parity Bonds, including but not limited to reimbursement agreement obligations so designated, any regularly scheduled District Payments, adjusted by any regularly scheduled Reciprocal Payments, and Resource Obligations for any month such obligations are not eligible for payment as Operating Expenses. Parity Lien Obligations do not include Parity Bonds.

“Permitted Investments” means any investments or investment agreements permitted for the District under the laws of the State as amended from time to time.

“Qualified Letter of Credit” means any irrevocable letter of credit issued by a financial institution for the account of the District on behalf of the owners of any Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is rated in the highest rating category by Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services or their comparably recognized business successors; provided that once the Outstanding Parity Bonds are no longer outstanding, such letter of credit may be rated in one of the two highest rating categories by Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services or their comparably recognized business successors.

“Qualified Insurance” means any noncancelable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies), which insurance company or companies, as of the time of issuance of such policy or surety bond, are rated in the highest rating category by Moody’s Investors

Service, Inc. and Standard & Poor's Ratings Services or their comparably recognized business successors; provided that once the Outstanding Parity Bonds are no longer outstanding, such policy or surety bond may be rated in one of the two highest rating categories by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services or their comparably recognized business successors.

"Resource Obligation" means an obligation of the District to pay the following costs associated with a resource from Revenues as (a) Operating Expenses for any month in which any power and energy or other goods and services from such resource were made available to the Electric System during such month (regardless of whether or not the Electric System actually scheduled or received energy from such resource during such month) and (b) at all other times as an indebtedness of the Electric System payable from Revenues on a parity of lien with Parity Bonds and any Parity Lien Obligations;

(i) costs associated with facilities or resources for the generation of power and energy or for the conservation, transformation, transmission or distribution of power and energy (including any common undivided interest therein) hereafter acquired, purchased or constructed by the District and declared by the Commission to be a separate system, which such costs shall include but are not limited to costs of normal operation and maintenance, renewals and replacements, additions and betterments and debt service on the bonds or other obligations of such separate system but shall exclude costs paid or to be paid from the proceeds of the sale of bonds or other obligations of such separate system, or

(ii) costs associated with the purchase of energy, capacity, capability or conservation under a contract to the extent that such contract is security for debt issued to finance such purchase.

"Revenues" means all income (including investment income), receipts and revenues derived by the District through the ownership and operation of the Electric System, but shall not include (a) any income derived by the District through the ownership and operation of any facilities that may be purchased, constructed or otherwise acquired after the time of adoption of the Bond Resolution by the District as a separate utility system, or (b) investment income restricted to a particular purpose inconsistent with its use for the payment of debt service, including investment income derived pursuant to a plan of debt retirement or refunding.

"Sinking Fund Requirement" for any fiscal year means the principal amount of Term Bonds required to be purchased, redeemed or paid in such fiscal year as established by resolution of the District authorizing the issuance of such Term Bonds.

### **Funds and Accounts Established by the District**

A Revenue Fund (which includes a General Account, Contingency and Replacement Account and Rate Stabilization Account) and a Bond Fund (which includes an Interest Account, a Principal Account, a Bond Retirement Account and a Reserve Account) have previously been created by resolution of the District.

### **Revenue Fund**

All Revenues are paid into the Revenue Fund. Revenues deposited in the Revenue Fund will first be credited to the General Account and applied as set forth under the heading "SECURITY FOR THE BONDS—Flow of Funds under the Bond Resolution."

### **Contingency and Replacement Account and Rate Stabilization Account**

The District may apply surplus money available in the General Account after all required payments have been made therefrom in the following order of priority:

(a) for credit to the Contingency and Replacement Account in each Fiscal Year an amount up to at least 25% of the Annual Debt Service in such Fiscal Year. Money in the Contingency and Replacement Account shall be used from time to time to make up any deficiency in the Reserve Account and, to the extent not required for such purpose, to make additions, betterments, extensions, renewals, replacements and other capital improvements to

the Electric System, to retire Bonds, or for any other lawful purpose of the District, other than direct payments into the Rate Stabilization Account; and

(b) for credit to the Rate Stabilization Account to be used in anticipation of future increases in revenue requirements.

