

# 2018 ANNUAL REPORT



Powering our way of life.



### ELECTRIC SYSTEM

|                                       |                    |
|---------------------------------------|--------------------|
| Overhead Distribution Lines . . . . . | <b>2,789 MILES</b> |
| Underground Distribution Lines . . .  | <b>1,088 MILES</b> |
| Overhead Transformers . . . . .       | <b>24,421</b>      |
| Padmount Transformers . . . . .       | <b>9,718</b>       |
| 115kV Transmission Lines . . . . .    | <b>273 MILES</b>   |
| 230kV Transmission Lines . . . . .    | <b>202 MILES</b>   |



### ACTIVE METERS

|                                  |               |
|----------------------------------|---------------|
| Residential . . . . .            | <b>38,368</b> |
| Irrigation . . . . .             | <b>5,151</b>  |
| Industrial . . . . .             | <b>107</b>    |
| Commercial . . . . .             | <b>7,063</b>  |
| Large Commercial . . . . .       | <b>125</b>    |
| Street Light and Other . . . . . | <b>455</b>    |
| Total Active Meters . . . . .    | <b>51,269</b> |



### SUBSTATIONS

|                                     |           |
|-------------------------------------|-----------|
| Distribution . . . . .              | <b>49</b> |
| Transmission . . . . .              | <b>5</b>  |
| Transmission/Distribution . . . . . | <b>3</b>  |



### HIGH SPEED NETWORK

|                                                   |               |
|---------------------------------------------------|---------------|
| Customers with fiber-optic availability . . . . . | <b>30,956</b> |
| Customers using fiber-optic service . . . . .     | <b>16,681</b> |
| Customers using wireless service . . . . .        | <b>268</b>    |



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# Commissioners' Report

Eighty years ago, the citizens of Grant County voted to create our utility - Grant County Public Utility District No. 2. The decision to create Grant PUD, as it is known today, was one that carried a significant amount of promise and expectation.

In 1938, those who supported the formation of Grant PUD expected that the utility would exist to provide electrical service to everyone in the county. They believed electrical service was necessary for all, even families farming on land miles away from town who were bypassed by private utilities that saw little profit in providing them power.

Not only did these voters want their public power company to serve the existing population, they also hoped the utility would provide inexpensive and reliable electricity to attract and promote growth and bring prosperity to Grant County.

Emboldened by the success of creating a true county-wide utility by the 1950s, the citizens of Grant County took another significant step toward self-determination when they supported Grant PUD's decision to build Priest Rapids and Wanapum dams on the Columbia River after the federal government decided not to allocate funds to the project. There were significant challenges to overcome in the development of the dams, not the least being who would pay for them, but Grant PUD's commissioners and staff met each of them with long-term solutions that are still bearing fruit today.

In the decades since the creation of Grant PUD and the development of the dams, the vision of those early public-power pioneers has been realized. Grant County is now a

thriving economic hub with a diverse agriculture industry that truly is a cornucopia for the world. The county is also home to a burgeoning manufacturing base and is a center for data storage that provides part of the backbone for our information age. These diverse expanding enterprises have resulted in dramatic growth in the housing, commercial and service industries that contribute to improving life for Grant County's residents.

All of these endeavors rely on the inexpensive and reliable power provided by Grant PUD. As commissioners, it is our responsibility to ensure that the promise our organization made to voters 80 years ago holds true today. This duty helps to inform our decisions as we balance today's short-term benefits with what might provide the greatest long-term value.

To that end, we have now taken on the endeavor to extend our fiber optic service to everyone in Grant County. In 1938, our rural customers feared they were going to be left behind without electrical service. Now, in our time, those without access to a high-speed network connection have the same fears, which is why we, as a board, have decided to extend our fiber optic service to all in the coming years, so long as we can continue to meet Grant PUD's primary goal of providing low-cost, reliable energy to our customers.

Looking ahead, we are positioning ourselves to enter a new era in which Grant PUD not only provides all county residents with the energy to power their ways of life, but also provides them with the broadband network to help them connect to the world.



**Terry Brewer**

Commission President



**Bob Bernd**

Commission Vice President



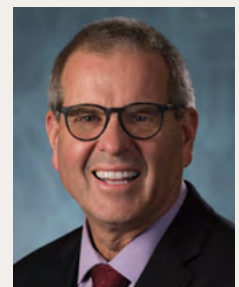
**Dale Walker**

Commission Secretary



**Tom Flint**

Commissioner



**Larry Schaapman**

Commissioner

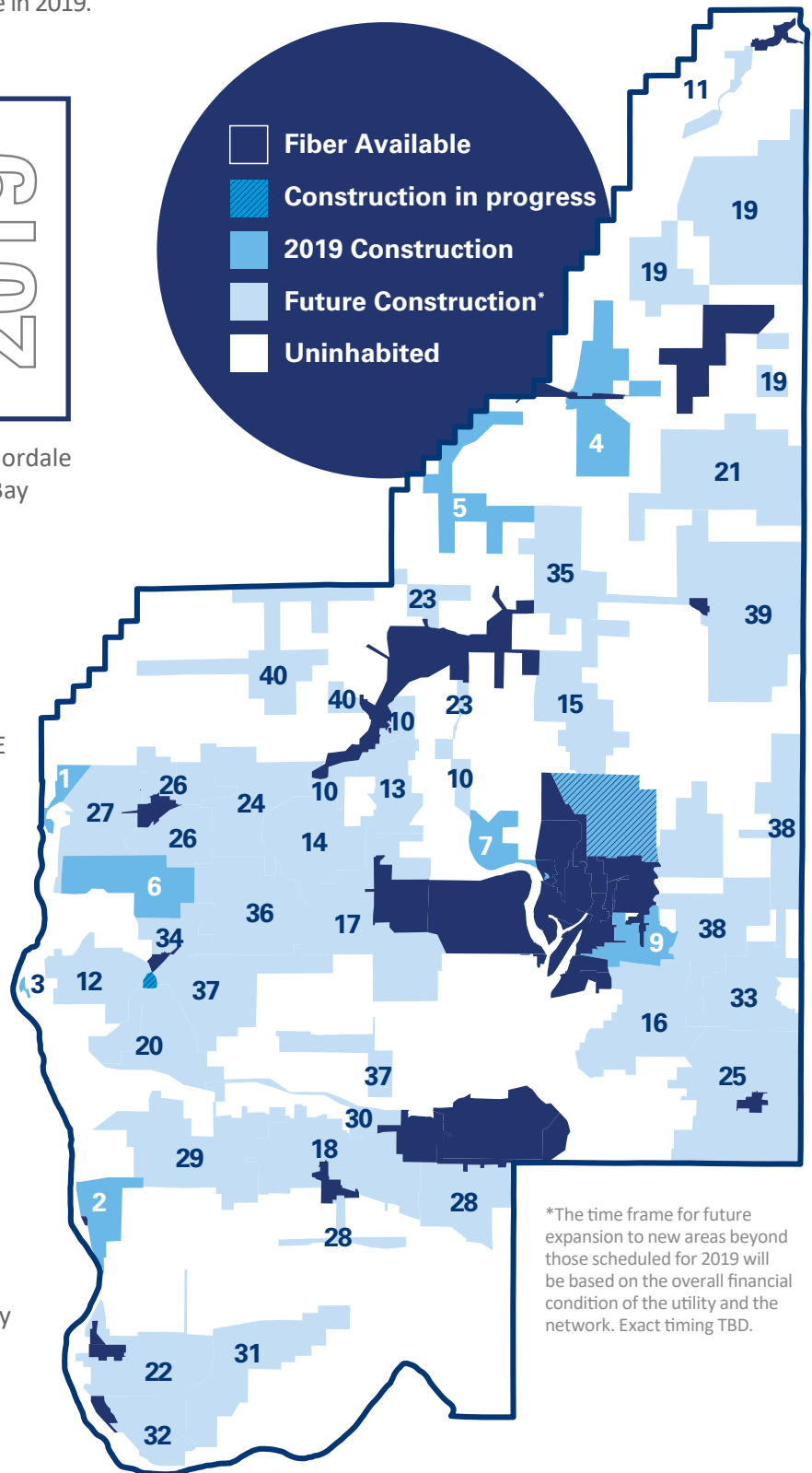
\*Terry Brewer and Bob Bernd were replaced by Judy Wilson and Nelson Cox in January 2019.

# Fiber is Expanding

Grant PUD's high-speed fiber optic network is expanding throughout Grant County. In 2018, funding was approved to reach the next nine areas of the build out sequence in 2019. Those areas will soon be under construction.

|   |                                     |      |
|---|-------------------------------------|------|
| 1 | Crescent Bar: Off Island + Trinidad | 2019 |
| 2 | Beverly and Schawana                |      |
| 3 | Sunland Estates                     |      |
| 4 | Coulee City Area                    |      |
| 5 | Blue Lake/Park Lake/Alkali Lake     |      |
| 6 | Ancient Lake/White Trail            |      |
| 7 | McConihe/Neppel/Stonecrest          |      |
| 8 | ML: Complete Base Area              |      |
| 9 | Kittleson/Rd N Industrial/Wheeler   |      |

- 10 Ephrata City Limits/Rocky Ford/N. of Naylordale
- 11 Electric City: Steamboat Rock to Osborn Bay
- 12 Cave B to Beverly Burke/2 SW to 2 NW
- 13 Ephrata: South Ephrata Substation
- 14 Rd 9 NW and Hwy 283
- 15 Gloyd to Stratford
- 16 Perch Point/Wilbur Ellis to I-90
- 17 Dodson to Winchester Wasteway N I90
- 18 Royal City Surrounding Area
- 19 Complete Hartline Area/Rd V NE at Rd 47 NE
- 20 George Area Completion
- 21 Between Hartline and Wilson Creek
- 22 Mattawa Surrounding Area
- 23 Soap Lake: SE to fish hatchery and N to Lake Lenore
- 24 Winchester
- 25 Warden Area Completion
- 26 North, East and South of Quincy
- 27 NW and SW of Quincy
- 28 Rd A SE/Smyrna/Crab Creek
- 29 Jericho
- 30 Dodson Frenchman
- 31 Wahluke Area East of Mattawa
- 32 Desert Aire to Rd O SW
- 33 I90 Rd U NE/SE
- 34 Hwy 281 N. of I90 to Rd 3
- 35 Stratford/Summer Falls/Billy Clapp
- 36 Adams Road NW to Winchester Wasteway N. of I90 to Rd. 7
- 37 Braden to George and Black Sands
- 38 Ruff
- 39 Wilson Creek Area
- 40 Sagebrush Flats/Johnson Rd. NW



\*The time frame for future expansion to new areas beyond those scheduled for 2019 will be based on the overall financial condition of the utility and the network. Exact timing TBD.

# Manager's Report



**Kevin Nordt**  
General Manager

The people of Grant County gave their PUD its marching orders 80 years ago — harness the power of the Columbia River to light our homes, power our businesses and strategically help our county grow and prosper.

And prosper we have!

Our locally owned and managed power pushes the irrigation pumps that have transformed Grant County into an agricultural dynamo. Our electricity keeps creativity and entrepreneurship at home by feeding both small businesses and large manufacturers. It powers the data cloud that makes the internet happen. And our future is bright, with growth projections that far exceed the industry average, a very good AA3 bond rating and key financial metrics that are either on target or on a path to getting there soon. Grant PUD's financial health is at its strongest level in decades.

We said good-bye in late 2018 to two long-term commissioners Bob Bernd and Terry Brewer, who served Grant PUD customers well during their 12-year tenures. They helped steer this utility through approval of a new federal license for our dams and implementation of that license. They helped equip this utility with the tools and policy it needs in times of ever-increasing complexity and extraordinary growth.

Our newest commissioners Judy Wilson and Nelson Cox have hit the ground running, immersing themselves in the learning process, asking great questions and listening thoughtfully. Like their fellow commissioners, these two care deeply about Grant County and its PUD. We welcome them both.

Heavy investment in our dams and electric system ensures Grant PUD is ready for growth and efficient operation for years to come. As we head into 2019, we've identified four key areas of further investment to give our greatest asset — our employees — the tools they need to sustain a vigorous culture of safety and have access to the latest skills, systems and technology fitting of their impressive capabilities. Here's a look at each of these four key initiatives:

**Safety:** Safe outcomes for our employees and the public are paramount for Grant PUD. Our safety initiative comprises both our industrial safety program as well as our dam safety program. Regarding industrial safety, this initiative continues the ongoing good work of our Safety Team to get everyone at Grant PUD focused on safety as a supreme value. We're fostering a culture of safety and health through education, safe work practices, well-documented policies, consistent messaging and

performance tracking. Our goal is zero recordable incidents by the end of 2021. We're all motivated to get there.

Everyone can easily appreciate the hazards of working with electricity, but hazards at the dams are not as obvious. Our dams are massive and imposing structures that appear as able as the ancient pyramids to withstand any shock. While strong and safe, these are extremely complex systems that require keen focus on maintaining their integrity. The safety of our dams does not come without a tremendous focus on inspection, maintenance and vigilance in design. We continue to invest in our Owner's Dam Safety Program, engage in leading-edge industry forums and partner with our dam safety regulator, the Federal Energy Regulatory Commission, to ensure that our dam-safety program is best in class and our employees and the public are fully protected.

**Data Optimization:** We track all kinds of data around Grant PUD, but what do we really need to be doing to give our folk the information they need to manage effectively? That's what this initiative is all about — identifying those key areas and ensuring that critical data is compiled and easy to work with. This effort benefits everyone by helping ensure priorities are more accurately assessed, job assignments make the best sense and coworkers get the supplies, funding and equipment they need to get the job done.

**Technology Roadmap:** Here at Grant, we need to get the best technology working for us to make our jobs easier and more effective. This multi-year initiative is a comprehensive plan to eliminate duplication among systems, modernize cyber security controls, improve management efficiency, increase customer satisfaction and ultimately lower costs. This involves streamlining our digital work-flow systems and deploying state-of-the-art tech to manage and control our assets. It's a huge task, but we've assembled the right team of people. We're on our way.

**Organization Development:** And, speaking of people — our coworkers at Grant PUD are highly capable, conscientious and motivated. I'm truly privileged to lead a team of this caliber. We want to help them achieve optimum success as individuals, team members and critical players, both in this organization and the community. This initiative is a new management directive to provide outreach, coaching, training and support to help our folk achieve their professional goals. When everyone makes it home safe every day and looks forward to coming to work, we all win.

Grant PUD is in business to efficiently and reliably generate and deliver energy to our customers at the lowest rates possible. With guidance from our elected commissioners, support from our community and, of course, the incredible capacity of our workforce, I'm confident that the people of Grant County will continue to reap the benefits of our locally owned and controlled public power for generations to come.

## Our Legacy

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Grant PUD was established by local residents in 1938 to provide power service to all of the county's residents. We honor the resolve of our founders through our guiding vision, mission and values.



## Our Vision

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### EXCELLENCE IN SERVICE AND LEADERSHIP

We continually ask how we can improve service quality, reliability and stewardship of our resources in the most cost-effective manner.

## Our Mission

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**TO EFFICIENTLY AND RELIABLY  
GENERATE AND DELIVER  
ENERGY TO OUR CUSTOMERS**



# Our Values

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# The Wanapum Heritage Center

For more than 60 years, the Wanapum and Grant PUD have worked together to protect, preserve and perpetuate the natural and cultural resources of the area. Located next to the Wanapum's ancestral village and Priest Rapids Dam, this 50,000 square-foot building is instrumental in perpetuating the importance of the culture, traditions and beliefs of the Wanapum. For more information about the Wanapum and the Wanapum Heritage Center, visit [wanapum.org](http://wanapum.org).



**REX BUCK JR.**  
Wanapum Leader

# Our Heritage

**1938** - Grant County PUD No. 2 was created by a majority vote of 2,166 to 828. Grant County PUD No. 1, which was previously created to serve just a portion of the county, was absorbed into the new, county-wide utility.

**1941** - Grant PUD receives a \$600,000 loan from the Rural Electrification Administration to finance construction of approximately 440 miles of electric distribution lines in Grant and Douglas counties and to pay for the Coulee City and Soap Lake electric systems.

**1945** - Grant PUD moves its offices from Soap Lake to Ephrata, the seat of Grant County.

**1949** - Grant PUD works out procedures with Grant County and U.S. Bureau of Reclamation to provide electrical service to new farmland being developed as part of the Columbia Basin Reclamation Project.

**1951** - Representatives of the Grant County Chamber of Commerce appeared before the Grant PUD Board of Commissioners and asked the PUD to consider constructing a dam at Priest Rapids.

**1955** - The Federal Power Commission issued Grant PUD a license to build and operate two dams, known collectively as the Priest Rapids Project.

**1957** - Governor Albert Rosellini turned a valve starting the first concrete pour at Priest Rapids Dam.

**1959** - Construction began at Wanapum Dam, which was authorized as part of the Priest Rapids Project.

**1962** - Priest Rapids Dam, with a generating capacity of 953 megawatts, was dedicated. U.S. Secretary of Commerce, Luther Hodges was the keynote speaker. Approximately 900 people attended.

**1964** - The 10th and last generator went into production at Wanapum Dam, which at the time had a capacity of 1,040 megawatts. This made Grant PUD the third largest, non-federal producer of hydroelectric power in the nation.

**1966** - Wanapum Dam is dedicated. Activities focused around the new heritage center, which opened to the public for the first time. Approximately 1,900 people were in attendance at the ceremony.

**1976** - The Ephrata Service Center is completed and dedicated in honor of Bill Schempp's service to the Grant PUD.

**1982** - Vera Claussen was the first woman elected to the Grant PUD Board of Commissioners.

**1985** - The Quincy Chute hydroelectric project made its first commercial power output. The facility is operated by Grant PUD under agreement with the Grand Coulee Project Hydroelectric Authority and has a rated generating capacity of 9.4 megawatts.



**1990** - The first commercial operation of the Potholes East Canal Headworks hydroelectric project began. The facility is operated by Grant PUD under agreement with the Grand Coulee Project Hydroelectric Authority and has a rated generating capacity of 6.5 megawatts.

**2000** - Grant PUD commissioners authorized construction and testing of a full-size, prototype of the new advanced turbines to be installed in Wanapum Dam.

**2001** - Grant PUD's new fiber optic network began serving customers.

**2007** - Grant PUD Commissioners approved a 20-percent discount for low-income customers who are seniors or disabled. The customers must have incomes that are less than 150 percent of the poverty guidelines.

**2008** - The Federal Energy Regulatory Commission awarded Grant PUD a new 44-year license to operate the Priest Rapids Project.

**2008** - The Wanapum Fish Bypass Unit, which allows migrating juvenile salmon a safer passage over Wanapum Dam, while conserving water for generating capacity, began operating.

**2012** - Construction began on the Priest Rapids Dam Fish Bypass Unit. The project converted three spillway bays into chutes that use a minimal amount of water to safely get juvenile salmon past the dam.

**2013** - Grant PUD celebrates the completion of its Advanced Turbine Replacement Project at Wanapum Dam. The project included the replacement of all 10 of the dam's original turbines.

**2014** - A fracture was discovered on the Wanapum Dam Spillway in February. The fracture, below the water line on the upstream side of the dam, ran across the 65-foot width of one of the 13 spillway-pier monoliths. Grant PUD reduced the pressure behind the dam by lowering the Wanapum reservoir by 26 feet, then reinforced the spillway with post-tension anchors and metal rods, before raising the reservoir in December.

**2014** - The Priest Rapids Fish Bypass began operations in time for the spring juvenile fish migration season.

**2015** - The new Wanapum Heritage Center opened in October. Located on the ancestral grounds of the indigenous Wanapum Band of the Priest Rapids, the 50,000 square-foot facility is a key element to protecting, preserving and perpetuating the culture, traditions and identity of the Wanapum people. In December, Grant PUD opened its new visitors center near Wanapum Dam. Experience the Power of the Columbia allows visitors to see how the Columbia River has shaped Grant County.

**2016** - Construction begins on the first phase in the renovation of the Crescent Bar Recreation Area. The first phase includes a new boat launch and dock, walking path, RV campsite, parking and recreation amenities.

**2017** - Grant PUD launched its Advanced Metering Program, which will replace approximately 50,000 meters in the county with new meters that can be read remotely.

**2018** - The construction project to renovate the Crescent Bar Recreation Area was completed. The multi-year project included a new campsite, boat launches, docks, playground, walking path and water and wastewater facilities.



# Powering Our Way of Life

**WITH CLEAN, RENEWABLE ENERGY**

Grant PUD has the capacity to generate more than 2,100 megawatts of clean, renewable energy with the two dams of the Priest Rapids Project – Wanapum and Priest Rapids dams – and its share in three smaller generating projects. These sources of energy avoided an estimated 2 million metric tons of carbon emissions in 2016.

Built almost 60 years ago, Priest Rapids and Wanapum dams are the economic engines that power Grant PUD’s ability to provide low-cost, reliable electricity to our customers. We are now investing millions of dollars to rehabilitate our turbines and generators to ensure that they will continue to be a source of clean, renewable energy in our region for decades to come.