### **Bond Fund**

From the Revenues paid into the General Account in the Revenue Fund, the District is obligated to make payments into the Bond Fund after paying or making provision for the payment of Operating Expenses as follows:

(a) for credit to the Interest Account, on or prior to any interest payment date the amount of interest on all Parity Bonds then outstanding,

(b) for credit to the Principal Account, on or prior to any principal payment date the amount of the aggregate principal amount of such Serial Bonds due on such date; and for credit to the Bond Retirement Account, on or prior to such sinking fund payment date the amount of the Sinking Fund Requirement relating to the Term Bonds required to be redeemed on such date. Money in the Bond Retirement Account may also be applied by the District to the purchase of the Parity Bonds required to be redeemed prior to mandatory redemption. If at the close of any bond year the principal amount of Term Bonds retired by purchase or redemption prior to the close of such bond year exceeds the amount required to be redeemed in such fiscal year, such excess may be credited against the Sinking Fund Requirement for the next following fiscal year.

### **Reserve Account**

In accordance with the Bond Resolution, the District will have on deposit in the Reserve Account sufficient funds to meet the Reserve Account Requirement. Upon the issuance of the Bonds, the Municipal Bond Debt Service Reserve Insurance Policy dated October 25, 2007 issued by Financial Security Assurance Inc., and cash currently in the Reserve Account, will be in an amount equal to the least of (a) the maximum Annual Debt Service, (b) 125% of the Average Annual Debt Service, or (c) the amount permitted by the Code to be funded from proceeds of tax-exempt Bonds. See "SECURITY FOR THE BONDS—Reserve Account." In the event of the issuance of any Additional Bonds, the Supplemental Resolution authorizing the issuance of such Additional Bonds shall provide for further and additional approximately equal monthly payments into the Bond Fund for credit to the Reserve Account from the money in the Revenue Fund, in such amounts and at such times so that by no later than five years from the date of issuance of such Additional Bonds or by the final maturity established for such series of Additional Bonds, whichever occurs first, there will be credited to the Reserve Account an amount equal to the Reserve Account Requirement at the date of issuance of such Additional Bonds; provided, however, that the proceedings authorizing the issuance of Additional Bonds may provide for payments into the Bond Fund for credit to the Reserve Account from the proceeds of such Additional Bonds or from any other money lawfully available therefore, in which event, in providing for deposits and credits required by the foregoing provisions of this paragraph, allowance shall be made for any such amounts so paid into such Account.

Money or the sale or redemption of obligations held in the Reserve Account are to be applied to make up any deficiency in the Interest Account, Principal Account or Bond Retirement Account. Any money withdrawn from the Reserve Account are to be made up from money in the Contingency and Replacement Account and the Rate Stabilization Account in the Revenue Fund and then from the General Account in the Revenue Fund after making provision for payment of Operating Expenses and for the required payments into the Interest, Principal and Bond Retirement Accounts.

Any resolution providing for the issuance of Additional Bonds may provide for the District to obtain Qualified Insurance or a Qualified Letter of Credit for specific amounts required to be paid out of the Reserve Account. The face amount of any such Qualified Insurance or Qualified Letter of Credit shall be credited against the amounts required to be maintained in the Reserve Account to the extent that such payments and credits to be made are insured by an insurance company, or guaranteed by a letter of credit from a financial institution. Such Qualified

Letter of Credit or Qualified Insurance shall not be cancelable on less than five years notice. In the event of any cancellation, the Reserve Account shall be funded in accordance with the Bond Resolution.

The investments in the Reserve Account are to be valued as of the last business day of each fiscal year and shall be valued at the lesser of the face value, market value or the price at which such obligations are then redeemable by the holder at his option, except investments maturing within six months from the date of purchase which shall be valued at the purchase price.

### **Investment of Money in Funds and Accounts**

Funds under the Bond Resolution may be invested in Permitted Investments. District funds may be invested in any manner permitted by Washington law.

### **Issuance of Additional Bonds**

The Bond Resolution permits the issuance of Additional Bonds payable from the Bond Fund on a parity with the Bonds and secured by an equal charge and lien on the Revenues pledged to the Bond Fund for any lawful purpose of the District, including the refunding of outstanding Bonds, upon compliance with certain conditions summarized below:

*Distribution and Transmission Facilities, Generating Facilities, and Any Lawful Purpose.* Additional Bonds may be issued for any lawful purpose of the District if:

1. There is at the time of issuance of such Additional Bonds no deficiency in the Bond Fund and no Event of Default has occurred and is continuing; and either

2. The Treasurer of the District shall certify that the Net Revenues of the Electric System for any 12 consecutive months of the 24 months prior to the date of issuance of such Additional Bonds are at least 125% of the maximum Annual Debt Service due in any fiscal year thereafter, including in such calculation debt service on such Additional Bonds; or

3. The Consulting Engineer shall issue a certificate stating that after giving effect to the issuance of such Additional Bonds, the Adjusted Net Revenues are not less than 125% of the maximum Annual Debt Service in any fiscal years thereafter.

Additional Bonds may be issued to finance Distribution and Transmission Facilities or Generating Facilities if the requirements of 1. above are met and the Consulting Engineer shall issue a certificate stating that the issuance of such Additional Bonds is necessary to complete such facilities and that the completion is necessary for the efficient and economic operation of the Electric System.

Adjusted Net Revenues shall be computed by adjusting the Net Revenues for any 12 consecutive months (as selected by the District) of the 24 months (the "Base Period") prior to the date of issuance of such Additional Bonds: (i) to reflect any changes in Net Revenues for the Base Period that would have occurred if the schedule of rates and charges in effect as of the computation date (or approved by the Commission as of the time of such computation and to become effective within six months thereof) had been in effect during the portion of the Base Period in which such schedule was not in effect; (ii) to reflect a full 12 months of Net Revenues from any customers of the Electric System added prior to the computation date; and (iii) to reflect any changes in Net Revenues estimated to be received as a result of, and upon completion of, any facilities under construction or to be acquired, constructed or installed as a part of the Electric System from the proceeds of any Parity Bonds.

*Refunding Bonds.* Additional Bonds may also be issued for the purpose of refunding any or all of the outstanding Bonds of any series if:

1. There is at the time of issuance of such Additional Bonds no deficiency in the Bond Fund and no Event of Default has occurred and is continuing; and either

2. The Treasurer of the District shall certify that the Annual Debt Service for any fiscal year thereafter will not be increased by more than \$5,000 by reason of the issuance of the Additional Bonds; or

3. A Consulting Engineer shall issue a certificate stating that the Net Revenues (adjusted as in the case of issuing Additional Bonds for Distribution and Transmission and Generating Facilities) for any 12 consecutive months of the 24 months prior to the date of issuance of such Bonds are at least 125% of the maximum Annual Debt Service due in any fiscal year thereafter, including in such calculation debt service on such Additional Bonds.

*Additional Bonds to Repair Damages, Complete Projects and Refund Maturing Bonds for which Insufficient Funds Exist.* Additional Bonds may be issued from time to time without complying with the requirements set forth above, if: a) in the opinion of the Consulting Engineer, as evidenced by a certificate filed with the District, it is necessary to repair any damage or loss to the Electric System or if the Electric System has been destroyed or damaged by disaster or unanticipated event to such an extent that it cannot be operated; provided, however, that the proceeds of any Additional Bonds issued for such purpose may only be used to return the Electric System to, or to maintain the Electric System at, substantially its former or then operating capacity; and provided further, that in the case of repair such Additional Bonds may be issued only to the extent that insurance proceeds from such damage or loss are insufficient for the accomplishment of such purpose; or b) at any time, the District shall determine that the money in the Bond Fund available for such purpose will not be sufficient for paying at their maturity any Serial Bonds which will mature within one year thereafter or for paying any Sinking Fund Requirement due within one year thereafter, in which event the District may issue Additional Bonds to refund such Bonds or to pay such Sinking Fund Requirements, provided that such Additional Bonds shall mature in a year not to exceed one year after the final maturity of the Parity Bonds of such series.

The District reserves the right to issue additional indebtedness which is subordinate to the Parity Bonds.

#### **Resource Obligations**

The District may enter into or incur a Resource Obligation of the Electric System provided that the following requirements must be met at the time of such declaration:

(1) No Event of Default with respect to any Parity Bonds or Resource Obligations has occurred and is continuing.

(2) There must have been filed with the Secretary of the Commission a certificate of the Consulting Engineer stating that the additional source of power and energy or conservation from such Resource Obligation is consistent with sound utility power supply planning.