## The Priest Rapids Project

### WANAPUM DAM



Generation Units **10**



Rated Capacity **1,203.6 MW**



Concrete/Earthfill Length **8,637 FT**



Rated Head **80 FT**



Construction Began **1959**



First Power Generation **1963**

### PRIEST RAPIDS DAM



Generation Units **10**



Rated Capacity **953 MW**



Concrete/Earthfill Length **10,103 FT**



Rated Head **78 FT**



Construction Began **1956**



First Power Generation **1959**



Potholes East Canal



Quincy Chute

## Other Generation

### NINE CANYON WIND PROJECT



12.54% of Project  
Peak Capacity

**12 MW**



First Power Generation

**2003**

### QUINCY CHUTE HYDROELECTRIC PROJECT



Rated  
Capacity

**9.4 MW**



First Power Generation

**1985**

### POTHOLES EAST CANAL HEADWORKS PROJECT



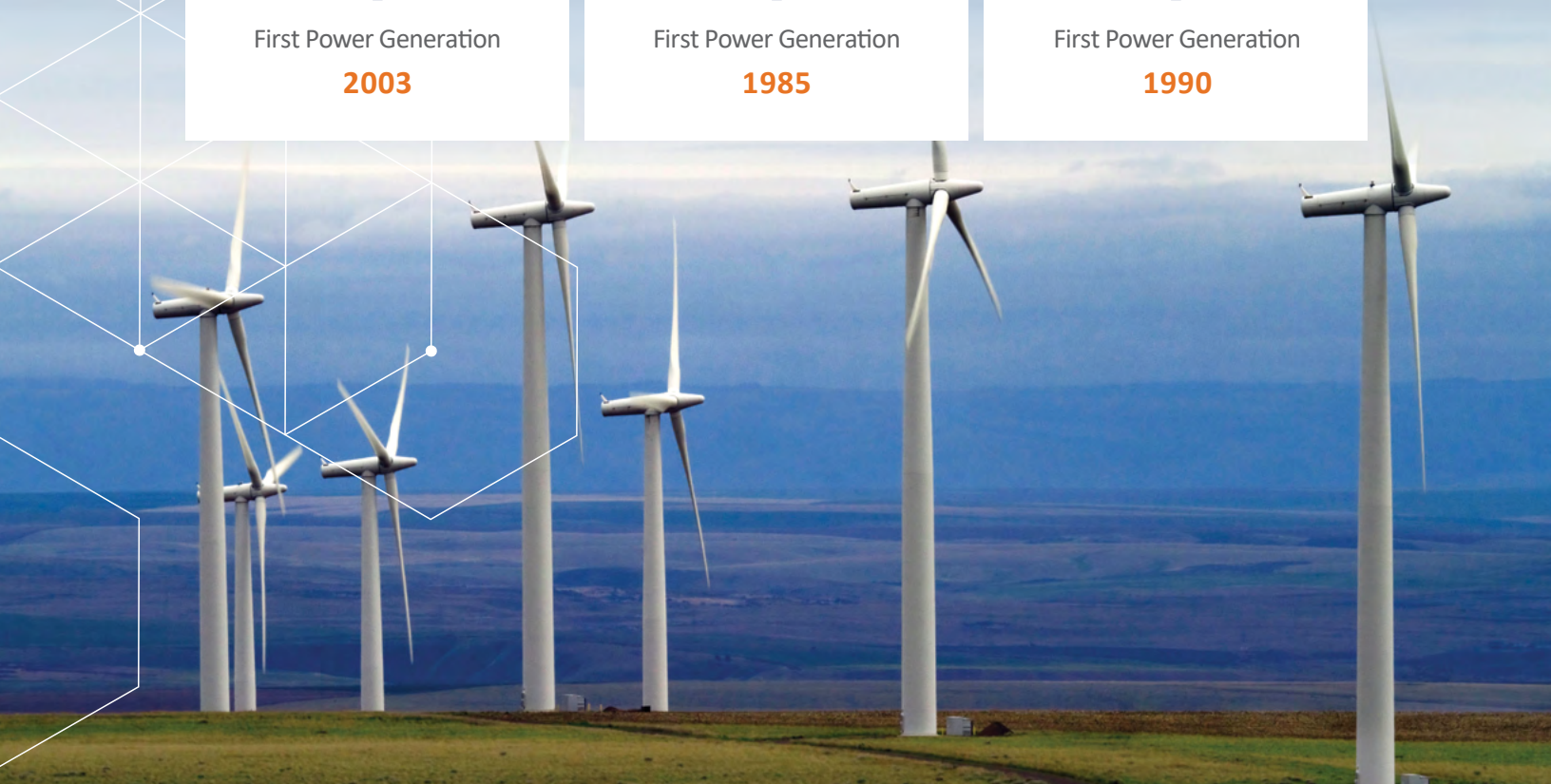
Rated  
Capacity

**6.5 MW**



First Power Generation

**1990**



# The Colossal Balancing Act

## THE PRIEST RAPIDS PROJECT IS PART OF A LARGER SYSTEM.

The Columbia is a river of unmatched proportions. The 11 U.S. dams that transform the power of the Columbia's flowing water into hydropower are equally unrivaled.

Operating dams on the river requires system-wide cooperation. Dam operators coordinate to help prevent seasonal runoff from flooding communities downstream, reduce the water flowing over spillways as much as possible to diminish dissolved gases that could be harmful to fish, provide optimal river levels and flows for fish passage and spawning conditions, keep reservoirs full so farmers can irrigate crops, and generate power in a concerted effort to ensure that the right amount of energy is available when it is needed by millions of customers.

## THE ROLE OF HYDROPOWER



Generate Electricity



Flood Prevention



Fish Protection



River Navigation



Water Recreation



Cultural Preservation



Farm Irrigation



**1** Power demand and generation is measured every second of every day.



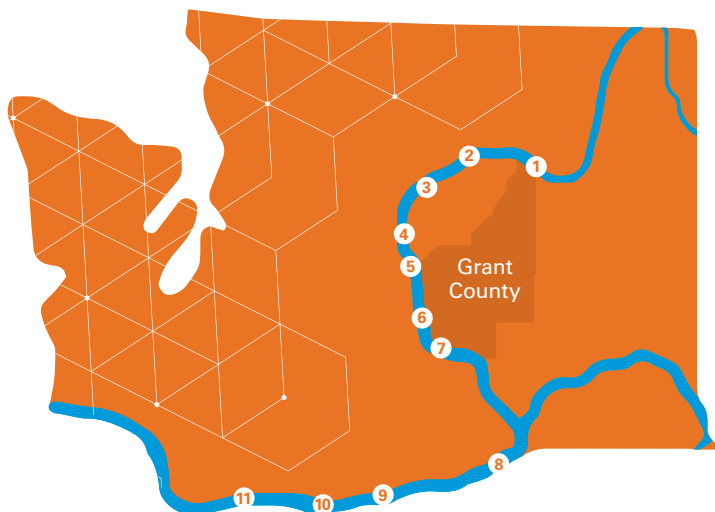
**1,200** The Number of miles the Columbia River stretches.



**7** The number of U.S. states that the Columbia River Basin touches.

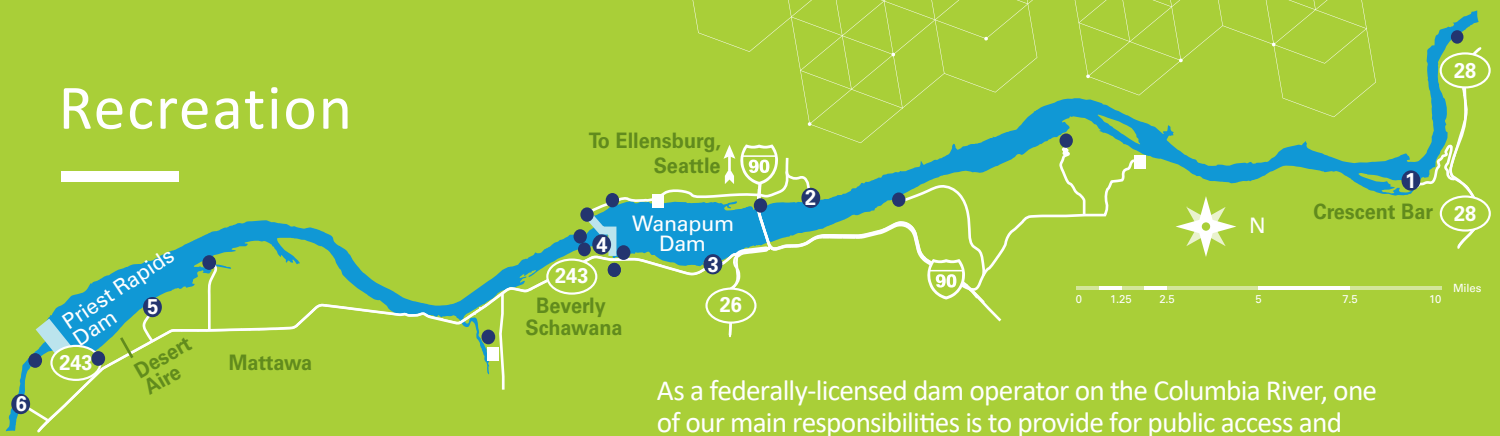









**2,700** The approximate vertical drop (in feet) of the river from the headwaters of the Columbia to its final resting place in the Pacific Ocean.



- |                                                                                                       |                                                                                                                                                                      |                                                                                                   |
|-------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| <p><b>1 Grand Coulee Dam</b><br/>(River Mile 596.6)<br/>Output 6,809 MW<br/>Bureau of Reclamation</p> | <p><b>5 Rock Island Dam</b><br/>(River Mile 453.4)<br/>Output 624 MW<br/>Chelan PUD</p>                                                                              | <p><b>9 John Day Dam</b><br/>(River Mile 215.8)<br/>Output 2,480 MW<br/>Corps of Engineers</p>    |
| <p><b>2 Chief Joseph Dam</b><br/>(River Mile 541.1)<br/>Output 2,614 MW<br/>Corps of Engineers</p>    | <p><b>6 Wanapum Dam</b><br/>(River Mile 415.8)<br/>Output 1,204 MW<br/></p>     | <p><b>10 The Dalles Dam</b><br/>(River Mile 191.5)<br/>Output 2,160 MW<br/>Corps of Engineers</p> |
| <p><b>3 Wells Dam</b><br/>(River Mile 515.1)<br/>Output 840 MW<br/>Douglas PUD</p>                    | <p><b>7 Priest Rapids Dam</b><br/>(River Mile 397.1)<br/>Output 953 MW<br/></p> | <p><b>11 Bonneville Dam</b><br/>(River Mile 145.5)<br/>Output 1,227 MW<br/>Corps of Engineers</p> |
| <p><b>4 Rocky Reach Dam</b><br/>(River Mile 473.0)<br/>Output 1,300 MW<br/>Chelan PUD</p>             | <p><b>8 McNary Dam</b><br/>(River Mile 292.0)<br/>Output 980 MW<br/>Corps of Engineers</p>                                                                           |                                                                                                   |

# Recreation



-  Fishing
-  Camping
-  Boat Launch
-  Hiking
-  Swimming
-  Picnic Area
-  Sheltered Picnic Area
-  Hand Launch

As a federally-licensed dam operator on the Columbia River, one of our main responsibilities is to provide for public access and recreation along our project lands. In the past decade, we have made significant upgrades to 19 recreation sites and opened our visitors center at Wanapum Dam. We invite all to come to one of these sites and enjoy the power of the Columbia. For a full list of all recreation sites and campsite fees visit [grantpud.org/recreation](http://grantpud.org/recreation).



## 1 Crescent Bar Recreation Area

Amenities include a 55-site reservation campground (tent/RV and vehicle/boat trailer), golf course, two boat launches, day-use and commercial marina, a floating fuel station, walking/biking trails, picnic shelters, playground, sports courts (pickleball, basketball), and multiple beach areas.



## 2 Rocky Coulee Recreation Area

Amenities include camping and day-use opportunities, 10 primitive first-come, first-served walk-in campsites, 14-vehicle parking area, and hand boat launch.



## 3 Sand Hollow Recreation Area

Amenities include camping, picnic areas, a swim beach, and 40-site reservation campgrounds. 30 of the campsites are accessible by vehicle (tent/RV and single vehicle), 10 campsites are primitive walk-in tent only sites.



## 4 Grant PUD Visitor Center

Experience the Power of the Columbia River! Hands-on activities, exhibits, and interactive features show how the Columbia River shaped Grant County. Visitors can see how Wanapum Dam works, learn about the different types of fish, and discover how Grant PUD is powering our way of life.



## 5 Priest Rapids Recreation Area

Amenities include camping, boating and day-use opportunities, 14-site reservation campground (tent/RV and single vehicle), three-lane boat launch, walking/biking trails, picnic areas, and swim beach.



## 6 Jackson Creek Fish Camp

Amenities include camping and fishing opportunities, 10 primitive first-come, first-served campsites, and walk-in fishing access.

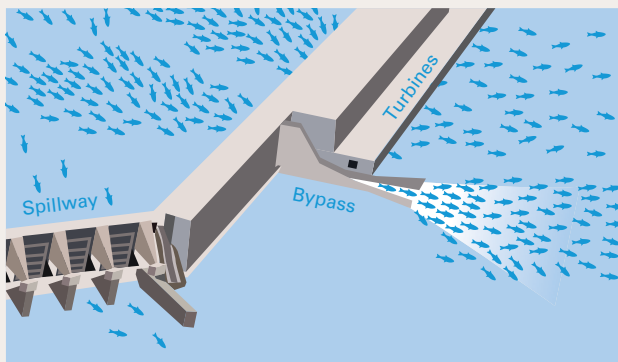


# How We Provide For Fish

Grant PUD is one of the region's greatest contributors to the enhancement and protection of native fish and habitat. We take our responsibility to provide for fish passage seriously. We have made significant upgrades in the past two decades to improve fish passage at both Wanapum and Priest Rapids dams with juvenile fish bypass units and turbines designed to improve fish survival, as well as develop hatchery and habitat facilities and programs.

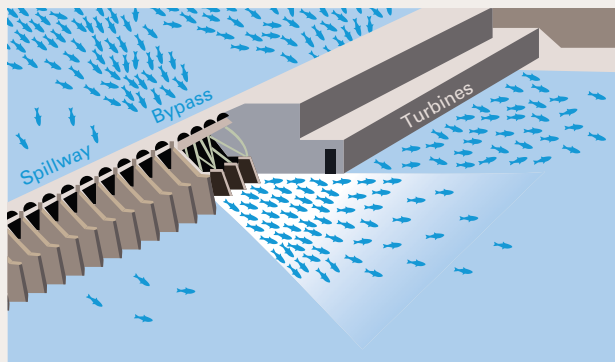
## STEELHEAD SURVIVAL RATES\*

### WANAPUM DAM



|               | Turbines | Bypass | Spillway |
|---------------|----------|--------|----------|
| Survival rate | 91%      | 97%    | 95%      |
| Route taken   | 36%      | 60%    | 4%       |

### PRIEST RAPIDS DAM

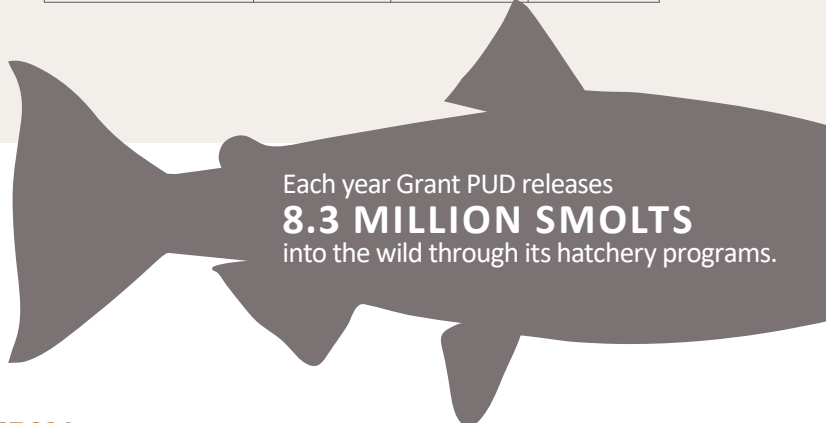
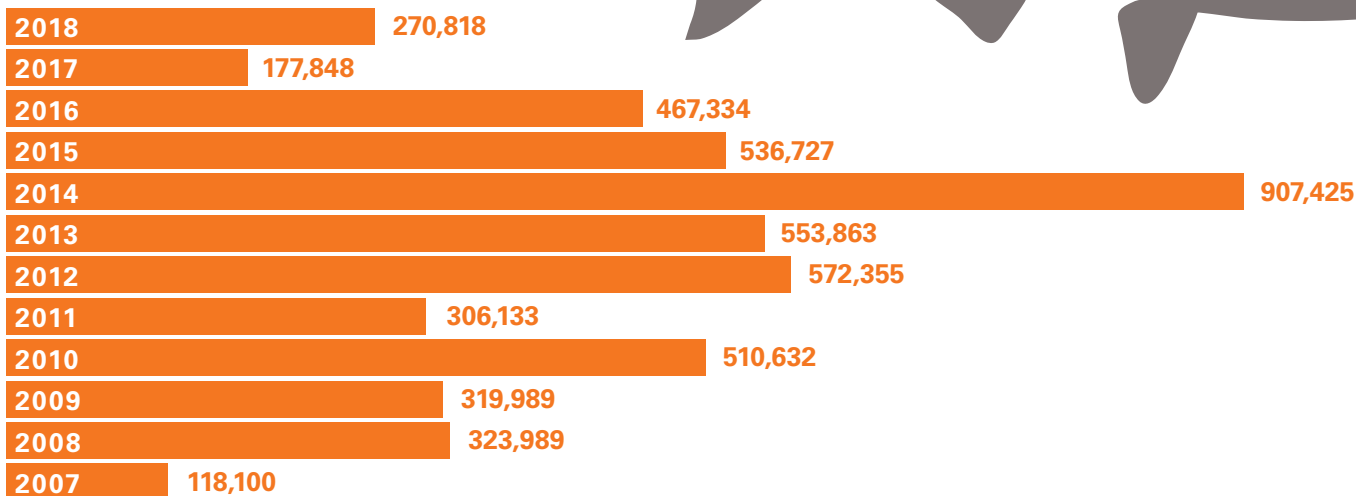


|               | Turbines | Bypass | Spillway |
|---------------|----------|--------|----------|
| Survival rate | 93%      | 99%    | 98%      |
| Route taken   | 37%      | 59%    | 4%       |

\*Rates vary by species and range from 91-96% via turbines, 94+% via spillway, virtually 100% via bypass. Steelhead data is currently the only complete set of data we have for both dams.

## FISH COUNTS AT PRIEST RAPIDS DAM

Chinook, Sockeye, Coho, and Steelhead



Each year Grant PUD releases **8.3 MILLION SMOLTS** into the wild through its hatchery programs.



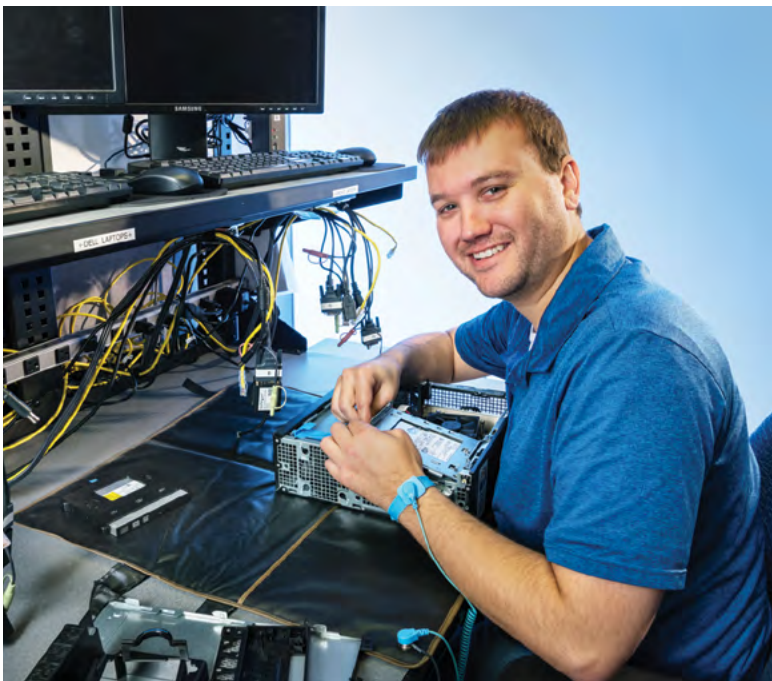
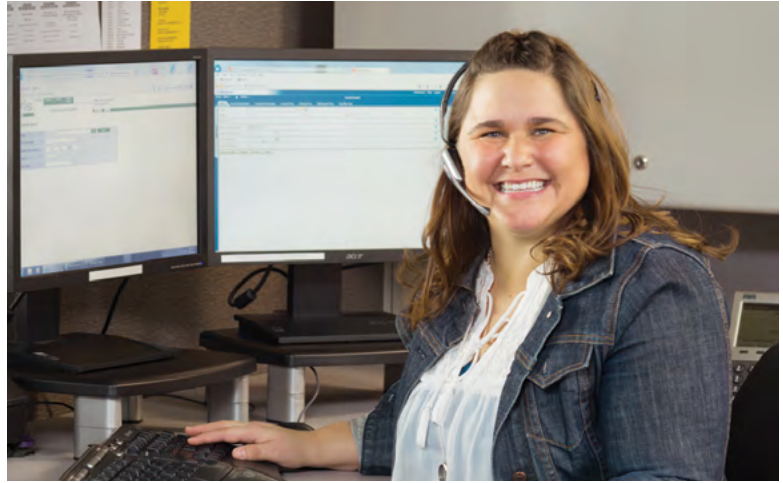
# Powered By Service

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For more than eight decades, Grant PUD has served the energy needs of rural Grant County. Throughout the years, our connection to our community remains unchanged. We are consumers of the product we deliver. Our families and neighbors are directly impacted by our work to keep energy reliable and affordable.

Certain aspects of our work can't be measured in a bottom-line number on a financial statement. Some of our most significant accomplishments occur as we invest in community education programs to help children realize their potential and teach them about electrical and water safety.

Beyond education, we also provide incentive programs to help our customers become more energy efficient and save money. We have developed a reduced-rate program for both seniors and disabled residents with low incomes. We are also proud that our customers can see our employees using their free time to actively engage in programs and causes that contribute to the health, welfare and improvement of our community.