(3) There must have been filed with the Secretary of the Commission a report of the Consulting Engineer stating that estimated annual Net Revenues for the second full Fiscal Year after the date of initial operation of the facilities, costs of which are to be financed as a Resource Obligation, or after the date of first delivery of energy, capability or capacity or conservation reserves or services pursuant to a contract, costs of which are declared to be a Resource Obligation, as the case may be, shall be at least equal to 125% of maximum Annual Debt Service in any future Fiscal Year. In estimating Net Revenues, the Consulting Engineer shall base such estimate on factors the Consulting Engineer deems to be reasonable and shall treat the costs of the Resource Obligation as Operating Expenses.

(4) In the event that the Resource Obligation is a contract to purchase energy, capacity, capability or conservation, there must have been filed with the Secretary of the Commission opinions of counsel to all other parties to the contract, which opinions state that each party to the contract has all requisite right, power and authority to execute and deliver the contract and to perform its obligations thereunder and that the contract constitutes a legally valid and binding obligation of each party thereto.

(5) The Resource Obligation shall not be subject to acceleration.

## **Reimbursement Obligations**

If the District elects to fund the Reserve Account through the use of Qualified Insurance or a Qualified Letter of Credit, the District may contract with the provider of such credit enhancement that the District's reimbursement obligation to such provider ranks on a parity with payments into the Reserve Account.

In the event that the District elects to secure any issue of Variable Rate Bonds through the use of a credit enhancement device, the District may contract with the entity providing such credit enhancement device that the District's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Bonds.

## **Derivative Products**

To the extent permitted by state law the District may enter into Derivative Products on a parity with the Bonds or any Parity Bonds subject to the conditions set forth in the Bond Resolution and summarized below. The following terms have the following meanings:

(1) "District Payment" means any payment (designated as such by resolution) required to be made by or on behalf of the District under a Derivative Product and which is determined according to a formula set forth in the Derivative Product.

(2) "Derivative Facility" means a letter of credit, an insurance policy, a surety bond or other credit enhancement device, given, issued or posted as security for the District's obligations under one or more Derivative Products.

(3) "Derivative Payment Date" means any date specified in the Derivative Product on which a District Payment is due and payable under the Derivative Product.

(4) "Derivative Product" means a written contract or agreement between the District and a Reciprocal Payor that has (or whose obligations are unconditionally guaranteed by a party that has) as of the date of the Derivative Product at least an investment grade rating from a rating agency, which provides that the District's obligations thereunder will be conditioned on the performance by the Reciprocal Payor of its obligations under the agreement, and

(a) under which the District is obligated to pay, on one or more scheduled and specified Derivative Payment Dates, the District Payments in exchange for the Reciprocal Payor's obligation to pay or to cause to be paid to the District, on scheduled and specified Derivative Payment Dates, the Reciprocal Payments;

(b) for which the District's obligations to make District Payments may be secured by a pledge of and lien on the Net Revenues on an equal and ratable basis with the outstanding Bonds;

(c) under which Reciprocal Payments are to be made directly into the Bond Fund;

(d) for which the District Payments are either specified to be one or more fixed amounts or are determined as provided by the Derivative Product; and

(e) for which the Reciprocal Payments are either specified to be one or more fixed amounts or are determined as set forth in the Derivative Product.

(5) "Reciprocal Payment" means any payment (designated as such by a resolution) to be made to, or for the benefit of, the District under a Derivative Product by the Reciprocal Payor.

(6) "Reciprocal Payor" means a party to a Derivative Product that is obligated to make one or more Reciprocal Payments thereunder.

The following shall be conditions precedent to the use of any Derivative Product on a parity with any Bonds under the Bond Resolution:

(1) General Parity Tests. The Derivative Product (and the obligations to which it relates) must satisfy the requirements for Additional Bonds described in the Bond Resolution taking into consideration District Payments and Reciprocal Payments under the Derivative Product. Termination payments owed pursuant to a Derivative Product shall not be on a parity with the Bonds.

(2) Opinion of Bond Counsel. The District shall obtain an opinion of bond counsel on the due authorization and execution of such Derivative Product, the validity and enforceability thereof and opining that the action proposed to be taken is authorized or permitted by the Bond Resolution and will not adversely affect the excludability for federal income tax purposes of the interest on any outstanding Parity Bonds.

(3) Payments. Each Derivative Product shall set forth the manner in which the District Payments and Reciprocal Payments are to be calculated and a schedule of Derivative Payment Date.

(4) Supplemental Resolutions to Govern Derivative Products. Prior to entering into a Derivative Product, the District shall adopt a resolution, which shall:

(a) establish general provisions for the rights of providers of Derivative Products or Derivative Facilities; and

(b) set forth such other matters as the District deems necessary or desirable in connection with the management of Derivative Products as are not clearly inconsistent with the provisions of the Bond Resolution.

#### **Covenants as to Debt Service Coverage**

The District has covenanted that it will establish, maintain and collect rates and charges for electric power and energy and other services, commodities and facilities sold, furnished or supplied through the facilities of the Electric System adequate to provide Net Revenues in each Fiscal Year in an amount at least equal to 1.25 times the Annual Debt Service for such fiscal year.

For the purpose of meeting this requirement, (i) there may be added to Net Revenues for any fiscal year such amount, not greater than the Annual Debt Service for such Fiscal Year, withdrawn from the Rate Stabilization Account and deposited in the General Account and (ii) there must be subtracted from Net Revenues for any Fiscal Year such amounts as are withdrawn from the General Account and deposited into the Rate Stabilization Account for such fiscal year.

#### **Certain Other Covenants**

*Rate Covenant--General.* The District has covenanted to establish, maintain and collect rates and charges for electric power and energy and other services, commodities and facilities sold, furnished or supplied through the facilities of the Electric System which shall be fair and nondiscriminatory and adequate to provide Revenues sufficient for the punctual payment of the principal of, premium, if any, and interest on the Parity Bonds for which payment has not been otherwise provided, and all payments which the District is obligated to make into the Bond Fund, and for the proper operation and maintenance of the Electric System, and all necessary repairs, replacements and renewals thereof, and for the payment of any and all other amounts which the District may now or hereafter become obligated to pay from Revenues by law or contract, including taxes, assessments and other governmental charges lawfully imposed on the Electric System or the Revenues therefrom or payments in lieu thereof.

*Additional Indebtedness.* The District shall not issue any obligation payable from and secured by a lien on the Revenues by law or contract of the Electric System that is superior to the lien on such Revenues securing the Parity Bonds. The District shall not issue Additional Bonds unless the conditions set forth in Article IV of the Bond



Resolution (summarized above under the caption “Issuance of Additional Bonds”) are complied with. There is no restriction upon the issuance of junior lien revenue obligations.

*Maintenance of Electric System.* The District has covenanted to at all times maintain, preserve and keep the Electric System and all additions and betterments thereto and extensions thereof and every part and parcel thereof in good repair, working order and condition, and from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, extensions and betterments thereto so that at all times the business carried on in connection therewith shall be properly and advantageously conducted, and at all times to operate such properties and the business in connection therewith in an efficient manner and at a reasonable cost.

*Sale of System’s Properties.* The District has covenanted not to sell, mortgage, lease or otherwise dispose of the Electric System in its entirety without making provision for the payment, redemption or other retirement of outstanding Parity Bonds, except that the District may, without restriction, dispose of properties that have become unserviceable, inadequate, obsolete, or unfit to be used in the operation of the Electric System, or no longer necessary, material to or useful in such operation, and may also sell or dispose of street lighting systems now or hereafter owned by the District. The District shall not be required to repay Parity Bonds if the proceeds of such disposition is not in excess of 5% of the net utility plant of the Electric System.

*Insurance Covenant.* The District has covenanted to either self-insure the Electric System and the operation thereof or, to the extent such insurance is available at a reasonable cost, to carry adequate insurance with responsible insurers at least to the extent that insurance is usually carried by electric utilities operating like properties.

*Books of Account Covenant.* The District has covenanted to keep proper books of record and account to be audited annually by the Auditor of the State of Washington or other appropriate state agency, or, if such audit shall not be made for 12 months after the close of the fiscal year, by an independent certified public accountant.