# Finances

Grant County enjoys some of the lowest power prices in the nation. We have been able to maintain low power prices for our customers because we have always endeavored to make sound financial decisions with a long-term benefit.

We strive daily to make decisions to balance the investments we are making for the future, while also providing for the needs of the present. We believe the key to maintaining our high-quality, low-cost power service is

by making decisions that will bring the greatest value to our customers.

That's why we have adopted a price strategy of implementing small, and predictable annual increases. By doing so, we have achieved our goal of providing for our financial stability, while keeping our commitment of providing low-cost, reliable power for our customers. We are now contemplating a future where annual price increases of even less than 2 percent may be possible.

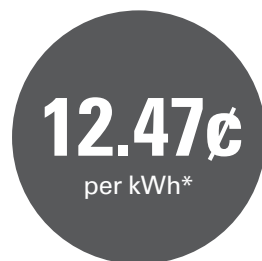


## ENERGY COSTS

### How Do We Compare?

Residential Average Electricity Rates in December 2018

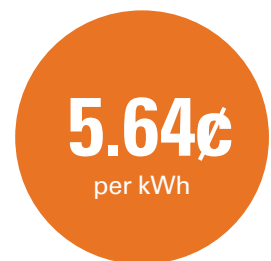
\*Source: U.S. Energy Information Administration February 2019 report



**UNITED STATES**



**WASHINGTON**



**GRANT PUD**

# 2018 Financial Targets

Grant PUD uses a number of metrics to measure our goal of providing value to our customers. The selected metrics below help to show our financial strength.



## OBJECTIVE #1

### Maintain a Strong Financial Position

|                                    | 2018 Target | Actual   | Final Goal |
|------------------------------------|-------------|----------|------------|
| Electric System Liquidity          | ≥ \$155 MM  | \$258 MM | ≥ \$155 MM |
| Consolidated Return on Net Assets  | ≥ 3.6%      | 4.3%     | > 4.0%     |
| Consolidated Debt To Plant Ratio   | ≤ 63%       | 62%      | < 60%      |
| Consolidated Debt Service Coverage | ≥ 1.80x     | 2.13x    | ≥ 1.80x    |



## OBJECTIVE #2

### Provide Long-Term Low Rates

|                                   | 2018 Target                 | Actual | Final Goal |
|-----------------------------------|-----------------------------|--------|------------|
| Retail Operating Ratio - Adjusted | ≤ 114.0%                    | 106%   | < 100%     |
| District Credit Rating            | Aa3<br>(Moody's equivalent) | Aa3    | Aa3        |

# Our Bond Ratings

Grant PUD's financial health is measured in part by its bond ratings. Our latest ratings are below:

| Rating Agency                     | Rating | Outlook |
|-----------------------------------|--------|---------|
| Fitch Ratings                     | AA     | STABLE  |
| Moody's Investor Service          | Aa3    | STABLE  |
| Standard & Poor's Rating Services | AA     | STABLE  |





## Report of Independent Auditors

The Board of Commissioners  
Public Utility District No. 2 of Grant County, Washington

### Report on the Financial Statements

We have audited the accompanying financial statements of the Public Utility District No. 2 of Grant County, Washington (the District), which comprise the statement of net position as of December 31, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Prior Year Financial Statements**

The financial statements of the Public Utility District No. 2 of Grant County, Washington as of and for the year ended December 31, 2017, were audited by other auditors whose report dated April 27, 2018, expressed an unmodified opinion on those statements.

**Other Matter**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the District's proportionate share of the net pension liability, schedule of the District's contributions, and the schedule of changes in the total OPEB liability and related ratios (collectively, "required supplementary information") be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Moss Adams LLP*

Seattle, Washington  
April 9, 2019

## **OVERVIEW OF DISTRICT'S FINANCIAL STATEMENTS**

As of December 31, 2018, Public Utility District No. 2 of Grant County, Washington (the "District") is comprised of two operating systems: the Electric System and the Priest Rapids Project. The Priest Rapids Project is operated under Federal Energy Regulatory Commission ("FERC") License, Project No. 2114 authorizing both the Priest Rapids Hydroelectric Production Development ("Priest Rapids") and Wanapum Hydroelectric Production Development ("Wanapum") to operate through April of 2052 as long as license requirements continue to be met. Priest Rapids consists of a dam and hydroelectric generating station with a nameplate rating of 953 megaWatts ("MW") and Wanapum consists of a dam and hydroelectric generating station with a nameplate rating of 1,204 MW. Priest Rapids is located on the Columbia River in Grant and Yakima Counties about 150 air miles northeast of the City of Portland, 130 air miles southeast of the City of Seattle, and 18 miles downstream of Wanapum, which spans Grant and Kittitas Counties. The Electric System maintains 4,351 transmission and distribution line miles and other related infrastructure to serve retail load in Grant County.

This annual financial report consists of a series of financial statements and reflects the self-supporting, proprietary activities of the District funded primarily by the sale of electrical power. The District reports the business-type activities in a manner similar to private business enterprises. The District's financial statements presented in this report consist of the Statements of Net Position, Statements of Revenues and Expenses and Changes in Net Position, Statements of Cash Flows, and the Notes to the Financial Statements.

The Statements of Net Position include all of the District's assets, liabilities, deferred outflows and inflows, and net position and provide information about the nature and amounts of investments in assets and the obligations of the District.

All of the revenues and expenses of the District are accounted for in the Statements of Revenues and Expenses and Changes in Net Position. These statements measure the success of the District's operations over the year and can be used to determine whether the District has successfully recovered all of its costs through retail revenues and other charges.

The primary purpose of the Statements of Cash Flows is to provide information about the District's cash receipts and cash disbursements during the year. These statements report cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities.

The Notes to the Financial Statements provide additional information that is essential for a full understanding of the information provided in the three statements described above.

The following discussion provides an overview of the financial activities for the District for the years ended December 31, 2018, 2017, and 2016. This discussion and analysis is designed to be used in conjunction with the financial statements, notes and other supplementary information, which follow this section.

## **FINANCIAL HIGHLIGHTS**

The District produced a positive change in net financial position of \$89.9 million, \$76.2 million, and \$82.2 million during 2018, 2017, and 2016, respectively. The District continued to meet its financial targets and make the necessary investments in infrastructure, technology and employees to make sure that customers will continue to receive reliable power at long term low prices. Additionally, the Commission approved the continued build out of the wholesale fiber network, which will provide connectivity to residents and businesses throughout the county that is critical to remaining competitive and keeping pace with the Information Age.

**Management's Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2018 and 2017**

In January of 2016, April of 2017, and April of 2018, the Commission implemented 2.0% average annual price increases to retail customers. These increases are driven by strategic major capital investments and increasing operating costs.

**Electric System Significant Capital Projects:** In 2013, Washington State enacted legislation that gave public entities a “Progressive Design-Build” procurement option that has proven flexible and efficient, producing work with outstanding quality and an excellent record of safety. The District took advantage of this legislation for seven planned substation rebuilds and started work in June 2016. The substations were Nelson Road, Coulee City, Babcock, Winchester, Peninsula, Cloud View, and Quincy Plains. The benefits included a project timeline much shorter than a traditional Design-Bid-Build procurement, improved electric system reliability, and the ability for the District to serve new large customer load growth in the central county area.

In February 2017, the Central Ephrata Substation was damaged and added to the original substation project for a total of eight substation builds. All eight substations were completed by October 2017. The total cost of the entire project including design, construction, District supplied material, and District labor was \$44.6 million.

The District is scheduled to complete its installation and migration to smart meters in September of 2019. The Advanced Metering Infrastructure (AMI) project includes the digital meters, communication networks and software required to enable communication between the meters and the District's billing system. As of December 31, 2018 the project was 90% complete at a cost of \$15.0 million.

**The Priest Rapids Project Significant Capital Projects:** The District has continued its long-term capital improvement plan at the Wanapum Development to upgrade all ten turbines and generators. The ten turbines were upgraded at an average cost of approximately \$22.8 million per turbine, with the last one placed in service in October of 2013. The new turbines have increased power output and efficiency and have improved water quality and fish passage within the Wanapum Development's project area. On-site construction for the generators began in June of 2010 and is scheduled through September of 2020. The existing generators were rated at 109.3 megavolt-amperes (“MVA”). The new upgraded generators have a nameplate rating of 128.6 MVA, an increase of 17.7%. As of December 31, 2018, nine of the ten generators have been replaced at a total cost of \$218.4 million (average of \$24.3 million per generator). The tenth generator outage is expected to begin in mid-2019 and end in mid-2020.

In August of 2016, on-site construction began for the turbine life extension and generator rewind work at the Priest Rapids Development and the first of ten turbines and generators were placed in service in January of 2018. Work began on the second unit (turbine and generator) in February of 2018 and is scheduled to return to service in March of 2019. The third unit upgrade is scheduled to begin in April 2019. Total cost to date of \$150.1 million includes all of the turbine modeling and hydraulic design work and other preliminary costs for all units, completion of the first unit and costs for the second unit upgrade currently in progress.

As part of the Federal Energy Regulatory Commission (FERC) license to operate the Priest Rapids Project, the District is required to make improvements to the Crescent Bar Recreation Area to enhance public access and recreation opportunities. A new 55-site RV campground, marina, fuel float, boat launch, parking area, walking trail, and day use area including playground equipment and sports courts, were completed in spring of 2017. A second boat launch and parking area were completed in spring of 2018 and upgrades to the water and wastewater systems are scheduled to be complete in early 2019. The total cost through December 31, 2018 was \$40.9 million.

In 2018, the District did not issue new debt and largely financed the capital expenditures with excess revenues and bond proceeds received in prior periods. The District maintains very high credit ratings of AA, AA and Aa3 by Fitch

**Management’s Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2018 and 2017**

Ratings, Standard and Poor’s Rating Services, and Moody’s Investor Services. Each rating agency issued reports at the time of the last public issuance in November of 2017 (refer to Note 5).

| <b>FINANCIAL RATINGS</b> |                        |                   |                           |
|--------------------------|------------------------|-------------------|---------------------------|
| Credit grade             | <b>MOODY’S</b>         | <b>FITCH</b>      | <b>S&amp;P</b>            |
| <b>HIGHEST</b>           | Aaa                    | AAA               | AAA                       |
| <b>VERY HIGH</b>         | Aa1, Aa2, Aa3          | AA+, AA, AA-      | AA+, AA, AA-              |
| <b>HIGH</b>              | A1, A2, A3             | A+, A, A-         | A+, A, A-                 |
| <b>GOOD</b>              | Baa1, Baa2, Baa3, Baa4 | BBB+, BBB, BB-    | BBB+, BBB, BB-            |
| <b>SPECULATIVE</b>       | Ba1, Ba2, Ba3          | BB+, BB, BB-      | BB+, BB, BB-              |
| <b>VERY SPECULATIVE</b>  | B1, B2, B3             | B+, B, B-         | B+, B, B-                 |
| <b>SUBSTANTIAL RISK</b>  | Caa1, Caa2, Caa3, Ca   | CCC, CC, C, RD, D | CCC+, CCC, CCC-, CC, C, D |

These very high grade credit ratings allow the District to acquire funding for capital investments at competitive interest rates. This reduces pressure on production costs at the Priest Rapids Project and ultimately helps keep the Electric System’s retail prices among the lowest in the nation. During the year ended December 31, 2018, the Priest Rapids Project provided 9,258,927 net megawatt hours (“MWh”) of electric energy at an average cost of \$18.03 per MWh. During the year ended December 31, 2017, the Priest Rapids Project provided 9,041,481 net MWh of electric energy at an average cost of \$18.60 per MWh. During the year ended December 31, 2016, the Priest Rapids Project provided 9,193,102 net MWh of electric energy at an average cost of \$16.14 per MWh. The timing of runoff and spill requirements factor into the water available for generation from year to year. Water supply at Grand Coulee Dam compared to a 50 year average was 111%, 126%, and 96% of for the 2018, 2017, and 2016 water years (October to September), respectively.

Another contributing factor to the District’s financial success are the Electric System’s wholesale contracts. These contracts increase revenue stability and improve the predictability of net wholesale revenues by mitigating the effect of fluctuation of wholesale power prices and water variability for generation.

**Slice Agreements:** The District has entered into various “slice” sales from its retained 63.3% share. The agreements sell the capacity and energy to buyers who assume the associated water and wholesale price risks. The District obtains stable revenue from the sale. The District has entered into consecutive agreements with Avangrid Renewables, LLC (“Avangrid”) for a 10% slice of PRP. The most recent agreement was signed in December of 2018 with a three year term beginning on January 1, 2019. Slice agreements are paid in equal monthly installments over the term of each agreement. The District regularly monitors its exposure with Avangrid and retains the right to call for additional assurances at any time. The District has the right to curtail delivery in the event of nonpayment.

**Pooling Agreement:** The District entered into an agreement for pooling of the Priest Rapids Project physical output (the “Pooling Agreement”) with Shell Energy North America (U.S.), L.P. (“SENA”) in September of 2015. Under the Pooling Agreement, the District provides SENA with a portion of the District’s share of the capacity in the Priest Rapids Project, and SENA provides to the District firm power sufficient to meet the Electric System’s retail load



**Management's Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2018 and 2017**

forecast, adjusted for the portion of Electric System load that is expected to be met with other District resources. In addition, SENA provides certain scheduling services for the District, including managing power schedules, and the District provides certain flexibility to SENA within the District's balancing area authority. The term of the Pooling Agreement expires September 29, 2020.

The Pooling Agreement provides for the delivery by the District to SENA of 53.3% of the capacity and associated energy of the Priest Rapids Project through September 29, 2020. The Pooling Agreement greatly reduces the effect that variable water conditions at the Priest Rapids Project and fluctuations in wholesale power prices have on revenues associated with the District's wholesale sales and purchases. Under the Pooling Agreement, SENA has rights to the actual output of a portion of the Priest Rapids Project, which will vary with water conditions. Under the agreement, SENA will provide firm power to meet the District's load forecast regardless of the actual output of the Priest Rapids Project. Over the life of the agreement, the majority of these values will be offsetting and exchanged without cash payment; there will, however, be monthly payments owed by either SENA or the District due to the seasonal differences between capacity and energy amounts and loads. These payments are presented as a net sale or purchase. In addition, certain nonhydrological performance metrics were assumed at the beginning of the contract and monthly differences in these metrics will be trued up and payment made by either SENA or the District. The District has not experienced significant monthly true-up payments under the agreement. The amount of monthly payments over the term could vary based upon actual performance versus the estimates at the time the Pooling Agreement was executed.



**Management's Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2018 and 2017**

**CONDENSED COMPARATIVE FINANCIAL INFORMATION**  
**(AMOUNTS IN THOUSANDS)**

| Statements of Net Position                                               | 2018                       | 2017*                      | 2016                       |
|--------------------------------------------------------------------------|----------------------------|----------------------------|----------------------------|
| Assets                                                                   |                            |                            |                            |
| Current                                                                  | \$ 311,863                 | \$ 224,660                 | \$ 222,395                 |
| Utility plant, net                                                       | 2,097,261                  | 2,045,370                  | 1,953,628                  |
| Noncurrent                                                               | <u>287,558</u>             | <u>398,402</u>             | <u>410,306</u>             |
| Total assets                                                             | <u>2,696,682</u>           | <u>2,668,432</u>           | <u>2,586,329</u>           |
| Deferred outflows of resources - pensions                                | 5,753                      | 6,582                      | 8,428                      |
| Deferred outflows of resources - unamortized losses on refundings        | <u>4,374</u>               | <u>5,554</u>               | <u>5,367</u>               |
| <b>Total assets and deferred outflows of resources</b>                   | <b><u>\$ 2,706,809</u></b> | <b><u>\$ 2,680,568</u></b> | <b><u>\$ 2,600,124</u></b> |
| Liabilities                                                              |                            |                            |                            |
| Current                                                                  | \$ 138,751                 | \$ 154,217                 | \$ 151,088                 |
| Noncurrent                                                               | <u>1,394,632</u>           | <u>1,447,745</u>           | <u>1,450,355</u>           |
| Total liabilities                                                        | <u>1,533,383</u>           | <u>1,601,962</u>           | <u>1,601,443</u>           |
| Deferred inflows of resources - pensions                                 | 13,693                     | 8,725                      | 926                        |
| <b>Total liabilities and deferred inflows of resources</b>               | <b><u>1,547,076</u></b>    | <b><u>1,610,687</u></b>    | <b><u>1,602,369</u></b>    |
| Net position                                                             |                            |                            |                            |
| Net investment in capital assets                                         | 749,689                    | 761,891                    | 638,520                    |
| Restricted                                                               | 303,885                    | 288,064                    | 287,425                    |
| Unrestricted                                                             | <u>106,159</u>             | <u>19,926</u>              | <u>71,810</u>              |
| <b>Total net position</b>                                                | <b><u>1,159,733</u></b>    | <b><u>1,069,881</u></b>    | <b><u>997,755</u></b>      |
| <b>Total liabilities, deferred inflows of resources and net position</b> | <b><u>\$ 2,706,809</u></b> | <b><u>\$ 2,680,568</u></b> | <b><u>\$ 2,600,124</u></b> |
| <br>                                                                     |                            |                            |                            |
| Revenues and Expenses and Changes in Net Position                        | 2018                       | 2017*                      | 2016                       |
| Operating revenues                                                       |                            |                            |                            |
| Retail energy sales                                                      | \$ 201,391                 | \$ 188,472                 | \$ 175,798                 |
| Wholesale revenues, net                                                  | 67,186                     | 54,753                     | 62,521                     |
| Sales to power purchasers at cost                                        | 31,610                     | 41,789                     | 40,001                     |
| Other                                                                    | <u>11,083</u>              | <u>8,895</u>               | <u>7,996</u>               |
| <b>Total operating revenues</b>                                          | <b><u>311,270</u></b>      | <b><u>293,909</u></b>      | <b><u>286,316</u></b>      |
| Operating Expenses                                                       |                            |                            |                            |
| Depreciation and amortization                                            | 73,234                     | 66,206                     | 61,956                     |
| Other operating expenses                                                 | <u>129,473</u>             | <u>132,584</u>             | <u>125,618</u>             |
| <b>Total operating expenses</b>                                          | <b><u>202,707</u></b>      | <b><u>198,790</u></b>      | <b><u>187,574</u></b>      |
| Net Operating Income                                                     | <u>108,563</u>             | <u>95,119</u>              | <u>98,742</u>              |
| Other revenues (expenses)                                                | (31,196)                   | (29,608)                   | (31,017)                   |
| Contributions in aid of construction                                     | 12,485                     | 10,649                     | 4,603                      |
| Extraordinary loss - Wanapum fracture                                    | -                          | -                          | 9,896                      |
| <b>Change in net position</b>                                            | <b><u>\$ 89,852</u></b>    | <b><u>\$ 76,160</u></b>    | <b><u>\$ 82,224</u></b>    |
| <b>Total net position - beginning of year</b>                            | <b><u>\$ 1,069,881</u></b> | <b><u>\$ 993,721</u></b>   | <b><u>\$ 915,531</u></b>   |
| <b>Total net position - end of year</b>                                  | <b><u>\$ 1,159,733</u></b> | <b><u>\$ 1,069,881</u></b> | <b><u>\$ 997,755</u></b>   |

\* The District's 2017 Statements of Net Position and Statements of Revenues and Expenses and Changes in Net Position were restated for the impacts of the required retroactive implementation of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which became effective for the District in 2018.

## **FINANCIAL ANALYSIS**

The following discussion provides comparative financial information for the years ended December 31, 2018, 2017, and 2016.

### **ASSETS AND DEFERRED OUTFLOWS**

Total assets and deferred outflows have increased by \$26.2 million (1%) from 2017 to 2018 and \$80.4 million (3%) from 2016 to 2017. This is driven by the continued investments in the turbines and generators at Wanapum and Priest Rapids, and other capital improvements in both systems, which increases Utility plant, net. These investments align with the District's Strategic Plan objectives, which include reliably delivering power at long term low prices to customers.

Deferred outflows of resources related to pensions were \$5.8 million, \$6.6 million and \$8.4 million as of December 31, 2018, 2017 and 2016, respectively. Deferred outflows of resources related to pensions fluctuate due to the District recording its proportionate share of the increase or decrease in collective deferred outflows each year for the PERS plans as provided by the Department of Retirement Systems, partially offset by associated amortization.

### **LIABILITIES AND DEFERRED INFLOWS**

Total liabilities and deferred inflows have decreased by \$63.6 million (4%) from 2017 to 2018 and increased by \$8.3 million (1%) from 2016 to 2017. The decrease from 2017 to 2018 is driven by a \$31.6 million principal payment of outstanding debt and no new debt issuances in 2018, a \$13.7 million (30%) decrease in pension obligations and a \$12.0 million (35%) decrease in trade accounts payable. The increase from 2016 to 2017 is largely driven by the \$4.0 million increase in accrued other post employment benefits associated with the adoption of GASB 75 (refer to Note 1 for further information), a \$6.9 million increase in unearned revenue associated with a large customer contribution in aid of construction. The District's pension obligations are driven by its proportionate share in the changes in the actuarial valuation of the Washington State Department of Retirement Services ("DRS") Public Employees' Retirement System ("PERS") collective net pension liability. The District had approximately \$1.3 billion in bonded debt outstanding for each of the years ended December 31, 2018, 2017, and 2016, respectively.

Deferred inflows of resources related to pensions were \$13.7 million, \$8.7 million and \$0.9 million as of December 31, 2018, 2017 and 2016, respectively. The increases in deferred inflows partially offset the decrease in the District's proportionate share in of the PERS net pension liability and are then amortized over future periods.

### **NET POSITION**

Total net position was \$1.2 billion, \$1.1 billion and \$1.0 billion as of December 31, 2018, 2017 and 2016, respectively. These increases have been driven by the positive changes in net position resulting from increased retail energy sales and stable net wholesale revenues; partially offset by increasing operating expenses. Refer to 'Statement of Revenues, Expenses and Changes in Net Position' section below for further analysis.

## STATEMENT OF REVENUES AND EXPENSES

**Operating Revenues:** Total operating revenues increased by \$17.4 million (6%) from 2017 to 2018 and \$7.6 million (3%) from 2016 to 2017, which was the net result of several items discussed below:

Retail energy sales were \$201.4 million, \$188.5 million and \$175.8 million in 2018, 2017 and 2016, respectively. These increases of 7% from 2018 to 2017 and 2017 to 2016 are primarily driven by continued load growth of the District's largest commercial and industrial customers and moderate 2% average price increases implemented by the Commission.

Wholesale revenues, net were \$67.2 million, \$54.8 million and \$62.5 million in 2018, 2017 and 2016, respectively. These revenues are reflective of the individual ebbs and flows of the economy through power consumption, market forces on wholesale power prices and generation or hydrology variability. The aforementioned Pooling Agreement and slice agreements hedge water and price risks for the District resulting in relatively stable revenue streams. Total net payments received by the District under the Pooling Agreement have been \$12.9 million, \$12.8 million and \$12.8 million in 2018, 2017 and 2016, respectively. Additionally, market purchases are offset by financial proceeds the District receives according to the long-term power sales contracts associated with the District load that is above the reserve 63.3% physical share of the Priest Rapids Project. These proceeds totaled \$40.4 million, \$29.4 million and \$24.5 million in 2018, 2017 and 2016, respectively; which exceeded other power purchases of \$12.9 million, \$15.9 million and \$16.1 million for the same periods.

Sales to power purchasers at cost were \$31.6 million, \$41.8 million and \$40.0 million in 2018, 2017 and 2016, respectively. These revenues are directly tied to power costs as defined in the long-term power sales contracts and the proportion of the power costs that the power purchasers are responsible for per the contracts. Total contractual power costs were \$167.0 million, \$167.2 million and \$150.6 million in 2018, 2017 and 2016, respectively. The percentage of these costs covered by power purchasers continued to decrease (18.9%, 25.0% and 26.6% in 2018, 2017 and 2016, respectively) which drove the relative decrease in revenues versus total power costs. This trend is expected to continue as long as the District's retail load is expected to continue to increase.

Wholesale fiber optic network sales were \$8.3 million, \$6.9 million and \$6.2 million in 2018, 2017 and 2016, respectively. These increases of \$1.4 million (17%) from 2017 to 2018 and \$0.7 million (11%) from 2016 to 2017 are primarily driven by the substantially improved take rate (percentage of system subscribed versus unsubscribed), continued build out of the network and moderate price increases on the most popular service offerings.

**Operating Expenses:** Total operating expenses increased by \$3.9 million (2%) from 2017 to 2018 and \$11.2 million (6%) from 2016 to 2017, which was the net result of several items discussed below:

Depreciation and amortization expense was \$73.2 million, \$66.2 million and \$62.0 million in 2018, 2017 and 2016, respectively. These increases are consistent with the investment in Utility plant, net and are affected by the timing of major units at the Priest Rapids Project being placed in service (one unit was commissioned in January of 2018 and work began on the second unit in February of 2018 contributing to the larger increase of 11% from 2017 to 2018).

Other operating expenses were \$129.5 million, \$132.6 million and \$125.6 million in 2018, 2017 and 2016, respectively. The decrease of \$3.1 million (2%) from 2017 to 2018 was largely due to the \$3.1 million non-recurring repair of the Wanapum apron spillway affecting 2017 and the amortization of deferred inflows and outflows related to the District's pension obligations (\$2.4 million); partially offset by a moderate overall increase in all other operating expenses (\$2.4 million). The increase of \$7.0 million (6%) from 2016 to 2017 was largely driven by the

**Management's Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2018 and 2017**

non-recurring Wanapum apron spillway repair (\$3.1 million), increased FERC license compliance related costs (\$1.5 million) and other increases in operating expenses.

**Non-Operating Revenues and Expenses:**

Other revenues (expenses) were \$31.2 million, \$29.6 million and \$31.0 million in 2018, 2017 and 2016, respectively. The \$1.6 million (5%) increase from 2017 to 2018 and \$1.4 million (5%) decrease from 2016 to 2017 were largely driven by non-recurring insurance proceeds of \$1.7 million received in 2017 associated with the Central Ephrata Substation damage. Interest expense (net of capitalized interest and federal rebates on revenue bonds) is the largest component of other revenues (expenses) and remained relatively flat (\$46.2 million, \$46.4 million and \$45.9 million in 2018, 2017 and 2016, respectively).

Contributions in aid of construction ("CIACs") revenues were \$12.5 million, \$10.6 million and \$4.6 million in 2018, 2017 and 2016, respectively. These revenues are earned as the District completes infrastructure requests funded by customers. Variability in numbers correlate with any planned or ongoing capital projects.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This report is designed to provide the District's customers, bondholders, creditors, and other interested parties with a general overview of the District's finances. For questions regarding this report or additional information, please contact the District's Chief Financial Officer at the Public Utility District No. 2 of Grant County, P.O. Box 878, Ephrata, Washington 98823.



**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

## Statements of Net Position

December 31, 2018 and 2017  
(amounts in thousands)

| <b>ASSETS</b>                                          | <b>2018</b>         | <b>2017</b><br><b>(As restated)</b> |
|--------------------------------------------------------|---------------------|-------------------------------------|
| <b>CURRENT ASSETS</b>                                  |                     |                                     |
| Cash                                                   | \$ 2,823            | \$ 126                              |
| Investments                                            | 131,675             | 79,132                              |
| Restricted funds                                       |                     |                                     |
| Cash                                                   | 921                 | 46,813                              |
| Investments                                            | 125,860             | 53,017                              |
| Customer accounts receivable, net                      | 29,849              | 25,036                              |
| Materials and supplies                                 | 17,956              | 17,843                              |
| Due from power purchasers                              | 1,195               | 952                                 |
| Other current assets                                   | 1,584               | 1,741                               |
|                                                        | <hr/>               | <hr/>                               |
| <b>Total current assets</b>                            | <b>311,863</b>      | <b>224,660</b>                      |
|                                                        | <hr/>               | <hr/>                               |
| <b>NONCURRENT ASSETS</b>                               |                     |                                     |
| Investments                                            | 21,538              | 9,464                               |
| Restricted funds                                       |                     |                                     |
| Cash                                                   | 144                 | 5,286                               |
| Investments                                            | 259,093             | 376,629                             |
| Conservation loans                                     | 365                 | 459                                 |
| Demand-side management                                 | 413                 | 698                                 |
| Preliminary survey costs                               | 6,005               | 5,866                               |
|                                                        | <hr/>               | <hr/>                               |
| <b>Total other noncurrent assets</b>                   | <b>287,558</b>      | <b>398,402</b>                      |
|                                                        | <hr/>               | <hr/>                               |
| Utility plant, net                                     | 2,097,261           | 2,045,370                           |
|                                                        | <hr/>               | <hr/>                               |
| <b>Total noncurrent assets</b>                         | <b>2,384,819</b>    | <b>2,443,772</b>                    |
|                                                        | <hr/>               | <hr/>                               |
| <b>TOTAL ASSETS</b>                                    | <b>2,696,682</b>    | <b>2,668,432</b>                    |
|                                                        | <hr/>               | <hr/>                               |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                  |                     |                                     |
| Deferred outflows of resources - pensions              | 5,753               | 6,582                               |
| Deferred outflows of resources - losses on refundings  | 4,374               | 5,554                               |
|                                                        | <hr/>               | <hr/>                               |
| <b>Total deferred outflows</b>                         | <b>10,127</b>       | <b>12,136</b>                       |
|                                                        | <hr/>               | <hr/>                               |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b> | <b>\$ 2,706,809</b> | <b>\$ 2,680,568</b>                 |
|                                                        | <hr/>               | <hr/>                               |

*The accompanying notes are an integral part of these financial statements.*

## Statements of Net Position

December 31, 2018 and 2017

(amounts in thousands)

| LIABILITIES AND NET POSITION                                          | 2018         | 2017<br>(As restated) |
|-----------------------------------------------------------------------|--------------|-----------------------|
| CURRENT LIABILITIES                                                   |              |                       |
| Accounts payable                                                      |              |                       |
| Trade                                                                 | \$ 22,746    | \$ 34,768             |
| Wages payable                                                         | 12,742       | 11,534                |
| Accrued taxes                                                         | 7,432        | 7,026                 |
| Customer deposits                                                     | 13,831       | 14,900                |
| Accrued bond interest                                                 | 29,470       | 28,191                |
| Unearned revenue                                                      | 4,982        | 8,664                 |
| Habitat liability                                                     | 15,985       | 15,146                |
| Other current liabilities                                             | 40           | 40                    |
| Current portion of licensing obligations                              | 2,283        | 2,313                 |
| Current portion of long-term debt                                     | 29,240       | 31,635                |
|                                                                       | <hr/>        | <hr/>                 |
| Total current liabilities                                             | 138,751      | 154,217               |
|                                                                       | <hr/>        | <hr/>                 |
| NONCURRENT LIABILITIES                                                |              |                       |
| Revenue bonds, less current portion                                   | 1,269,395    | 1,298,635             |
| Unamortized bond premium, net of discount                             | 36,669       | 41,489                |
| Licensing obligations, less current portion                           | 46,748       | 49,220                |
| Net pension liability                                                 | 32,686       | 46,371                |
| Other postemployment benefits                                         | 6,977        | 6,806                 |
| Long-term unearned revenue                                            | 2,157        | 5,224                 |
|                                                                       | <hr/>        | <hr/>                 |
| Total noncurrent liabilities                                          | 1,394,632    | 1,447,745             |
|                                                                       | <hr/>        | <hr/>                 |
| TOTAL LIABILITIES                                                     | 1,533,383    | 1,601,962             |
|                                                                       | <hr/>        | <hr/>                 |
| DEFERRED INFLOWS OF RESOURCES                                         |              |                       |
| Deferred inflows of resources - pensions                              | 13,693       | 8,725                 |
|                                                                       | <hr/>        | <hr/>                 |
| Total liabilities and deferred inflows of resources                   | 1,547,076    | 1,610,687             |
|                                                                       | <hr/>        | <hr/>                 |
| NET POSITION                                                          |              |                       |
| Net investment in capital assets                                      | 749,689      | 761,891               |
| Restricted                                                            | 303,885      | 288,064               |
| Unrestricted                                                          | 106,159      | 19,926                |
|                                                                       | <hr/>        | <hr/>                 |
| Total net position                                                    | 1,159,733    | 1,069,881             |
|                                                                       | <hr/>        | <hr/>                 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF<br>RESOURCES, AND NET POSITION | \$ 2,706,809 | \$ 2,680,568          |
|                                                                       | <hr/> <hr/>  | <hr/> <hr/>           |

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

## Statements of Revenues and Expenses and Changes in Net Position

Years Ended December 31, 2018 and 2017

(amounts in thousands)

|                                           | 2018                      | 2017<br>(As restated)     |
|-------------------------------------------|---------------------------|---------------------------|
| OPERATING REVENUES                        |                           |                           |
| Sales to power purchasers at cost         | \$ 31,610                 | \$ 41,789                 |
| Retail energy sales                       |                           |                           |
| Residential                               | 43,160                    | 45,270                    |
| Irrigation                                | 25,785                    | 24,080                    |
| Commercial and industrial                 | 130,390                   | 118,025                   |
| Governmental and others                   | 2,056                     | 1,097                     |
| Wholesale revenues, net                   | 67,186                    | 54,753                    |
| Wholesale fiber optic network sales       | 8,260                     | 6,860                     |
| Other                                     | 2,823                     | 2,035                     |
|                                           | <hr/>                     | <hr/>                     |
| Total operating revenues                  | <b>311,270</b>            | <b>293,909</b>            |
| OPERATING EXPENSES                        |                           |                           |
| Generation                                | 31,073                    | 30,899                    |
| Transmission                              | 6,679                     | 5,378                     |
| Distribution                              | 13,561                    | 14,367                    |
| Customer and information services         | 5,766                     | 5,640                     |
| Wholesale fiber optic network operations  | 2,265                     | 1,921                     |
| Administrative and general                | 33,383                    | 37,709                    |
| License compliance and related agreements | 19,945                    | 20,386                    |
| Depreciation and amortization             | 73,234                    | 66,206                    |
| Taxes                                     | 16,801                    | 16,284                    |
|                                           | <hr/>                     | <hr/>                     |
| Total operating expenses                  | <b>202,707</b>            | <b>198,790</b>            |
| NET OPERATING INCOME                      | <hr/> <b>108,563</b>      | <hr/> <b>95,119</b>       |
| OTHER REVENUES (EXPENSES)                 |                           |                           |
| Interest and other income                 | 11,391                    | 12,833                    |
| Interest on revenue bonds and other, net  | (56,780)                  | (56,933)                  |
| Federal rebates on revenue bonds          | 10,552                    | 10,556                    |
| Amortization of debt discount/premium     | 3,641                     | 4,909                     |
| Cost of debt issuance                     | -                         | (973)                     |
|                                           | <hr/>                     | <hr/>                     |
| Total other revenues (expenses)           | <b>(31,196)</b>           | <b>(29,608)</b>           |
| CONTRIBUTIONS IN AID OF CONSTRUCTION      | <hr/> <b>12,485</b>       | <hr/> <b>10,649</b>       |
| CHANGE IN NET POSITION                    | <hr/> <b>89,852</b>       | <hr/> <b>76,160</b>       |
| NET POSITION                              |                           |                           |
| Beginning of year                         | <hr/> <b>1,069,881</b>    | <hr/> <b>993,721</b>      |
| Total net position - end of year          | <hr/> <b>\$ 1,159,733</b> | <hr/> <b>\$ 1,069,881</b> |

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



## Statements of Cash Flows

Years Ended December 31, 2018 and 2017

(amounts in thousands)

|                                                                  | 2018               | 2017             |
|------------------------------------------------------------------|--------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                      |                    |                  |
| Cash received from retail energy sales                           | \$ 198,460         | \$ 186,310       |
| Cash received from sales to power purchasers at cost             | 31,369             | 20,566           |
| Cash received from wholesale revenues                            | 78,889             | 86,569           |
| Other cash receipts                                              | 11,135             | 10,667           |
| Cash received (paid) for customer deposits                       | (1,069)            | 3,836            |
| Cash paid for purchase of power                                  | (11,439)           | (16,342)         |
| Cash paid to contractors, suppliers, and employees               | (117,097)          | (114,976)        |
| Taxes paid                                                       | (16,384)           | (15,817)         |
|                                                                  | <u>173,864</u>     | <u>160,813</u>   |
| <b>Net cash provided by operating activities</b>                 |                    |                  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>  |                    |                  |
| Principal paid on revenue bonds                                  | (31,635)           | (32,075)         |
| Interest paid on revenue bonds                                   | (55,503)           | (59,349)         |
| Federal interest rebates                                         | 10,552             | 10,556           |
| Bond proceeds                                                    | -                  | 183,556          |
| Payment on refunded debt                                         | -                  | (140,534)        |
| Bond issuance cost                                               | -                  | (973)            |
| Cash received from contributions in aid of construction          | 4,070              | 19,766           |
| Licensing obligation payments                                    | (2,313)            | (3,049)          |
| Acquisition and construction of plant assets                     | (138,627)          | (166,956)        |
| Proceeds on sale of plant assets                                 | 520                | 277              |
| Miscellaneous nonoperating income                                | 1,199              | 1,647            |
|                                                                  | <u>(211,737)</u>   | <u>(187,134)</u> |
| <b>Net cash used in capital and related financing activities</b> |                    |                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                      |                    |                  |
| Purchase of investment securities                                | (488,923)          | (602,339)        |
| Sale of investment securities                                    | 516,188            | 621,448          |
| Investment income proceeds                                       | 12,277             | 9,511            |
| Net repurchase agreements                                        | (50,100)           | 7,100            |
| Net cash received for conservation loans                         | 94                 | 107              |
|                                                                  | <u>(10,464)</u>    | <u>35,827</u>    |
| <b>Net cash provided by (used in) investing activities</b>       |                    |                  |
| <b>NET INCREASE/(DECREASE) IN CASH</b>                           | <b>\$ (48,337)</b> | <b>\$ 9,506</b>  |

The Statements of Cash Flows continue onto the following page.

*The accompanying notes are an integral part of these financial statements.*

## Statements of Cash Flows

Years Ended December 31, 2018 and 2017  
(amounts in thousands)

|                                                                                                       | 2018                      | 2017                     |
|-------------------------------------------------------------------------------------------------------|---------------------------|--------------------------|
| CASH AT END OF YEAR                                                                                   | \$ 3,888                  | \$ 52,225                |
| CASH AT BEGINNING OF YEAR                                                                             | <u>52,225</u>             | <u>42,719</u>            |
| <b>NET INCREASE/(DECREASE) IN CASH</b>                                                                | <b><u>\$ (48,337)</u></b> | <b><u>\$ 9,506</u></b>   |
| <b>OPERATING ACTIVITIES</b>                                                                           |                           |                          |
| Net operating income                                                                                  | \$ 108,563                | \$ 95,119                |
| Adjustments to reconcile net operating income to net cash provided by (used in) operating activities: |                           |                          |
| Depreciation and amortization                                                                         | 73,234                    | 66,206                   |
| Accretion expense                                                                                     | 2,605                     | 2,766                    |
| Provision for uncollectible accounts                                                                  | 24                        | (21)                     |
| Cash provided by (used in) changes in operating assets and liabilities:                               |                           |                          |
| Change in Habitat funds held in trust                                                                 | 972                       | 1,828                    |
| Customer accounts receivable                                                                          | (4,052)                   | (3,857)                  |
| Materials and supplies                                                                                | (113)                     | (261)                    |
| Other current assets                                                                                  | 136                       | (262)                    |
| Trade and wages payables                                                                              | (636)                     | 3,120                    |
| Payable to power purchasers                                                                           | (241)                     | (5,392)                  |
| Deferred outflows - Pension                                                                           | 828                       | 1,823                    |
| Deferred inflows/outflows                                                                             | -                         | -                        |
| Deferred inflows - Pension                                                                            | 4,968                     | 7,795                    |
| Pension obligation                                                                                    | (13,684)                  | (14,552)                 |
| Accrued taxes                                                                                         | 406                       | 537                      |
| Customer deposits                                                                                     | (1,069)                   | 3,690                    |
| Other postemployment benefits                                                                         | 171                       | 304                      |
| Unearned revenue                                                                                      | (107)                     | (107)                    |
| Other Income                                                                                          | <u>1,859</u>              | <u>2,077</u>             |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                                      | <b><u>\$ 173,864</u></b>  | <b><u>\$ 160,813</u></b> |
| <b>Non-cash Investing, Capital and Related Financing Activities</b>                                   |                           |                          |
| Changes in construction costs included in accounts payable                                            | \$ (10,238)               | \$ (739)                 |
| Amortization of debt related costs, net                                                               | 2,195                     | (5,382)                  |
| Changes in investments                                                                                | 2,983                     | 719                      |
| Change in licensing obligation                                                                        | 2,794                     | 3,305                    |

*The accompanying notes are an integral part of these financial statements.*

## **1. ORGANIZATION AND ACCOUNTING POLICIES**

Public Utility District No. 2 of Grant County, Washington (the “District”) is comprised of two operating systems: the Electric System and the Priest Rapids Project. The Priest Rapids Project is operated under Federal Energy Regulatory Commission (“FERC”) License, Project No. 2114. The District also maintains a Service System to provide administrative services to the operating systems. Internal transactions, including revenues and expenses between the District’s reporting segments and the Service System, have been eliminated in the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America. The District is required by its financing arrangements to maintain separate accounts and to report separately on each operating system. See Note 12.

The District maintains its accounts in accordance with accounting principles generally accepted in the United States of America for proprietary funds as prescribed by the Governmental Accounting Standards Board (“GASB”). The District’s accounting records generally follow the Uniform System of Accounts for public utilities and licensees prescribed by FERC. The accompanying financial statements are those of the District, which generates, transmits, and distributes electric energy and wholesale fiber optic network services within Grant County, Washington.

In November 2016, GASB issued Statement No. 83, “Certain Asset Retirement Obligations.” An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. GASB Statement No. 83 establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to AROs. The requirements of Statement No. 83 are effective for reporting periods beginning after June 15, 2018, with earlier application encouraged. The District is currently evaluating the financial statement impact of adopting this statement.

In January 2017, GASB issued Statement No. 84, “Fiduciary Activities.” This statement addresses criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements for Statement No. 84 are effective for reporting periods beginning after December 15, 2018. The District is currently evaluating the financial statement impact of adopting this statement.

In March 2017, GASB issued Statement No. 85, “OMNIBUS 2017.” The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of Statement No. 85 are effective for reporting periods beginning after June 15, 2017. The adoption of this statement did not have a material effect on the District’s financial statements.

In May 2017, GASB issued Statement No. 86, “Certain Debt Extinguishments Issues.” The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of Statement No. 86 are effective for reporting periods beginning after June 15, 2017. The adoption of this statement did not have a material effect on the District’s financial statements.

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

In June 2017, GASB issued Statement No. 87, “Leases.” The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The requirements of Statement No. 87 are effective for reporting periods beginning after December 15, 2019. The District is currently evaluating the financial statement impact of adopting this statement.

In April 2018, GASB issued Statement No. 88, “Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.” The primary objective of this statement is to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement defines for purposes of disclosure in notes to financial statements as a liability that arise from contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of Statement No. 88 are effective for reporting periods beginning after June 15, 2018. The District is currently evaluating the financial statement impact of adopting this statement.

In June, 2018, GASB issued Statement No. 89, “Accounting for Interest Cost Incurred before the End of a Construction Period.” The objectives of this statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. The requirements of Statement No. 89 are effective for reporting periods beginning after December 15, 2019. The District is currently evaluating the financial statement impact of adopting this statement.