#### **Events of Default; Remedies**

*Events of Default.* Under the Bond Resolution the happening of one or more of the following events constitutes an Event of Default:

1. If the District shall default in the performance of any obligations with respect to payments into the Revenue Fund or the accounts therein;
2. If default shall be made in the due and punctual payment of the principal of and premium, if any, on any of the Parity Bonds or Parity Lien Obligations when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise;
3. If default shall be made in the due and punctual payment of any installment of interest on any Parity Bond or Parity Lien Obligations;
4. If the District shall fail to purchase or redeem Term Bonds in principal amount at least equal to the Sinking Fund Requirement due on the relevant date;
5. If the District shall default in the observance and performance of any other of the covenants, conditions and agreements on the part of the District contained in the Bond Resolution and such default or defaults shall have continued for a period of 90 days after the District shall have received from the Bondholders Committee or from the owners of not less than 20% in principal amount of the Parity Bonds outstanding, a written notice specifying, and demanding the cure of, such default;
6. If the District shall (except as permitted in the Bond Resolution) sell, transfer, assign or convey any properties constituting the Electric System or interests therein, or any part or parts thereof, or shall make any agreement for such sale or transfer (except as provided by the Bond Resolution);

7. If an order, judgment or decree shall be entered by any court of competent jurisdiction (a) appointing a receiver, trustee or liquidator for the District or the whole or any substantial part of the Electric System, (b) approving a petition filed against the District seeking the bankruptcy, arrangement or reorganization of the District under any applicable law of the United States or the State of Washington, or (c) assuming custody or control of the District or of the whole or any substantial part of the Electric System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated), within 60 days from the day of the entry of such order, judgment or decree; or

8. If the District shall (a) admit in writing its inability to pay its debt generally as they become due, (b) file a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law, (c) make an assignment for the benefit of its creditors, (d) consent to the appointment of a receiver of the whole or any substantial part of the Electric System, or (e) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the District or of the whole or any substantial part of the Electric System.

*Remedies.* If an Event of Default has not been remedied, a Bondowners' Trustee may be appointed by owners of 20% in principal amount of the Parity Bonds then outstanding. The Bondowners' Trustee may take such steps and institute such suits, actions or other proceedings as it deems appropriate. The Bondowner's Trustee may during the continuance of an Event of Default, require the District to pay over all Revenues and all money, securities and funds held by the District and pledged under the Bond Resolution. Such Revenues and other funds shall be applied to the payment of the expenses of the Bondowners' Trustee and Operating Expenses and then to the payment of the principal, premium, if any, and interest on the Parity Bonds. After all such payments have been made and Events of Default made good or secured, the Bondowners' Trustee shall pay over to the District all remaining Revenues and other funds.

#### **Amendments; Supplemental Resolutions**

Any amendments to the Bond Resolution may be made by the District with the consent of the owners of 66-2/3% in principal amount of the Parity Bonds then outstanding, provided that no such amendment shall extend the date of payment of principal of or any installment of interest on any Parity Bond or reduce the principal or redemption price thereof or the rate of interest thereon or advance the date upon which any Bond may first be called for redemption prior to maturity, give any Parity Bond preference over any other Parity Bond, or reduce the percentage of bondowners required to consent to an amendment of the Bond Resolution, or authorize the creation of a pledge prior to or on a parity with the Parity Bonds (except the issuance of Additional Bonds) without the consent of each bondowner so affected.

Without the consent of the owners of the Parity Bonds, the District may adopt supplemental resolutions to authorize the issuance of Additional Bonds, to add to the covenants of the District contained in, or to surrender any rights reserved to or conferred upon it by, the Bond Resolution; to add to the restrictions contained in the Bond Resolution upon the issuance of additional indebtedness; to confirm as further assurance any pledge under the Bond Resolution of the Revenues or other money; to cure any ambiguity or correct any defect in the Bond Resolution; or otherwise to modify any of the provisions of the Bond Resolution if such amendment does not materially and adversely affect Bondholders.

## APPENDIX C

### PROPOSED FORM OF OPINION OF BOND COUNSEL

[date]

Public Utility District No. 1  
of Benton County, Washington  
Kennewick, Washington

Re: Public Utility District No. 1 of Benton County, Washington  
Electric Revenue and Refunding Bonds, Series 2016 — \$ \_\_\_\_\_

Ladies and Gentlemen:

We have served as bond counsel to Public Utility District No. 1 of Benton County, Washington (the “District”), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the District of its Electric Revenue and Refunding Bonds, Series 2016 (the “Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Bonds are issued by the District pursuant to Resolution No. 2368 (the “Bond Resolution”) for the purposes of providing a portion of the funds necessary to make improvements to the District’s electric utility system (the “Electric System”), to refund certain outstanding bonds of the District and to pay costs of issuance of the Bonds, all as set forth in the Bond Resolution.