In August, 2018, GASB issued Statement No. 90, “Majority Equity Interests.” The primary objectives of this statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The requirements of Statement No. 90 are effective for reporting periods beginning after December 15, 2018. The District does not own a majority interest in a legally separate organization and therefore expects there to be no impact to the District’s financial statements.

## Change in Accounting Principle – Other Postemployment Benefit (OPEB)

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

The cumulative impact of implementation of GASB 75 resulted in a \$4.0 million reduction in net position as of January 1, 2017 as a result of recognizing the beginning total OPEB liability of \$6.8 million.

The 2017 financial statements have been restated as follows:

### Impacts to the District's Statement of Net Position

| (amounts in thousands)                              | Restated 2017<br>Balance | 2017 Balance as<br>Previously Reported |
|-----------------------------------------------------|--------------------------|----------------------------------------|
| NONCURRENT LIABILITIES                              |                          |                                        |
| Other post employment benefits                      | \$ 6,806                 | \$ 2,794                               |
| Total noncurrent liabilities                        | <u>1,447,745</u>         | <u>1,443,733</u>                       |
| TOTAL LIABILITIES                                   | <u>1,601,962</u>         | <u>1,597,950</u>                       |
| Total liabilities and deferred inflows of resources | <u>1,610,687</u>         | <u>1,606,675</u>                       |
| NET POSITION                                        |                          |                                        |
| Unrestricted                                        | 143,004                  | 147,016                                |
| Total net position                                  | <u>\$ 1,069,881</u>      | <u>\$ 1,073,893</u>                    |

### Impacts to the District's Statement of Revenues, Expenses and Changes in Net Position

| (amounts in thousands)     | Restated 2017<br>Balance | 2017 Balance as<br>Previously Reported |
|----------------------------|--------------------------|----------------------------------------|
| OPERATING EXPENSES         |                          |                                        |
| Administrative and general | \$ 37,709                | \$ 37,731                              |
| Total operating expenses   | <u>198,790</u>           | <u>198,812</u>                         |
| NET OPERATING INCOME       | <u>95,119</u>            | <u>95,097</u>                          |
| CHANGE IN NET POSITION     | <u>\$ 76,160</u>         | <u>\$ 76,138</u>                       |

**Revenue Recognition** – The District recognizes revenues associated with its retail customers when the power is delivered, which includes an estimate of revenue earned but not billed to customers as of year-end.

Sales to power purchasers at costs are revenues associated with power sales from the Priest Rapids Project under the long term Power Sales Contracts described in Note 6 and are recorded on a cost-based formula specified in the contracts which include operation and maintenance costs, 115% of debt service, and adjustments related to other factors. Depreciation, amortization, charges paid by the Renewal, Replacement and Contingency Fund, and Construction Funds are not considered costs of producing and delivering power for this purpose.

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

Wholesale revenues, net are recognized when contractual obligations are met or ratably over the contract term (capacity payments) and presented gross except for the SENA Pooling Agreement (refer to “SENA Pooling Agreement”).

**SENA Pooling Agreement** – Under the Pooling Agreement, SENA has rights to the actual output of a portion of the Priest Rapids Project, which will vary with water conditions, and will provide firm power to meet the District’s load forecast regardless of the actual output of the Priest Rapids Project. Over the life of the agreement, the majority of these values will be offsetting and exchanged without cash payment; there will, however, be monthly payments owed by either SENA or the District due to the seasonal differences between capacity and energy amounts and loads. In addition, certain nonhydrological performance metrics were assumed at the beginning of the contract and monthly differences in these metrics will be trued up and payment made by either SENA or the District. The District has not experienced any significant monthly true-up payments. The amount of monthly payments over the term could vary based upon actual performance versus the estimates at the time the Pooling Agreement was executed. All activities under the SENA pooling agreement are presented net in the Wholesale revenues, net line item on the Statements of Revenues and Expenses and Changes in Net Position.

**Allowance for Uncollectible Accounts** – Management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts due from specific customers for which collection is in question. Such estimates are developed based on historical experience. For 2018 and 2017, the allowance for uncollectible accounts was approximately \$0.2 million for both years.

**Contributions in Aid of Construction** – A portion of the District’s utility plant is financed through contributions from customers in accordance with the District’s Line Extension Policy. Additionally, a portion of utility plant may be financed through contributions from other sources, such as other governmental organizations or Fiber Optic Network Customers. The District recognizes capital contributions from these sources as non-operating revenue at the point at which it becomes nonrefundable. The District recognized \$12.5 million and \$10.6 million of Contributions in Aid of Construction for the years ended December 31, 2018 and 2017, respectively.

**Capitalized Interest** – Interest costs incurred to finance major construction projects are capitalized as part of the cost of the project. The composite interest rate for calculating capitalized interest was 3.57% and 2.09% for 2018 and 2017, respectively. Interest capitalized during 2018 and 2017 was \$3.7 million and \$4.0 million, respectively. This is recognized as a reduction in to interest expense.

**Utility Plant** – Utility plant assets are recorded at cost including an allocation of internal payroll and other administrative and general costs associated with construction of the assets. Depreciation is determined by the straight-line method over the estimated life of the asset. Meters and transformers begin depreciating when received regardless of in service date. The District’s asset lives used for computing depreciation range from five to 100 years, with an average rate of 2.46% and 2.29% for 2018 and 2017, respectively. When utility plant assets are retired, their original cost, together with removal costs, less salvage, are charged to accumulated depreciation.

The costs of maintenance and repairs are charged to operations as incurred. Renewals, replacements, and betterments are capitalized per the District’s Asset Capitalization Policy. The Policy requires assets to have a minimum useful life of five years and minimum cost of \$10,000; except for permanent additions to transmission and distribution or wholesale fiber plant, which only require a useful life greater than one year. The District assesses its assets for obsolescence and possible impairment on a periodic basis. Once an asset has been identified as impaired due to a significant and unexpected decline in usable capacity, it is written down to reflect its current

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service utility and the associated impairment loss is charged either to operations or an extraordinary item depending on its nature.

**Preliminary Survey Costs**— Certain preliminary costs are capitalized in accordance with FERC accounting guidance, which allows the capitalization of preliminary surveys, plans, designs, investigations, etc., incurred for the purpose of determining the feasibility of utility projects under contemplation. If construction results, these costs are transferred to construction work in progress. A project that is unfeasible or abandoned is expensed in the current period.

**Demand-Side Management (“DSM”) Programs** — The District’s expenditures for regional conservation programs and other DSM programs which benefit future periods by reducing energy supply requirements have historically been capitalized and amortized over the expected useful lives of the programs. During 2009, the District began expensing DSM costs as Customer information and services expense. The balances accumulated prior to the change in accounting are being amortized over the original useful lives of the programs.

**Cash** — The District classifies only amounts held in demand deposit accounts as cash.

**Investments** — All investments are presented at fair value (refer to Note 2 for additional details). Discounts and premiums on investments are amortized as adjustments to interest income over the remaining term of the investments using the constant yield method.

Short-term investments are defined as investments with a maturity of less than one year. The purchase and maturity of investment instruments are reported on a gross basis in the Statements of Cash Flows, with the exception of repurchase agreements, which are reported on a net basis.

Realized and unrealized gains and losses on investments are included in interest and other income on the Statements of Revenues and Expenses and Change in Net Position.

**Materials and Supplies** — Materials and supplies consist of hydroelectric generation, transmission, and distribution assets as well as fiber optic cable and fiber-related supplies. All inventory amounts are recorded at average cost and includes overheads.

**Due from/to Power Purchasers** — This balance represents the difference between estimated power costs received by the Priest Rapids Project from power purchasers versus actual power costs, which will be paid to or received from the power purchasers in the following year.

**Debt Discounts, Premiums, and Issuance Costs** — Debt discounts and premiums relating to the sale of bonds are amortized over the lives of the related bonds using the constant yield method. Debt issuance costs are recognized in the period incurred for issuances that occurred after 2013. For issuances that occurred prior to 2013, debt issuance costs are being amortized over the life of the related debt.

**Refunding of debt** — The gain or loss on refunding of debt is recognized as a deferred inflow or outflow of resources and amortized over the remaining life of the refunded or newly issued bond(s), whichever is shorter. If debt is extinguished using the District’s own reserves, any resulting gain or loss is recognized during the current period.

**Unearned Revenue** — Contributions In Aid of Construction that are refundable are recorded as short-term or long-term unearned revenue depending on when construction associated with the contribution(s) is expected to

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be complete. Additionally, the District has two long-term exchange contracts under which the District received collective prepayments of \$2.0 million that are being amortized into revenue on a straight-line basis over the life of these agreements.

**Revenue Taxes** – Utility revenue-based taxes assessed by governmental entities are accounted for as a separate cost collected from customers for remittance to those governmental entities. Therefore, revenue taxes paid to the taxing authorities are accounted for as an operating expense on the Statements of Revenues and Expenses and Changes in Net Position. Taxes collected from customers on behalf of other governmental entities are included in Retail energy sales in the Statements of Revenues and Expenses and Changes in Net Position.

**Revenues and Expenses** - The District’s financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when incurred. Revenues and costs that are directly related to the generation, purchase, transmission and distribution of electricity or delivery of wholesale fiber services are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

**Net Position** – The District classifies net position into three components – Net investment in capital assets; Restricted; and Unrestricted. These classifications are defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses, and related unspent project and debt service funds.
- *Restricted* – This component of net position consists of assets with constraints placed on their use. Constraints include those imposed by debt trust indentures, grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net position consists of net assets and liabilities that do not meet the definition of “restricted” or “net investment in capital assets.”

**Reclassifications** – Certain amounts in the 2017 Consolidated Financial Statements have been reclassified in order to conform to the 2017 presentation.

**Significant Risk and Uncertainties** – The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include weather and natural-disaster-related disruptions, collective bargaining labor disputes, fish and other Endangered Species Act (“ESA”) issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of hydroelectric facilities, and the changes to the regulatory environment of the electrical utility industry.

The District carries excess liability coverage with an annual aggregate limit of \$60 million with a self-insured retention of \$2 million per occurrence. It carries underlying liability policies for specific loss types such as foreign travel and non-owned aviation liability to protect the District from losses associated with these risks. The District has established an insurance reserve fund at a minimum balance of \$1 million and a maximum of \$1.5 million to cover the self-insured portion of liability losses. The insurance reserve fund had a balance of \$1.1 million at December 31, 2018 and 2017. The District also maintains property insurance coverage with an aggregate limit of \$200 million, protecting against significant losses at the Priest Rapids Project, the Electric System, and all of the various District real properties, with deductibles up to \$2.5 million per loss, and subject to policy terms and conditions.



**Energy Risk Management** – The District’s power marketing activities are confined to balancing District loads and resources and optimizing the value of the Priest Rapids Project with the intent of maximizing the benefit for Electric System retail customers. Power is purchased only to meet Electric System projected loads. Power surplus to the Electric System’s needs is resold in a manner that seeks to average market prices. In recognition of the increasing number of power transactions, price volatility and changing power supply contracts, the Commission established a Risk Oversight Committee in 2001 to review and update the energy risk management policies of the District and to provide greater ongoing monitoring and review of power transactions. The Risk Oversight Committee is comprised of senior management in the areas of wholesale energy marketing, financial management and risk management; and meets regularly to monitor marketing activities, corporate position, policies, and risk. The Energy Risk Oversight Committee has developed and maintained an Energy Risk Management and Reporting Policy which has been adopted by the Commission. The policy outlines the parameters for transactions, trader and counterparty exposure, and establishes review protocols and reporting frequency for all power supply management activities. The District believes its adherence to a periodic review of these policies and its controls to assure they are pertinent and being followed limit the risk of substantial financial loss resulting from the District’s power supply management activities.

**Personal Leave Benefit** – Employees of the District accrue a personal leave benefit at rates dependent on year of service. Personal leave may be used for vacation, sick leave, or other employee absences. Unused personal leave may be accumulated up to a maximum of 1,200 hours for employees who began service prior to April 1, 2011. For employees hired on or after April 1, 2011, the maximum amount of accrued personal leave is 700 hours.

**Use of Estimates** – The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The District has used significant estimates in determination of unbilled revenue, licensing obligations, allowance for uncollectible accounts, net pension and other postemployment benefits/liabilities, and depreciable lives of utility plant.

**Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans’ fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. Accordingly, the balances are generally reported as of June 30 instead of December 31 because the DRS’ fiscal year ends on June 30<sup>th</sup> of each year. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value at the State level.

**Deferred Outflows/Inflows of Resources** – Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District’s proportionate share of deferred outflows related to those plans. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining

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deferred outflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

**2. CASH AND INVESTMENTS**

The District's cash deposits at December 31, 2018 and 2017, were either covered by federal depository insurance or protected against loss by being on deposit with financial institutions recognized as qualified public depositories of the State of Washington under the Revised Code of Washington ("RCW") Chapter 39. Subject to specific bond resolution limitations, management is permitted to invest as provided under the laws of the State of Washington.

Unspent cash, and associated investments, received in connection with bond offerings are maintained in funds as required by the District's bond indentures. Restricted assets represent funds that are restricted by bond covenants or third party contractual agreements. Funds that are allocated by Commission resolution are considered to be restricted assets. However, their use may be redirected at any time with Commission approval. Additionally, the Electric System Reserve and Contingency Fund's board resolution explicitly includes the ability to transfer rate stabilization resources out of the fund to be available for debt service coverage in any given year, if required. No rate stabilization transfers in or out of the fund occurred in 2018 or 2017.

As of December 31, 2018 and 2017, the District's unrestricted and restricted assets included on the Statement of Net Position as Cash and Investments, including accrued interest, consisted of the following:

| <b>(amounts in thousands)</b>                | <b>2018</b>       | <b>2017</b>       |
|----------------------------------------------|-------------------|-------------------|
| Unrestricted assets:                         |                   |                   |
| Revenue and Service System funds             | \$ 156,036        | \$ 89,490         |
| <b>Total unrestricted assets</b>             | <b>156,036</b>    | <b>89,490</b>     |
| Restricted assets:                           |                   |                   |
| Electric System Reserve and Contingency fund | 124,201           | 121,262           |
| Self-Insurance Reserve fund                  | 1,084             | 1,048             |
| <b>Total board designated funds</b>          | <b>125,285</b>    | <b>122,310</b>    |
| Construction funds                           | 27,423            | 137,393           |
| Bond Sinking funds                           | 149,449           | 137,337           |
| Debt Service Reserve funds                   | 55,636            | 54,769            |
| Renewal, Replacement and Contingency fund    | 12,000            | 12,462            |
| Habitat funds                                | 16,225            | 15,212            |
| Quincy Chute Renewal and Replacement fund    | -                 | 1,494             |
| <b>Total restricted assets</b>               | <b>386,018</b>    | <b>480,977</b>    |
| <b>Total</b>                                 | <b>\$ 542,054</b> | <b>\$ 570,467</b> |

**Interest Rate Risk** – The District's investment policy and investment oversight committee governs and monitors investment position limitations as a means of managing its exposure to fair value losses arising from

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increasing interest rates and to ensure compliance with State Law. To further mitigate risk of selling investments early to meet unexpected cash flow needs, a minimum of 20% of the total portfolio will be comprised of investments maturing within one year. To the extent possible, the District matches its investments with anticipated cash flow requirements such as operating, construction, habitat and current year debt service. Other funds such as reserves and long-term sinking funds are invested within targeted effective duration parameters as determined by the investment oversight committee. With the exception of reserve and long-term sinking funds, the District will not invest in securities with an effective duration of more than six years from the date of purchase unless authorized by the investment oversight committee for specific transactions. Callable investments are assumed to be held to maturity.

Below are the District’s investment maturities for all combined operating and special purpose fund as of December 31, 2018 and 2017:

| <i>(amounts in thousands)</i>           | <b>2018</b>       |                          | <b>2017</b>       |                          |
|-----------------------------------------|-------------------|--------------------------|-------------------|--------------------------|
|                                         | Amount Invested   | Percent of Invested Fund | Amount Invested   | Percent of Invested Fund |
| Term                                    |                   |                          |                   |                          |
| Less than 90 days                       | \$ 158,528        | 30%                      | \$ 101,908        | 20%                      |
| 90 days to 1 year                       | 129,655           | 24%                      | 160,444           | 31%                      |
| 1 year to 5 years                       | 93,095            | 17%                      | 94,711            | 18%                      |
| Bond reserves invested to bond maturity | 153,338           | 29%                      | 157,676           | 31%                      |
| <b>Total Investments</b>                | <b>\$ 534,616</b> | <b>100%</b>              | <b>\$ 514,739</b> | <b>100%</b>              |

**Credit Risk** – The District’s investment policy complies with State Law and specifies minimal credit rating acceptability criteria of potential investment issuers. Pursuant to the investment policy, the minimum credit rating requirement at the time of investment purchase is one of the three highest credit ratings of a nationally recognized rating agency.

**Custodial Credit Risk** – The District’s investment policy requires that securities purchased are held by a master custodian or other entity legally allowed to act as an independent third party on behalf of the District within that entity’s trust department.

**Concentration of Credit Risk** – The District’s investment policy states that with the exception of direct U.S. Government obligations, repurchase agreements collateralized by the same, and the state investment pool, no more than 50% of the total portfolio par value will be invested in government sponsored agencies, supranational institutions or municipal bonds, and no more than 25% of the total portfolio par value will be invested in corporate bonds and commercial paper. Credit concentration of the District’s investment portfolio is actively monitored by the investment oversight committee as required by the District’s investment policy.

The investment oversight committee actively monitors portfolio composition and seeks to ensure prudent diversification is maintained. The following are the concentrations of risk greater than five percent in either year. The credit ratings listed are from Standard and Poor’s Rating Services as of December 31, 2018.

| <b>Investments by Issuer</b> | <b>Credit Rating</b> | <b>2018</b> | <b>2017</b> |
|------------------------------|----------------------|-------------|-------------|
| U.S. Treasury                | AAA                  | 18%         | 20%         |

**Notes to the Financial Statements**  
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The District’s investments at December 31, 2018 and 2017, as identified on the Statements of Net Position, are shown below by investment type. All investments are either issued or registered in the name of the District or are held by the District or by the District’s agent in the District’s name, except for funds held in the Washington State Local Government Investment Pool which are not evidenced by securities. The difference between the totals shown in the previous table and table below is accrued interest of \$3.6 million and \$3.5 million for 2018 and 2017, respectively.

During 2018 and 2017, the District recognized \$12.3 million and \$9.7 million of interest earnings net of unrealized losses on investments, respectively. The unrealized net loss on investments held at December 31, 2018 and 2017, was a \$3.0 million net loss and a \$1.0 million net loss, respectively. Investments are made in investment types authorized by Washington State law. The types are 1) Obligations of the U.S. Government and its agencies 2) Repurchase agreements collateralized by U.S. Government obligations, 3) Supranational institutions – debt issued by entities formed by two or more central governments with the purpose of promoting economic development in member countries, 4) Money market funds that have holdings of or are backed by U.S. Government obligations, 5) Municipal bonds, 6) Corporate bonds and commercial paper, and 7) the Washington State Treasurer’s Local Government Investment Pool (“LGIP” or “State Investment Pool”). Investments by type at December 31, 2018 and 2017, were as follows:

| (amounts in thousands)            | 2018              |             | 2017              |             |
|-----------------------------------|-------------------|-------------|-------------------|-------------|
| U.S. Treasuries                   | \$ 96,596         | 18%         | \$ 112,030        | 20%         |
| Municipal Bonds                   | 189,863           | 35%         | 199,149           | 35%         |
| U.S. Agencies                     | 49,242            | 9%          | 60,710            | 11%         |
| Repurchase Agreements             | 71,000            | 13%         | 20,900            | 4%          |
| Commercial Paper                  | 38,731            | 7%          | 26,329            | 5%          |
| Supranational Institutions        | 46,225            | 9%          | 46,258            | 8%          |
| Corporate Notes                   | 27,922            | 5%          | 41,856            | 7%          |
| State Investment Pool             | 15,037            | 3%          | 7,507             | 1%          |
| <b>Total investments</b>          | <b>\$ 534,616</b> | <b>99%</b>  | <b>\$ 514,739</b> | <b>91%</b>  |
| Cash                              | 3,888             | 1%          | 52,225            | 9%          |
| <b>Total cash and investments</b> | <b>\$ 538,504</b> | <b>100%</b> | <b>\$ 566,964</b> | <b>100%</b> |

**Fair Value Measurements** – The District’s investments have been adjusted to reflect fair value measurements as of December 31, 2018, obtained from available financial industry valuation sources. The District categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, “Fair Value Measurement and Application,” which was adopted in 2016. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. In particular, the District valued its U.S. Treasuries using quoted prices in active markets. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices. The State Investment Pool is an unrated external investment pool that invests in a manner consistent with the U.S. Securities and Exchange Commission’s rule 2a-7 of the Investment Company Act of 1940. The District reports these investments at amortized cost. Participants may contribute and withdraw funds on a daily basis and must inform the Local Government Investment Pool (LGIP) of any contribution or withdrawal over \$1.0 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for \$1 million or less can be requested at any time prior to 10:00 a.m. on the

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day of the transaction. However, participants may complete transactions greater than \$1 million when notification is made between 9:00 a.m. and 10:00 a.m., at the sole discretion of the LGIP. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

Below are the District's fair value measurements as of December 31, 2018 and 2017:

| (amounts in thousands)                       | Total<br>2018     | Level 1          | Level 2           | Level 3     | Not Leveled      |
|----------------------------------------------|-------------------|------------------|-------------------|-------------|------------------|
| Investments by fair value level              |                   |                  |                   |             |                  |
| Debt Securities                              |                   |                  |                   |             |                  |
| Municipal Bonds                              | \$ 189,863        | \$ -             | \$ 189,863        | \$ -        | \$ -             |
| U.S. Treasuries                              | 96,596            | 96,596           | -                 | -           | -                |
| U.S. Agencies                                | 49,242            | -                | 49,242            | -           | -                |
| Supranational Institutions                   | 46,225            | -                | 46,225            | -           | -                |
| Corporate Notes                              | 27,922            | -                | 27,922            | -           | -                |
| Commercial Paper                             | 38,731            | -                | 38,731            | -           | -                |
| Repurchase Agreements                        | 71,000            | -                | 71,000            | -           | -                |
| State Investment Pool                        | 15,037            | -                | -                 | -           | 15,037           |
| <b>Total investments by fair value level</b> | <b>\$ 534,616</b> | <b>\$ 96,596</b> | <b>\$ 422,983</b> | <b>\$ -</b> | <b>\$ 15,037</b> |

| (amounts in thousands)                       | Total<br>2017     | Level 1           | Level 2           | Level 3     | Not Leveled     |
|----------------------------------------------|-------------------|-------------------|-------------------|-------------|-----------------|
| Investments by fair value level              |                   |                   |                   |             |                 |
| Debt Securities                              |                   |                   |                   |             |                 |
| Municipal Bonds                              | \$ 199,149        | \$ -              | \$ 199,149        | \$ -        | \$ -            |
| U.S. Treasuries                              | 112,030           | 112,030           | -                 | -           | -               |
| U.S. Agencies                                | 60,710            | -                 | 60,710            | -           | -               |
| Supranational Institutions                   | 46,258            | -                 | 46,258            | -           | -               |
| Corporate Notes                              | 41,856            | -                 | 41,856            | -           | -               |
| Commercial Paper                             | 26,329            | -                 | 26,329            | -           | -               |
| Repurchase Agreements                        | 20,900            | -                 | 20,900            | -           | -               |
| State Investment Pool                        | 7,507             | -                 | -                 | -           | 7,507           |
| <b>Total investments by fair value level</b> | <b>\$ 514,739</b> | <b>\$ 112,030</b> | <b>\$ 395,202</b> | <b>\$ -</b> | <b>\$ 7,507</b> |

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**3. UTILITY PLANT**

Utility plant of the District as of December 31, 2018, and 2017, is summarized as follows:

| (amounts in thousands)                       | Balance<br>2017     | Additions         | Retirements/<br>Transfers | Balance<br>2018     |
|----------------------------------------------|---------------------|-------------------|---------------------------|---------------------|
| Distribution facilities                      | \$ 562,141          | \$ 50,398         | \$ (4,296)                | \$ 608,243          |
| Transmission facilities                      | 250,073             | 953               | -                         | 251,026             |
| Hydro facilities                             |                     |                   |                           |                     |
| Power plant structures                       | 138,047             | 6,066             | -                         | 144,113             |
| Reservoirs, dams, waterways                  | 508,357             | 6,288             | (3,570)                   | 511,075             |
| Power plant equipment                        | 625,031             | 124,555           | -                         | 749,586             |
| General facilities                           |                     |                   |                           |                     |
| Quincy Chute (Note 6)                        | 17,771              | 22                | 750                       | 18,543              |
| Potholes East Canal (Note 6)                 | 16,450              | 41                | -                         | 16,491              |
| Other generation                             | 30                  | -                 | -                         | 30                  |
| General plant                                | 507,289             | 35,549            | (1,706)                   | 541,132             |
| FERC License                                 | 116,050             | -                 | (2,794)                   | 113,256             |
| Other intangible assets                      | 41,067              | 6,706             | (1,419)                   | 46,354              |
| <b>Total</b>                                 | <b>2,782,306</b>    | <b>230,578</b>    | <b>(13,035)</b>           | <b>2,999,849</b>    |
| Accumulated depreciation<br>and amortization | (993,006)           | (73,036)          | 5,534                     | (1,060,508)         |
| Subtotal                                     | 1,789,300           | 157,542           | (7,501)                   | 1,939,341           |
| Land and land rights                         | 24,920              | -                 | (1)                       | 24,919              |
| Construction in progress                     | 231,150             | 130,782           | (228,931)                 | 133,001             |
| <b>Total net utility plant</b>               | <b>\$ 2,045,370</b> | <b>\$ 288,324</b> | <b>\$ (236,433)</b>       | <b>\$ 2,097,261</b> |

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| (amounts in thousands)                       | Balance<br>2016     | Additions         | Retirements/<br>Transfers | Balance<br>2017     |
|----------------------------------------------|---------------------|-------------------|---------------------------|---------------------|
| Distribution facilities                      | \$ 504,538          | \$ 57,866         | \$ (263)                  | \$ 562,141          |
| Transmission facilities                      | 241,140             | 8,933             | -                         | 250,073             |
| Hydro facilities                             |                     |                   |                           |                     |
| Power plant structures                       | 134,860             | 3,187             | -                         | 138,047             |
| Reservoirs, dams, waterways                  | 495,941             | 12,416            | -                         | 508,357             |
| Power plant equipment                        | 579,042             | 49,540            | (3,551)                   | 625,031             |
| General facilities                           |                     |                   |                           |                     |
| Quincy Chute (Note 6)                        | 17,771              | -                 | -                         | 17,771              |
| Potholes East Canal (Note 6)                 | 16,450              | -                 | -                         | 16,450              |
| Other generation                             | 30                  | -                 | -                         | 30                  |
| General plant                                | 475,856             | 31,461            | (28)                      | 507,289             |
| FERC License                                 | 119,355             | (3,305)           | -                         | 116,050             |
| Other intangible assets                      | 33,997              | 7,073             | (3)                       | 41,067              |
| <b>Total</b>                                 | <b>2,618,980</b>    | <b>167,171</b>    | <b>(3,845)</b>            | <b>2,782,306</b>    |
| Accumulated depreciation<br>and amortization | (930,609)           | (66,307)          | 3,910                     | (993,006)           |
|                                              | <b>1,688,371</b>    | <b>100,864</b>    | <b>65</b>                 | <b>1,789,300</b>    |
| Land and land rights                         | 24,611              | 309               | -                         | 24,920              |
| Construction in progress                     | 240,646             | 160,846           | (170,342)                 | 231,150             |
| <b>Total net utility plant</b>               | <b>\$ 1,953,628</b> | <b>\$ 262,019</b> | <b>\$ (170,277)</b>       | <b>\$ 2,045,370</b> |

#### 4. LICENSING

The Priest Rapids Project is operated under a 44-year FERC license that expires in 2052. Costs associated with the relicensing efforts, totaling \$57.1 million, were recorded as an intangible asset included in Utility plant and are being amortized over the term of the license. Accumulated amortization related to the relicensing efforts totaled \$24.6 million and \$21.9 million as of December 31, 2018 and 2017, respectively.

Under the license, the District is committed to numerous obligations related to fish and habitat protection which require payments to other organizations using funds provided by the District. The present value of these obligations totaled \$49.0 million as of December 31, 2018, of which approximately \$2.3 million is expected to be paid within one year. The present value of the obligations was \$51.5 million as of December 31, 2017. These amounts are the FERC Licensing Obligations reflected as liabilities in the Statement of Net Position. The elements of these obligating payments, comprising the Salmon and Steelhead Agreement, Part A (Hatchery Renovation) and Part B (Resident Fish Monitoring and Trout Purchase), are further discussed in Note 7.

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

**5. REVENUE BONDS**

The District did not issue new revenue bonds in 2018. In December of 2017, the District issued \$64.5 million of fixed rate refunding bonds (to refund the 2011-I Electric series) at a premium of \$10.8 million. The District used \$12.9 million of debt service reserves to reduce the total amount of bonds needed for the refunding transaction. The refunding of the 2011-I issue realized a \$1.2 million current refunding loss associated with unamortized discounts/premiums that will be amortized through 2023.

In November of 2017, the District issued \$49.9 million of fixed rate revenue refunding bonds at a premium of \$454,270 to refund the Electric System 2014-K series. There was no refunding gain or loss as the refunded bonds were originally issued at par. The refunding bonds were issued as a three year soft put fixed rate product, with final maturities ranging between years 2035 and 2044.

In September of 2017, the District issued a \$50.0 million variable rate revenue bond to finance capital improvements to the Electric System through a direct placement. The floating interest rate is 65.1% of LIBOR plus 0.475%. The District's 2016-L \$50.0 revenue bond was a direct placement with a floating interest rate of 65.1% of LIBOR plus 0.435% and a maturity date of April 19, 2019. The 2016-L maturity is excluded from the 2019 debt service presented below because the District executed a Bond Purchase Agreement to refund the 2016-L bond prior to issuance of the financial statements (refer to Note 12 Subsequent Events).

In February of 2017, the District refunded the remaining \$7.9 million of the Wanapum 2006B series through a fixed rate direct placement bond.

| (amounts in thousands)                                                         | 2018                       | 2017                       |
|--------------------------------------------------------------------------------|----------------------------|----------------------------|
| Electric System, interest rates of 1.32% to 5.00%, maturing through 2047       | \$ 282,035                 | \$ 282,035                 |
| Priest Rapids Project, interest rates of 2.00% to 5.83%, maturing through 2044 | <u>1,016,600</u>           | <u>1,048,235</u>           |
| <b>Total revenue bonds outstanding</b>                                         | <b><u>\$ 1,298,635</u></b> | <b><u>\$ 1,330,270</u></b> |

Scheduled debt service requirements for the District's bonds are as follows:

| (amounts in thousands) | Principal                  | Interest                 | Total                      |
|------------------------|----------------------------|--------------------------|----------------------------|
| 2019                   | \$ 29,240                  | \$ 58,841                | \$ 88,081                  |
| 2020                   | 80,580                     | 56,807                   | 137,387                    |
| 2021                   | 81,985                     | 54,979                   | 136,964                    |
| 2022                   | 32,940                     | 53,379                   | 86,319                     |
| 2023 - 2027            | 240,270                    | 241,708                  | 481,978                    |
| 2028 - 2032            | 245,315                    | 173,929                  | 419,244                    |
| 2033 - 2037            | 227,445                    | 112,137                  | 339,582                    |
| 2038 - 2042            | 303,105                    | 45,363                   | 348,468                    |
| 2043 - 2047            | 57,755                     | 3,408                    | 61,163                     |
| <b>Total</b>           | <b><u>\$ 1,298,635</u></b> | <b><u>\$ 800,551</u></b> | <b><u>\$ 2,099,186</u></b> |



**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

For the years ending December 31, 2018 and 2017, the District is in compliance with all debt covenants related to the outstanding bonds, which includes a minimum debt service coverage of 1.15x and 1.25x for the Priest Rapids Project and Electric System senior bonds, respectively. The Electric System variable rate short term debt products are subordinate and have a coverage requirement of 1.10x.

During the years ended December 31, 2018 and 2017, the following changes occurred in the District’s long-term debt:

| (amounts in thousands)                  | 2017<br>Balance     | Additions   | Reductions         | 2018<br>Balance     | Due Within One<br>Year |
|-----------------------------------------|---------------------|-------------|--------------------|---------------------|------------------------|
| Revenue bonds payable                   | \$ 1,330,270        | \$ -        | \$ (31,635)        | \$ 1,298,635        | \$ 29,240              |
| Unamortized premiums and discounts, net | 41,489              | -           | (4,820)            | 36,669              | -                      |
| <b>Total</b>                            | <b>\$ 1,371,759</b> | <b>\$ -</b> | <b>\$ (36,455)</b> | <b>\$ 1,335,304</b> | <b>\$ 29,240</b>       |

| (amounts in thousands)                  | 2016<br>Balance     | Additions         | Reductions          | 2017<br>Balance     | Due Within One<br>Year |
|-----------------------------------------|---------------------|-------------------|---------------------|---------------------|------------------------|
| Revenue bonds payable                   | \$ 1,325,105        | \$ 172,315        | \$ (167,150)        | \$ 1,330,270        | \$ 31,635              |
| Unamortized premiums and discounts, net | 40,428              | 11,241            | (10,180)            | 41,489              | -                      |
| <b>Total</b>                            | <b>\$ 1,365,533</b> | <b>\$ 183,556</b> | <b>\$ (177,330)</b> | <b>\$ 1,371,759</b> | <b>\$ 31,635</b>       |

## 6. POWER PURCHASER COMMITMENTS

### Priest Rapids Project

Under the Priest Rapids Power Sales Contracts, the amount of net Priest Rapids Project power costs incurred by the District in serving its load changes on an annual basis in relation to its firm power requirements. The District incurred 81.1% and 75.0% of Priest Rapids Project power costs with the long term contract power purchasers funding the remaining 18.9% and 25.0% for 2018 and 2017, respectively. Each purchaser is obligated to pay its share of the cost (excluding depreciation and amortization) of producing and delivering power, plus 115% of its share of the amounts required for debt service payments in accordance with the power purchase agreement.

### Bonneville Power Administration (BPA)

The District is a statutory preference customer of BPA. The District signed a BPA preference contract during 2008 to serve its Grand Coulee load of approximately 5 average megawatts (“aMW”) that expires September 30, 2028. In addition the District has purchased from BPA the transmission required to deliver the power associated with this load through September 30, 2028. The District has 12 megawatts (“MW”) of transmission for the delivery of power from the Nine Canyon Wind Project with a term expiring on October 1, 2030.

District management estimates the District’s minimum commitments to BPA for the next five years are as follows:

**Estimated BPA Contractual Payments**  
**(amounts in thousands)**

|      |          |
|------|----------|
| 2019 | \$ 1,408 |
| 2020 | 2,513    |
| 2021 | 2,589    |
| 2022 | 2,666    |
| 2023 | 2,746    |

## **Nine Canyon Wind Power Purchase Agreement**

The District participates in a power purchase agreement with Energy Northwest for Phase I of the Nine Canyon Wind Project (the “Project”) which consists of 37 wind turbines with an aggregate generating capacity of approximately 48 MW. Energy Northwest is a municipal corporation and a joint operating agency of the State of Washington (formerly known as the Washington Public Power Supply System). The District does not participate in the two other phases of the Project. The phases are operated together as a single project under an amended power purchase agreement.

The District is one of nine public agencies participating in the original project power purchase agreement for Phase I of the Project. The District’s purchaser share of Phase I of the project output was 25% of output up to a maximum of 12 MW. Since the District did not participate in either Phase II or Phase III of the Project, its amended share of the combined Project is 12.54%. In exchange for the output, the District pays its 12.54% share of certain Project costs and its 25% share of Phase I debt service (principal and interest), which is estimated to be a total of \$2.0 million annually.

## **Yakama Nation Agreement**

In 2007, the District entered into an agreement with the Yakama Nation that provides mutual benefits to both parties. In exchange for physical benefits from the Priest Rapids Project, the Yakama Nation works collaboratively with the District on environmental issues affecting the project and in the development of new generation resources. The Yakama Nation is responsible to pay the costs associated with producing the benefit received.

A primary consideration for the agreement is an allocation of the benefit from the Priest Rapids Project to the Yakama Nation. The financial equivalent of 15 aMW was paid during 2010-2015 less the associated power costs. Per the agreement, the financial benefit will be 10 aMW net of cost of production from 2016 through the remainder of the agreement. The net payments to the Yakama Nation totaled \$1.1 million and \$0.4 million during 2018 and 2017, respectively. The agreement expires at the end of the FERC license term (2052). The projected annual cost for this agreement is listed in the table below.

### **Estimated Yakama Nation Contractual Payments (amounts in thousands)**

|      |    |       |
|------|----|-------|
| 2019 | \$ | 1,290 |
| 2020 |    | 719   |
| 2021 |    | 1,116 |
| 2022 |    | 1,073 |
| 2023 |    | 1,176 |
| 2024 |    | 1,175 |

## **Other Sources**

Pursuant to agreements with three irrigation districts, the District constructed, operates, and maintains both the Quincy Chute and Potholes East Canal hydroelectric generation facilities in return for the right to all output from the projects. The construction costs of Quincy Chute and Potholes East Canal are included in Net utility plant and are being amortized over the terms of the agreements, which expire October 1, 2025, and September 1, 2030, respectively. The irrigation districts hold title to the project facilities.

## **7. NONPOWER COMMITMENTS**

### **Capital Projects**

The District has contractual commitments relating to several Electric System capital improvement projects including the fiber buildout, electrical system upgrades, multiple transformer purchases, power cable purchases, and substation and distribution line construction projects over the next few years totaling approximately \$28.7 million as of December 31, 2018.

The District's improvement programs for the Priest Rapids Project include restoration or replacement of generators, turbine upgrades, unit controls, the station service and substation circuit breakers and replacing trunnion bearings and coating systems for spillway gates. The District also is committed to ongoing dam safety initiatives, which currently include Priest Rapids Dam's right embankment upgrade, assessment of Wanapum Dam's left embankment and seismic evaluation of concrete structures at both dams. The District intends to, or has committed by contract or regulatory requirement to, fulfill these programs, which are projected to be substantially complete by 2028. The contractually committed amount on future Priest Rapids Project work to be performed on these major capital programs is approximately \$209.8 million as of December 31, 2018.

### **Other Commitments**

In 2006, the District entered into a Salmon and Steelhead Settlement Agreement (Agreement) with U.S. Fish and Wildlife Service (USFWS), the National Marine Fisheries Service of the National Oceanic and Atmospheric Administration (NOAA), the Washington Department of Fish and Wildlife (WDFW), Yakama Nation (YN), and the Confederated Tribes of the Colville Reservation (CCT) for the purpose of resolving all issues between the District and the other signatories related to anadromous salmonid fish species.

This agreement is intended to constitute a comprehensive and long-term adaptive management program for the protection, mitigation, and enhancement of anadromous fish (both listed and not listed species under the Endangered Species Act) which pass or may be affected by the Priest Rapids Project.

Under the Agreement, the District is obligated to establish a habitat conservation account and a no-net-impact fund (referred herein as "Habitat funds") into which the District deposits payments for further distribution in accordance with the requirements of the Salmon and Steelhead Agreement. The purpose of the Habitat funds are two-fold: (1) to establish and shepherd a habitat restoration program that promotes the rebuilding of self-sustaining and harvestable populations of anadromous species and to mitigate for a portion (2%) of unavoidable losses resulting from the Priest Rapids Project operations and (2) to provide near-term compensation for annual survivals that are less than the survival objectives in the performance standards for the Priest Rapids Project for spring Chinook, steelhead, summer Chinook, and sockeye. The parties that oversee the distribution of these funds include the signatories to the Priest Rapids Salmon and Steelhead Settlement Agreement (USFWS, NOAA Fisheries, WDFW, CCT, YN, and the District). Per the Agreement, when performance standards have been achieved on a species-by-species basis, the no-net-impact fund annual contributions for that species will be terminated.

In addition to the Habitat funds discussed above, the District is obligated to establish a habitat account into which the District deposits payments for further distribution in accordance with the requirements of the NOAA Fisheries 2008 Biological Opinion ("2008 BiOp") for the Priest Rapids Project. Funds from this account are used for habitat actions that directly benefit Upper Columbia River ("UCR") spring-run Chinook salmon and UCR steelhead. The parties identified above and the Confederated Tribes of the Umatilla Reservation have been identified in the 2008 BiOp as responsible for overseeing distribution of these funds.

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

The Habitat funds are restricted and cannot be spent without unanimous consent. Interest earned by the Habitat funds increases the balance of these funds and is not recognized as income by the District. Expenditures of these funds are made in accordance with the Agreement and the 2008 NOAA Fisheries BiOp for the protection and restoration of habitats along the mainstream and tributaries within the UCR watershed including the Okanogan, Methow, Entiat, and Wenatchee watersheds. The District anticipates funding these accounts up to and through the term of its FERC license.

In October of 2006, the District filed a request for a 401 Water Quality Certification (“401 WQC”) from the Washington State Department of Ecology (“Ecology”), pursuant to the provisions of section 401 of the Clean Water Act. A 401 WQC for the operation of the Priest Rapids Project was issued by Ecology on April 3, 2007, and amended on March 6, 2008.

In order to fulfill requirements of the 401 WQC related to native resident fish, the District is required to provide funds to track native resident fish species diversity and provide mitigation for impacts to and loss of resident fish and harvest opportunities by compliance with Parts A and B as described below.

To remain in compliance under Part A (“Hatchery Renovation”), the District is required to provide funds (not to exceed \$1.5 million) to renovate the existing Columbia Basin Hatchery facility to ensure stable operations at current capacity for the term of the license. Current capacity is 60,000-70,000 pounds of trout annually, which shall be credited to the District as mitigation for reduced recreational fishing opportunities occurring on native resident fish species. The District has fulfilled Part A of the 401 WQC related to native resident fish.

Under Part B (“Resident Fish Monitoring and Trout Purchase”), the District is obligated to establish and administer a fund for resident fish monitoring and fish purchase. Funds from Part B are specifically directed toward the monitoring of native resident fish species within the Priest Rapids Project area. The District is required to make contributions to the fund annually on or before February 15 of each year in the amount of \$0.1 million per year, based upon 2003 dollars and annually adjusted for inflation.

In a FERC Order (issued on August 31, 2010) approving the Wildlife Habitat Management Plan (Article 409), the District is required to assist the Washington Department of Fish and Wildlife in fire suppression by contributing \$40,000 annually to an account. Funds from the account are to be designated for: 1) revegetating burned areas; 2) revegetating areas known to burn frequently with species carrying lesser fuel loads; 3) creating fire breaks in appropriate locations; and 4) paying for firefighting activities.

The District’s total contributions to these Habitat funds for the years ended December 31, 2018, December 31, 2017 and December 31, 2016 equaled \$2.3 million, \$2.3 million and \$2.7 million, respectively. The following table shows the District’s estimate of the remaining fixed contributions to the Habitat funds as of December 31, 2018, representing required contributions through the FERC License term (2052).