The District has irrevocably bound itself to set aside and pay into the Bond Fund and the Reserve Account therein out of Revenues of the Electric System, amounts necessary to pay the principal of and interest on the Bonds as the same becomes due.

The District has pledged that the payments to be made into the Bond Fund and the Reserve Account out of the Revenues of the Electric System are a lien and charge thereon equal in rank to the lien and charge upon the revenue of the amounts required to pay and secure the payment of the Outstanding Parity Bonds, and superior to all other liens and charges, except the Operating Expenses of the Electric System. The District has reserved the right to issue Additional Bonds on the terms set forth in the Bond Resolution.

Reference is made to the Bonds and the Bond Resolution for the definitions of capitalized terms used and not otherwise defined herein.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

Under the Internal Revenue Code of 1986, as amended (the “Code”), the District is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The District has covenanted in the Bond Resolution to comply with those requirements, but if the District fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the District’s compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The District has the right and power under Title 54 of the Revised Code of Washington (the “Act”) to adopt the Bond Resolution. The Bond Resolution has been duly and lawfully adopted by the District, is in full force and effect, is valid and binding upon the District and is enforceable in accordance with its terms.

2. The Bond Resolution creates the valid pledges under the Act which it purports to create of (i) all income (including investment income), revenues and receipts derived by the District through the ownership and operation of the Electric System, excluding certain investment income and income from separate utility systems (the “Revenues”), subject to the prior payment of Operating Expenses and (ii) the Revenue Fund and the Bond Fund, and investment earnings thereon, subject only to the provisions of the Bond Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Resolution.

3. The District is duly authorized to issue the Bonds, and the Bonds have been duly and validly authorized and issued by the District in accordance with the laws of the State of Washington, including the Act. The Bonds constitute the valid and binding obligations of the District as provided in the Bond Resolution, are enforceable in accordance with their terms and the terms of the Bond Resolution and are entitled to the benefits of the Act and the Bond Resolution. The Bonds are special limited obligations of the District, and neither the State of Washington nor any political subdivision thereof, other than the District, is obligated to pay the principal of and interest on the Bonds, except to the extent that the enforcement of the rights and remedies of such owner of the Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

4. Assuming compliance by the District after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

## APPENDIX D

### BOOK-ENTRY SYSTEM

*The following information (except for the final paragraph) has been provided by The Depository Trust Company, New York, New York ("DTC"), and the District makes no representation regarding the accuracy or completeness thereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined).*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDOWNERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

When notices are given, they shall be sent by the Bond Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC or any successor (the "Depository") may determine not to continue to act as securities depository for the Bonds, and the District may advise the Depository of its determination to discontinue book-entry of the Bonds through such Depository. If the District is unable to retain a qualified successor to the Depository or the District has determined that it is in the best interest of the District not to continue the book-entry system of transfer or that the interests of Beneficial Owners might be adversely affected if the book-entry system is continued, Bond certificates will be delivered to the Beneficial Owners or their nominees in registered form, in the denomination of \$5,000 or any integral multiple of \$5,000. In the event the book-entry system is discontinued, the persons to whom Bond certificates are delivered and in whose names the Bonds are registered will be treated as "bondowners" for all purposes of the Bond Resolution.

**With respect to Bonds registered on the Bond Register in the name of Cede & Co., as nominee of DTC, the District and the Bond Registrar shall have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds; (ii) the delivery to any Participant or any other person, other than a bondowner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption; (iii) the payment to any Participant or any other person, other than a bondowner as shown on the Bond Register, of any amount with respect to principal of, premium, if any, or interest on the Bonds; (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given action taken by DTC as registered owner; or (vi) any other matter. The District and the Bond Registrar may treat and consider Cede & Co., in whose name each Bond is registered on the Bond Register, as the holder and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. For the purposes of this Official Statement, the term "Beneficial Owner" shall include the person for whom the Participant acquires an interest in the Bonds.**





Printed by: ImageMaster, LLC  
[www.imagemaster.com](http://www.imagemaster.com)