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

**Estimated Fixed Habitat Funding Commitments**  
**(amounts in thousands)**

|                   |           |                |
|-------------------|-----------|----------------|
| 2019              | \$        | 2,283          |
| 2020              |           | 2,333          |
| 2021              |           | 2,383          |
| 2022              |           | 2,435          |
| 2023              |           | 2,488          |
| 2024 through 2052 |           | 101,175        |
| <b>Total</b>      | <b>\$</b> | <b>113,097</b> |

**8. RETIREMENT AND DEFERRED COMPENSATION PLANS**

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2018 and 2017:

**Aggregate Pension Amounts - All Plans**

| <b>(amounts in thousands)</b>  | <b>2018</b> | <b>2017</b> |
|--------------------------------|-------------|-------------|
| Pension Liabilities            | \$ 32,686   | \$ 46,371   |
| Deferred Outflows of Resources | 5,753       | 6,582       |
| Deferred Inflows of Resources  | 13,693      | 8,725       |
| Pension Expense                | 423         | 2,850       |

**State Sponsored Pension Plans**

Substantially all the District’s 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 98540-8380

Or the DRS CAFR 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 two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from 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 nonduty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

## Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 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.

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 and 2017 were as follows:

**PERS Plan 1**

**Actual Contribution Rates:  
2018**

**January - August 2018**

|                    | <b>Employer</b> | <b>Employee</b> |
|--------------------|-----------------|-----------------|
| PERS Plan 1        | 7.49%           | 6.00%           |
| PERS Plan 1 UAAL   | 5.03%           | -               |
| Administrative Fee | 0.18%           | -               |
| <b>Total</b>       | <b>12.70%</b>   | <b>6.00%</b>    |

**September - December 2018**

|                    |               |              |
|--------------------|---------------|--------------|
| PERS Plan 1        | 7.52%         | 6.00%        |
| PERS Plan 1 UAAL   | 5.13%         | -            |
| Administrative Fee | 0.18%         | -            |
| <b>Total</b>       | <b>12.83%</b> | <b>6.00%</b> |

**2017**

**January - June 2017**

|                    |               |              |
|--------------------|---------------|--------------|
| PERS Plan 1        | 6.23%         | 6.00%        |
| PERS Plan 1 UAAL   | 4.77%         | -            |
| Administrative Fee | 0.18%         | -            |
| <b>Total</b>       | <b>11.18%</b> | <b>6.00%</b> |

**July - December 2017**

|                    |               |              |
|--------------------|---------------|--------------|
| PERS Plan 1        | 7.49%         | 6.00%        |
| PERS Plan 1 UAAL   | 5.03%         | -            |
| Administrative Fee | 0.18%         | -            |
| <b>Total</b>       | <b>12.70%</b> | <b>6.00%</b> |

The District's actual contributions to the plan were \$3.4 million and \$3.1 million for the years ended December 31, 2018 and 2017, respectively.

**PERS Plan 2/3** provide retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service 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 five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

**PERS Plan 2/3** members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service 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 nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at three 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 five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service 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.





**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

**Contributions**

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL) and an administrative expense that is currently set at 0.18 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 2018 and 2017 were as follows:

**PERS Plan 2/3**

**Actual Contribution Rates:  
2018**

**January - August 2018**

|                      | <b>Employer</b> | <b>Employee</b> |
|----------------------|-----------------|-----------------|
| PERS Plan 2/3        | 7.49%           | 7.38%           |
| PERS Plan 1 UAAL     | 5.03%           | -               |
| Administrative Fee   | 0.18%           | -               |
| Employee PERS Plan 3 | -               | varies          |
| <b>Total</b>         | <b>12.70%</b>   | <b>7.38%</b>    |

**September - December 2018**

|                      |               |              |
|----------------------|---------------|--------------|
| PERS Plan 2/3        | 7.52%         | 7.41%        |
| PERS Plan 1 UAAL     | 5.13%         | -            |
| Administrative Fee   | 0.18%         | -            |
| Employee PERS Plan 3 | -             | varies       |
| <b>Total</b>         | <b>12.83%</b> | <b>7.41%</b> |

**2017**

**January - June 2017**

|                      |               |              |
|----------------------|---------------|--------------|
| PERS Plan 2/3        | 6.23%         | 6.12%        |
| PERS Plan 1 UAAL     | 4.77%         | -            |
| Administrative Fee   | 0.18%         | -            |
| Employee PERS Plan 3 | -             | varies       |
| <b>Total</b>         | <b>11.18%</b> | <b>6.12%</b> |

**July - December 2017**

|                      |               |              |
|----------------------|---------------|--------------|
| PERS Plan 2/3        | 7.49%         | 7.38%        |
| PERS Plan 1 UAAL     | 5.03%         | -            |
| Administrative Fee   | 0.18%         | -            |
| Employee PERS Plan 3 | -             | varies       |
| <b>Total</b>         | <b>12.70%</b> | <b>7.38%</b> |

## Notes to the Financial Statements Years ended December 31, 2018 and 2017

The District's actual contributions to the plan were \$4.9 million and \$3.9 million for the years ended December 31, 2018 and 2017, respectively.

### Actuarial Assumptions

The 2018 total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2017. 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* and the *2017 Economic Experience Study*.

The 2017 TPL for each of the DRS plans was determined using the actuarial valuation completed in 2017, with a valuation date of June 30, 2016. 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* and the *2015 Economic experience Study*.

Additional 2018 assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. Additional 2017 assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018 and June 30, 2017. 2018 plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, and 2017 plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

**Inflation:** 2.75% total economic inflation; 3.50% salary inflation

**Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

**Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 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 changes in methods and assumptions between the 2017 and 2016 valuations.

- Lowered the valuation interest rate from 7.70% to 7.50% for all plans.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all plans.
- Lowered assumed inflation from 3.00% to 2.75% for all plans.

There were changes in methods and assumptions between the 2016 and 2015 valuations.

- How terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised.

### Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 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 7.4% was used to determine the total liability.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience date, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

**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 are summarized in the tables below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

| <b>Asset Class</b> | <b>Target Allocation</b> | <b>% Long-Term<br/>Expected Real Rate<br/>of Return<br/>Arithmetic</b> |
|--------------------|--------------------------|------------------------------------------------------------------------|
| <b>2018</b>        |                          |                                                                        |
| Fixed Income       | 20%                      | 1.70%                                                                  |
| Tangible Assets    | 7%                       | 4.90%                                                                  |
| Real Estate        | 18%                      | 5.80%                                                                  |
| Global Equity      | 32%                      | 6.30%                                                                  |
| Private Equity     | 23%                      | 9.30%                                                                  |
|                    | <b>100%</b>              |                                                                        |
| <b>2017</b>        |                          |                                                                        |
| Fixed Income       | 20%                      | 1.70%                                                                  |
| Tangible Assets    | 5%                       | 4.90%                                                                  |
| Real Estate        | 15%                      | 5.80%                                                                  |
| Global Equity      | 37%                      | 6.30%                                                                  |
| Private Equity     | 23%                      | 9.30%                                                                  |
|                    | <b>100%</b>              |                                                                        |

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

**Sensitivity of Net Pension Liability (NPL)**

The tables below present the District’s proportionate share of the net pension liability calculated using the applicable discount rate, 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 or 1-percentage point higher than applicable discount rate.

| <b>2018</b><br><b>(amounts in thousands)</b> | <b>1% Decrease<br/>(6.4%)</b> | <b>Current Discount<br/>Rate<br/>(7.4%)</b> | <b>1% Increase<br/>(8.4%)</b> |
|----------------------------------------------|-------------------------------|---------------------------------------------|-------------------------------|
| PERS 1                                       | \$ 27,099                     | \$ 22,050                                   | \$ 17,678                     |
| PERS 2/3                                     | 48,648                        | 10,636                                      | (20,530)                      |

| <b>2017</b><br><b>(amounts in thousands)</b> | <b>1% Decrease<br/>(6.5%)</b> | <b>Current Discount<br/>Rate<br/>(7.5%)</b> | <b>1% Increase<br/>(8.5%)</b> |
|----------------------------------------------|-------------------------------|---------------------------------------------|-------------------------------|
| PERS 1                                       | \$ 29,428                     | \$ 24,158                                   | \$ 19,592                     |
| PERS 2/3                                     | 59,844                        | 22,213                                      | (8,620)                       |

**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**

At December 31, 2018 and 2017, the District reported a total pension liability for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2018 and 2017):

| <b>Liability<br/>(amounts in thousands)</b> | <b>2018</b>      | <b>2017</b>      |
|---------------------------------------------|------------------|------------------|
| PERS 1                                      | \$ 22,050        | \$ 24,158        |
| PERS 2/3                                    | 10,636           | 22,213           |
| <b>Total</b>                                | <b>\$ 32,686</b> | <b>\$ 46,371</b> |

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

The District's proportionate share of the collective net pension liabilities was as follows:

|          | Proportionate Share<br>6/30/2017 | Proportionate Share<br>6/30/2018 | Change in<br>Proportion |
|----------|----------------------------------|----------------------------------|-------------------------|
| PERS 1   | 0.509107%                        | 0.493735%                        | -0.015372%              |
| PERS 2/3 | 0.639308%                        | 0.622917%                        | -0.016391%              |

|          | Proportionate Share<br>6/30/2016 | Proportionate Share<br>6/30/2017 | Change in<br>Proportion |
|----------|----------------------------------|----------------------------------|-------------------------|
| PERS 1   | 0.524928%                        | 0.509107%                        | -0.015821%              |
| PERS 2/3 | 0.650080%                        | 0.639308%                        | -0.010772%              |

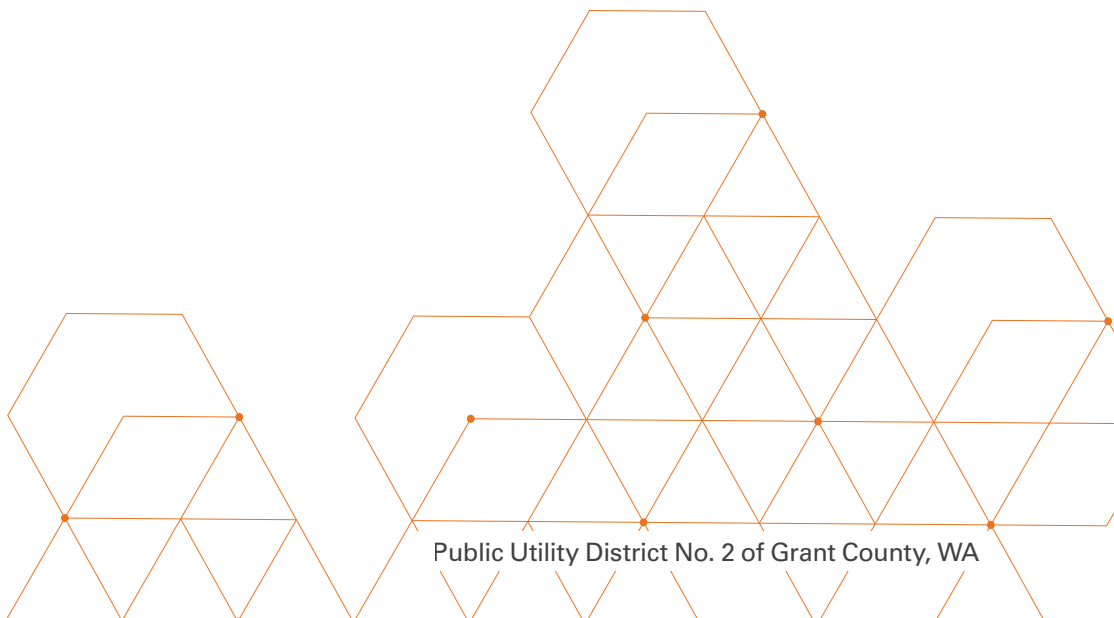
Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of *Employer and Nonemployer Allocations*.

The 2018 and 2017 collective net pension liability was measured as of June 30, 2018 and 2017, respectively, and the actuarial valuation dates on which the total pension liability is based was as of June 30, 2017 and 2016, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the years ended December 31, 2018 and 2017, respectively, the District recognized pension expense as follows:

| <b>Pension Expense<br/>(amounts in thousands)</b> | <b>2018</b>   | <b>2017</b>     |
|---------------------------------------------------|---------------|-----------------|
| PERS 1                                            | \$ 1,172      | \$ 649          |
| PERS 2/3                                          | (749)         | 2,201           |
| <b>Total</b>                                      | <b>\$ 423</b> | <b>\$ 2,850</b> |



**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2018 and 2017, respectively, the District recognized deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <b>PERS Plan 1</b><br><b>(amounts in thousands)</b>                                         | <b>2018</b>                               |                                          | <b>2017</b>                               |                                          |
|---------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|-------------------------------------------|------------------------------------------|
|                                                                                             | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
| Net difference between projected and actual investment earnings on pension plan investments | \$ -                                      | \$ 876                                   | \$ -                                      | \$ 901                                   |
| Contributions subsequent to measurement date                                                | 1,720                                     | -                                        | 1,640                                     | -                                        |
| <b>Total</b>                                                                                | <b>\$ 1,720</b>                           | <b>\$ 876</b>                            | <b>\$ 1,640</b>                           | <b>\$ 901</b>                            |

| <b>PERS Plan 2/3</b><br><b>(amounts in thousands)</b>                                                | <b>2018</b>                               |                                          | <b>2017</b>                               |                                          |
|------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|-------------------------------------------|------------------------------------------|
|                                                                                                      | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
| Differences between expected and actual experience                                                   | \$ 1,304                                  | \$ 1,862                                 | \$ 2,251                                  | \$ 731                                   |
| Net difference between projected and actual investment earnings on pension plan investments          | -                                         | 6,527                                    | -                                         | 5,921                                    |
| Changes of assumptions                                                                               | 123                                       | 3,027                                    | 236                                       | -                                        |
| Changes in proportion and differences between contributions and proportionate share of contributions | 115                                       | 1,401                                    | -                                         | 1,172                                    |
| Contributions subsequent to measurement date                                                         | 2,491                                     | -                                        | 2,455                                     | -                                        |
| <b>Total</b>                                                                                         | <b>\$ 4,033</b>                           | <b>\$ 12,817</b>                         | <b>\$ 4,942</b>                           | <b>\$ 7,824</b>                          |

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

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

(amounts in thousands)

| Year ended December 31: | PERS 1          | PERS 2/3           |
|-------------------------|-----------------|--------------------|
| 2019                    | \$ 38           | \$ (1,525)         |
| 2020                    | (192)           | (2,361)            |
| 2021                    | (575)           | (4,134)            |
| 2022                    | (148)           | (1,618)            |
| 2023                    | -               | (686)              |
| Thereafter              | -               | (949)              |
|                         | <u>\$ (877)</u> | <u>\$ (11,273)</u> |

### Deferred Compensation Plans

The District offers its employees a deferred compensation plan created under Internal Revenue Code Section 457(b), which permits employees to defer a portion of their compensation until future years. The plan is available to all active employees. The District has no liability for losses under the plan; it is completely funded with employee contributions.

The District also administers a 401(a) governmental money purchase plan and trust. Eligible employees may participate in the 401(a) defined contribution plan. The election to participate in the 401(a) defined contribution plan must be made at the time the employee becomes eligible to participate and cannot be changed during the time of their employment. Eligible employees can also elect to contribute to the 457 plan as discussed above. The District’s matching employer contributions (\$0.50 per \$1 of employee contributions) are deposited into the 401(a) plan, and is capped at 2% of straight-time employee wages for the pay period. The District made matching contributions of approximately \$1 million in 2018 and 2017.

## 9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”)

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the years 2018 and 2017:

| <b>Aggregate OPEB Amounts - All Plans</b> |      |       |      |       |
|-------------------------------------------|------|-------|------|-------|
| (amounts in thousands)                    | 2018 |       | 2017 |       |
| OPEB liabilities                          | \$   | 6,977 | \$   | 6,806 |
| OPEB assets                               | \$   | -     | \$   | -     |
| Deferred outflows of resources            | \$   | -     | \$   | -     |
| Deferred inflows of resources             | \$   | -     | \$   | -     |
| OPEB expense/expenditures                 | \$   | 599   | \$   | 581   |

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

**Plan Description**

The District administers a single-employer defined benefit premium program (“the retiree subsidy plan”). District employees who end public employment are eligible to continue insurance coverage as a retiree if they retire under the public employees’ retirement system and are vested in that system and eligible for COBRA. The plan may be amended through collective bargaining (for bargaining unit employees) and ratified by the District’s Commission, or changed without bargaining for non-bargaining unit employees. The retiree subsidy plan does not issue a publicly available financial report.

**Benefits Provided**

The District pays a portion of the medical premiums for eligible retirees and their spouses from age 59 ½ until age 65. Retirees younger than 59 ½ may continue to receive coverage on a self-pay basis. The percentage of the medical premiums based upon years of service of the retirees. At the age of 59 ½, the retiree is eligible for a subsidy of 3% of their premium cost for each year of service up to 30 years (years x 3% x retiree premium). The subsidy cannot be more than the premium amount paid for active employees and is effective until the retiree turns 65. The cap for 2018 is \$499.40 for employee coverage and \$1,149.38 for employee and spouse coverage.

**Employees Covered by Benefit Terms**

At December 31, 2018, the following employees were covered by the benefit terms:

|                                                                          |     |
|--------------------------------------------------------------------------|-----|
| Inactive employees or beneficiaries currently receiving benefit payments | 51  |
| Inactive employees entitled to but not yet receiving benefit payments    | -   |
| Active employees                                                         | 640 |

**Funding Policy**

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

**Contributions**

For the years ended December 31, 2018 and 2017, the District paid approximately \$0.4 million and \$0.3 million, respectively, in retiree subsidies.

**Total OPEB Liability**

The District’s total OPEB liability was measured as of December 31, 2018 and 2017 and was determined by an actuarial valuation dated December 31, 2017 rolled forward to the December 31, 2018 measurement date.

**Actuarial Assumptions and Other Inputs**

The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified. 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* and the *2015 Economic experience Study*.



**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

|                            |                                                                                                                    |
|----------------------------|--------------------------------------------------------------------------------------------------------------------|
| Actuarial Cost Method:     | Entry Age Normal.                                                                                                  |
| Discount Rate:             | 3.50% per year, based on all years discounted at municipal bond rate.                                              |
| General Inflation:         | 2.50% per year.                                                                                                    |
| Wage Growth:               | 3.0% per year.                                                                                                     |
| Merit and Longevity Scale: | Salaries are assumed to increase at the sum of the Wage Growth assumption and the merit and longevity scale below: |

| <b>Years of Service</b> | <b>Rate</b> |
|-------------------------|-------------|
| 0                       | 6.00%       |
| 5                       | 2.20%       |
| 10                      | 0.50%       |
| 15                      | 0.20%       |
| 18+                     | 0.00%       |

Annual Premium Increase Rate:

| <b>Year</b> | <b>Rate</b> |
|-------------|-------------|
| 2018        | 6.30%       |
| 2019        | 6.20%       |
| 2020        | 6.10%       |
| 2021        | 6.00%       |
| 2022        | 5.90%       |
| 2023        | 5.80%       |
| 2024        | 5.70%       |
| 2025        | 5.60%       |
| 2026        | 5.50%       |
| 2027        | 5.40%       |
| 2028        | 5.30%       |
| 2029        | 5.20%       |
| 2030        | 5.10%       |
| 2031+       | 5.00%       |

Mortality Rates: Retirement Plan 2000, combined active/healthy retired, no collar, sex-distinct, projected fully generationally with Scale BB.

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

**Actuarial Assumptions and Other Inputs (Continued):**

Turnover Rates

Generally as developed for the valuation of benefits under Washington PERS. Examples of turnover rates are as follows:

| Service | Male   | Female |
|---------|--------|--------|
| 0       | 26.24% | 26.24% |
| 5       | 5.44%  | 6.65%  |
| 10      | 3.37%  | 4.17%  |
| 15      | 2.36%  | 2.77%  |
| 20      | 1.53%  | 1.80%  |
| 25      | 0.74%  | 0.94%  |
| 30+     | 0.36%  | 0.49%  |

Disability Rates

As developed for the valuation of benefits under Washington PERS. Sample rates are as follows:

| Age | Male    | Female  |
|-----|---------|---------|
| 20  | 0.0000% | 0.0000% |
| 40  | 0.0235% | 0.0275% |
| 60  | 0.7863% | 0.7681% |
| 80  | 0.0000% | 0.0000% |

Retirement Rates

Employees with fewer than 30 years of service are assumed to retire with rates as follows:

| Age | Male   | Female |
|-----|--------|--------|
| 55  | 2.00%  | 2.00%  |
| 56  | 3.00%  | 2.00%  |
| 57  | 4.00%  | 2.00%  |
| 58  | 5.00%  | 2.00%  |
| 59  | 6.00%  | 4.00%  |
| 60  | 7.00%  | 6.00%  |
| 61  | 8.00%  | 13.00% |
| 62  | 24.00% | 20.00% |
| 63  | 22.00% | 18.00% |
| 64  | 56.00% | 56.00% |
| 65  | 40.00% | 40.00% |

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

**Actuarial Assumptions and Other Inputs (Continued):**

Employees with 30 or more years of service are assumed to retire with rates as follows:

| <b>Age</b> | <b>Male</b> | <b>Female</b> |
|------------|-------------|---------------|
| 55         | 12.00%      | 12.00%        |
| 56         | 12.00%      | 12.00%        |
| 57         | 12.00%      | 12.00%        |
| 58         | 12.00%      | 12.00%        |
| 59         | 16.00%      | 24.00%        |
| 60         | 12.00%      | 12.00%        |
| 61         | 20.00%      | 20.00%        |
| 62         | 28.00%      | 28.00%        |
| 63         | 26.00%      | 26.00%        |
| 64         | 56.00%      | 56.00%        |
| 65         | 40.00%      | 40.00%        |

**Participation** 100% of actives eligible for District-paid medical benefits are assumed to be enrolled in a medical plan at retirement.

**Plan Enrollment** Current and future retirees are assumed to remain enrolled in the plans in which they are currently enrolled, if any.

**Marital Status** 65% of future retirees electing coverage are assumed to cover a spouse as well. Males are assumed to be three years older than their female spouses. Actual marital status and ages as of the valuation date are used for current retirees.

**Changes in Total OPEB Liability**

|                                                | <b>2018</b>                                    | <b>2017</b>                                    |
|------------------------------------------------|------------------------------------------------|------------------------------------------------|
|                                                | Increase<br>(Decrease) Total<br>OPEB Liability | Increase<br>(Decrease) Total<br>OPEB Liability |
| <b>(amounts in thousands)</b>                  |                                                |                                                |
| Total OPEB Liability at January 1              | \$ 6,806                                       | \$ 6,525                                       |
| Service Cost                                   | 362                                            | 351                                            |
| Interest on total OPEB Liability               | 237                                            | 229                                            |
| Effect of plan changes                         | -                                              | -                                              |
| Effect of economic/demographic gains or losses | -                                              | -                                              |
| Effect of assumptions changes or inputs        | -                                              | -                                              |
| Benefit payments                               | (428)                                          | (299)                                          |
| Net change in total OPEB liability             | 171                                            | 281                                            |
| <b>Total OPEB Liability at December 31</b>     | <b>\$ 6,977</b>                                | <b>\$ 6,806</b>                                |

**Notes to the Financial Statements**  
**Years ended December 31, 2018 and 2017**

***Sensitivity of the total OPEB liability to changes in the discount rate.***

The following presents the total OPEB liability of the District calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5%) or 1-percentage point higher (4.5%) than the current rate.

| (amounts in thousands) | <b>1%<br/>Decrease<br/>2.50%</b> | <b>Current<br/>Discount Rate<br/>3.50%</b> | <b>1%<br/>Increase<br/>4.50%</b> |
|------------------------|----------------------------------|--------------------------------------------|----------------------------------|
| Total OPEB liability   | \$ 7,600                         | \$ 6,977                                   | \$ 6,428                         |

***Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.***

The following presents the total OPEB liability of the District calculated using the current healthcare cost trend rate of 6.3 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.3%) or 1-percentage point higher (7.3%) than the current rate.

| (amounts in thousands) | <b>1%<br/>Decrease<br/>5.30% Graded<br/>Down to 4.00%</b> | <b>Current<br/>Discount Rate<br/>6.30% Graded<br/>Down to 5.00%</b> | <b>1%<br/>Increase<br/>7.30% Graded<br/>Down to 6.00%</b> |
|------------------------|-----------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------|
| Total OPEB liability   | \$ 6,111                                                  | \$ 6,977                                                            | \$ 8,057                                                  |

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

At December 31, 2018 and 2017, the District reported a liability of \$7.0 million and \$6.8 million, respectively. The total OPEB liability is based on the present value of the portion of future expected benefit payments that is considered to have been already earned by the participants. In future years, changes in the total OPEB liability due to actuarial gains or losses or changes in assumptions will be amortized over the average expected future working lifetime of participants, with unamortized amounts treated as deferred outflows or inflows of resources.

The District's annual OPEB cost (expense) is equal to the change in total OPEB liability, plus or minus changes in deferred outflows or inflows, plus employer contributions. For the years ended December 31, 2018 and 2017, the District recognized OPEB expense of \$0.6 million each year.

## 10. CONTINGENCIES

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

## 11. WHOLESALE FIBER OPTIC NETWORK

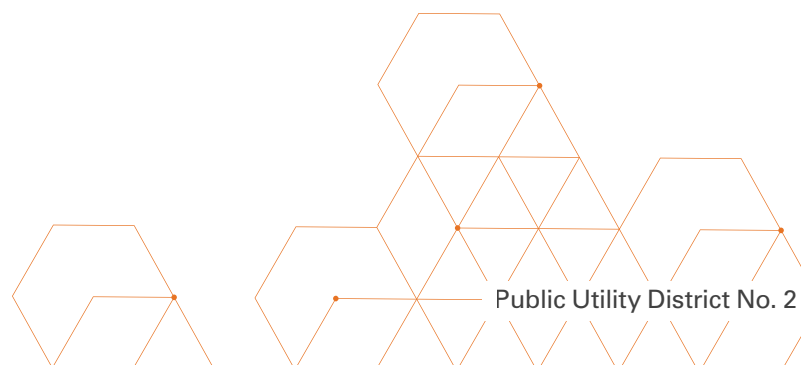
The District is installing a wholesale fiber optic network to the premises in its service area. This fiber optic network is interconnected with multiple regional and national telecommunications carriers. The wholesale fiber optic network is available to retail and wholesale providers of Internet, telephone, and video services. The District has also implemented a wholesale wireless network which is available to retail wireless providers.

The following is a summary of the results of operations of the wholesale fiber optic and wireless networks, and the related utility plant balances and related additions, as of and for the years ended December 31, 2018 and 2017:

| <b>(amounts in thousands)</b>                  | <b>2018</b>      | <b>2017</b>     |
|------------------------------------------------|------------------|-----------------|
| Operating revenues                             |                  |                 |
| Wholesale fiber services                       | \$ 7,594         | \$ 6,307        |
| Dark fiber revenue                             | 585              | 483             |
| Wireless fiber revenue                         | 81               | 70              |
| Wholesale fiber optic network sales            | <u>\$ 8,260</u>  | <u>\$ 6,860</u> |
| Operating expenses                             |                  |                 |
| Administrative and general                     | \$ 646           | \$ 489          |
| Repairs and maintenance                        | 1,619            | 1,433           |
| Depreciation                                   | 7,835            | 7,433           |
| <b>Total operating expenses</b>                | <u>\$ 10,100</u> | <u>\$ 9,355</u> |
| Nonoperating revenues                          |                  |                 |
| Contributions in aid of construction           | \$ 272           | \$ 162          |
| Utility plant                                  |                  |                 |
| Additions to utility plant                     | \$ 8,189         | \$ 3,446        |
| Utility plant, net of accumulated depreciation | \$ 83,915        | \$ 83,561       |

## 12. SUBSEQUENT EVENT

On April 8, 2019, the District signed a direct placement bond purchase agreement with Bank of America, N.A. to issue a \$50.0 million Electric System refunding revenue bond on April 19, 2019. This bond will refund the \$50.0 million 2016-L issuance and will have a floating interest rate of 80% of LIBOR plus 0.37% maturing on July 1, 2021.



### 13. SEGMENTS

The District has outstanding revenue bonds used to finance the Electric System and the Priest Rapids Project. As described in Note 5, all the outstanding bond issues are secured by a pledge of the net revenues of the District. The Electric System has committed to cover, without limitation, any costs incurred by the Priest Rapids Project that are not covered by purchasers other than the District.

Each system is required to be accounted for separately according to external contractual requirements. The following condensed financial statements of the operating segments of the District include the Electric System and the Priest Rapids Project. The District's Service System, as well as eliminating internal transactions, is presented as "Other" in order to reconcile to the consolidated District's results. "Other" is not considered a segment of the District.

#### CONDENSED STATEMENT OF NET POSITION

DECEMBER 31, 2018  
(AMOUNTS IN THOUSANDS)

|                                                                           | Electric System     | Priest Rapids Project | Other               | Total               |
|---------------------------------------------------------------------------|---------------------|-----------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                             |                     |                       |                     |                     |
| Total current assets                                                      | \$ 212,467          | \$ 112,489            | \$ (13,093)         | \$ 311,863          |
| Utility plant, net                                                        | 595,796             | 1,501,465             | -                   | 2,097,261           |
| Noncurrent                                                                | 375,423             | 149,484               | (237,350)           | 287,557             |
| <b>TOTAL ASSETS</b>                                                       | <b>1,183,686</b>    | <b>1,763,438</b>      | <b>(250,443)</b>    | <b>2,696,681</b>    |
| Deferred outflows of resources                                            | 18,627              | 7,272                 | (15,771)            | 10,128              |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                    | <b>\$ 1,202,313</b> | <b>\$ 1,770,710</b>   | <b>\$ (266,214)</b> | <b>\$ 2,706,809</b> |
| <b>LIABILITIES</b>                                                        |                     |                       |                     |                     |
| Current                                                                   | \$ 46,076           | \$ 102,857            | \$ (10,182)         | \$ 138,751          |
| Noncurrent                                                                | 309,243             | 1,325,668             | (240,279)           | 1,394,632           |
| <b>TOTAL LIABILITIES</b>                                                  | <b>355,319</b>      | <b>1,428,525</b>      | <b>(250,461)</b>    | <b>1,533,383</b>    |
| Deferred Inflows of resources                                             | 5,365               | 24,099                | (15,771)            | 13,693              |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>                | <b>360,684</b>      | <b>1,452,624</b>      | <b>(266,232)</b>    | <b>1,547,076</b>    |
| <b>NET POSITION</b>                                                       |                     |                       |                     |                     |
| Net investment in capital assets                                          | 303,754             | 200,054               | 245,881             | 749,689             |
| Restricted                                                                | 137,107             | 161,672               | 5,106               | 303,885             |
| Unrestricted                                                              | 400,768             | (43,640)              | (250,969)           | 106,159             |
| <b>TOTAL NET POSITION</b>                                                 | <b>841,629</b>      | <b>318,086</b>        | <b>18</b>           | <b>1,159,733</b>    |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b> | <b>\$ 1,202,313</b> | <b>\$ 1,770,710</b>   | <b>\$ (266,214)</b> | <b>\$ 2,706,809</b> |

*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*

## Notes to the Financial Statements (cont.)

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

| YEAR ENDED DECEMBER 31, 2018<br>(AMOUNTS IN THOUSANDS) | Electric<br>System | Priest<br>Rapids<br>Project | Other            | Total               |
|--------------------------------------------------------|--------------------|-----------------------------|------------------|---------------------|
| <b>OPERATING REVENUES</b>                              |                    |                             |                  |                     |
| Retail energy sales                                    | \$ 201,391         | \$ -                        | \$ -             | \$ 201,391          |
| Wholesale revenues, net                                | 39,717             | -                           | 27,469           | 67,186              |
| Sales to power purchasers at cost                      | -                  | 167,845                     | (136,235)        | 31,610              |
| Other                                                  | 11,083             | -                           | -                | 11,083              |
| <b>Total operating revenues</b>                        | <b>252,191</b>     | <b>167,845</b>              | <b>(108,766)</b> | <b>311,270</b>      |
| <b>OPERATING EXPENSES</b>                              |                    |                             |                  |                     |
| Depreciation and amortization                          | 40,033             | 33,201                      | -                | 73,234              |
| Other operating expenses                               | 161,153            | 77,086                      | (108,766)        | 129,473             |
| <b>Total operating expenses</b>                        | <b>201,186</b>     | <b>110,287</b>              | <b>(108,766)</b> | <b>202,707</b>      |
| <b>NET OPERATING INCOME</b>                            | <b>51,005</b>      | <b>57,558</b>               | <b>-</b>         | <b>108,563</b>      |
| <b>OTHER REVENUES (EXPENSES)</b>                       |                    |                             |                  |                     |
| Interest and other income                              | 14,003             | 6,245                       | (8,857)          | 11,391              |
| Interest on revenue bonds and other, net               | (9,385)            | (57,568)                    | 10,173           | (56,780)            |
| Federal rebates on revenue bonds                       | -                  | 10,552                      | -                | 10,552              |
| Amortization of debt discount/premium                  | 319                | 4,593                       | (1,271)          | 3,641               |
| Cost of debt issuance                                  | -                  | -                           | -                | -                   |
| <b>Total other revenues (expenses)</b>                 | <b>4,937</b>       | <b>(36,178)</b>             | <b>45</b>        | <b>(31,196)</b>     |
| <b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>            | <b>12,485</b>      | <b>-</b>                    | <b>-</b>         | <b>12,485</b>       |
| <b>CHANGE IN NET POSITION</b>                          | <b>68,427</b>      | <b>21,380</b>               | <b>45</b>        | <b>89,852</b>       |
| <b>NET POSITION</b>                                    |                    |                             |                  |                     |
| Beginning of year, as restated                         | 773,202            | 296,706                     | (27)             | 1,069,881           |
| <b>End of year</b>                                     | <b>\$ 841,629</b>  | <b>\$ 318,086</b>           | <b>\$ 18</b>     | <b>\$ 1,159,733</b> |

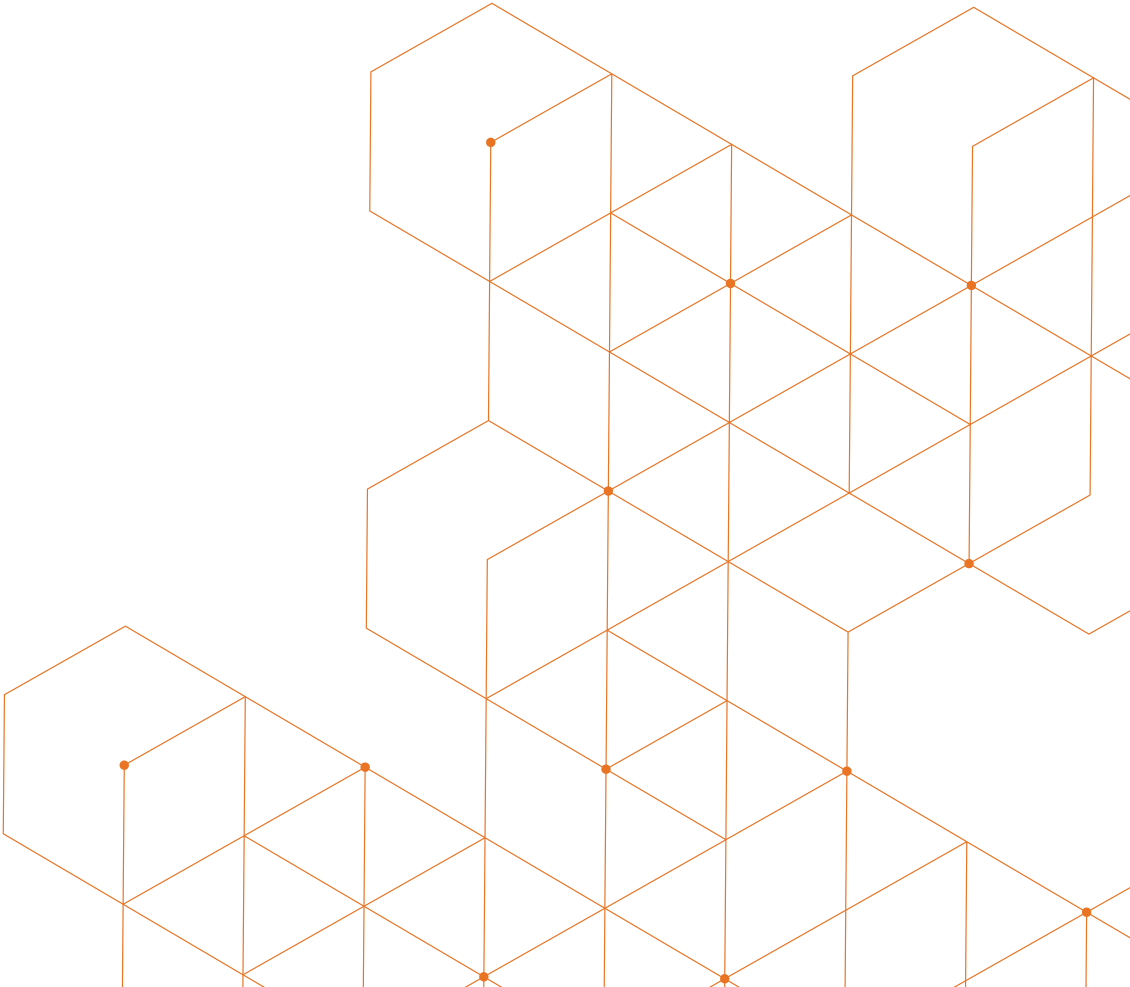
*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*

## Notes to the Financial Statements (cont.)

### CONDENSED SCHEDULE OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018  
(AMOUNTS IN THOUSANDS)

|                                                                         | Electric<br>System | Priest<br>Rapids<br>Project | Other           | Total              |
|-------------------------------------------------------------------------|--------------------|-----------------------------|-----------------|--------------------|
| Net cash provided by (used in) operating activities                     | \$ 94,855          | \$ 82,443                   | \$ (3,434)      | \$ 173,864         |
| Net cash provided by (used in) capital and related financing activities | (48,190)           | (173,721)                   | 10,174          | (211,737)          |
| Net cash provided by (used in) investing activities                     | (47,606)           | 41,590                      | (4,448)         | (10,464)           |
| <b>NET INCREASE/(DECREASE) IN CASH</b>                                  | <b>\$ (941)</b>    | <b>\$ (49,688)</b>          | <b>\$ 2,292</b> | <b>\$ (48,337)</b> |
| <br>                                                                    |                    |                             |                 |                    |
| CASH AT END OF YEAR                                                     | \$ 3,630           | \$ 294                      | \$ (36)         | \$ 3,888           |
| <br>                                                                    |                    |                             |                 |                    |
| CASH AT BEGINNING OF YEAR                                               | 4,571              | 49,982                      | (2,328)         | 52,225             |
| <b>NET INCREASE/(DECREASE) IN CASH</b>                                  | <b>\$ (941)</b>    | <b>\$ (49,688)</b>          | <b>\$ 2,292</b> | <b>\$ (48,337)</b> |



*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*



## Notes to the Financial Statements (cont.)

### CONDENSED STATEMENT OF NET POSITION (as restated)

DECEMBER 31, 2017

(AMOUNTS IN THOUSANDS)

|                                                                           | Electric<br>System  | Priest<br>Rapids<br>Project | Other               | Total               |
|---------------------------------------------------------------------------|---------------------|-----------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                             |                     |                             |                     |                     |
| Total current assets                                                      | \$ 126,558          | \$ 102,443                  | \$ (4,341)          | \$ 224,660          |
| Utility plant, net                                                        | 591,861             | 1,453,509                   | -                   | 2,045,370           |
| Noncurrent                                                                | 404,999             | 236,306                     | (242,903)           | 398,402             |
| <b>TOTAL ASSETS</b>                                                       | <b>1,123,418</b>    | <b>1,792,258</b>            | <b>(247,244)</b>    | <b>2,668,432</b>    |
| Deferred outflows of resources                                            | 18,937              | 8,395                       | (15,196)            | 12,136              |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                    | <b>\$ 1,142,355</b> | <b>\$ 1,800,653</b>         | <b>\$ (262,440)</b> | <b>\$ 2,680,568</b> |
| <b>LIABILITIES</b>                                                        |                     |                             |                     |                     |
| Current                                                                   | \$ 45,171           | \$ 111,413                  | \$ (2,367)          | \$ 154,217          |
| Noncurrent                                                                | 320,427             | 1,372,169                   | (244,851)           | 1,447,745           |
| <b>TOTAL LIABILITIES</b>                                                  | <b>365,598</b>      | <b>1,483,582</b>            | <b>(247,218)</b>    | <b>1,601,962</b>    |
| Deferred inflows of resources                                             | 3,556               | 20,365                      | (15,196)            | 8,725               |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>                | <b>369,154</b>      | <b>1,503,947</b>            | <b>(262,414)</b>    | <b>1,610,687</b>    |
| <b>NET POSITION</b>                                                       |                     |                             |                     |                     |
| Net investment in capital assets                                          | 320,285             | 195,090                     | 246,516             | 761,891             |
| Restricted                                                                | 135,726             | 149,531                     | 2,807               | 288,064             |
| Unrestricted                                                              | 317,190             | (47,915)                    | (249,349)           | 19,926              |
| <b>TOTAL NET POSITION</b>                                                 | <b>773,201</b>      | <b>296,706</b>              | <b>(26)</b>         | <b>1,069,881</b>    |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b> | <b>\$ 1,142,355</b> | <b>\$ 1,800,653</b>         | <b>\$ (262,440)</b> | <b>\$ 2,680,568</b> |

*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*

## Notes to the Financial Statements (cont.)

### SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (as restated)

| YEAR ENDED DECEMBER 31, 2017<br>(AMOUNTS IN THOUSANDS) | Electric<br>System | Priest<br>Rapids<br>Project | Other            | Total               |
|--------------------------------------------------------|--------------------|-----------------------------|------------------|---------------------|
| <b>OPERATING REVENUES</b>                              |                    |                             |                  |                     |
| Retail energy sales                                    | \$ 188,472         | \$ -                        | \$ -             | \$ 188,472          |
| Wholesale revenues, net                                | 54,753             | -                           | -                | 54,753              |
| Sales to power purchasers at cost                      | -                  | 168,172                     | (126,383)        | 41,789              |
| Other                                                  | 8,895              | -                           | -                | 8,895               |
| <b>Total operating revenues</b>                        | <b>252,120</b>     | <b>168,172</b>              | <b>(126,383)</b> | <b>293,909</b>      |
| <b>OPERATING EXPENSES</b>                              |                    |                             |                  |                     |
| Depreciation and amortization                          | 35,845             | 30,361                      | -                | 66,206              |
| Other operating expenses                               | 178,203            | 80,764                      | (126,383)        | 132,584             |
| <b>Total operating expenses</b>                        | <b>214,048</b>     | <b>111,125</b>              | <b>(126,383)</b> | <b>198,790</b>      |
| <b>NET OPERATING INCOME</b>                            | <b>38,072</b>      | <b>57,047</b>               | <b>-</b>         | <b>95,119</b>       |
| <b>OTHER REVENUES (EXPENSES)</b>                       |                    |                             |                  |                     |
| Interest and other income                              | 11,756             | 6,274                       | (5,197)          | 12,833              |
| Interest on revenue bonds and other, net of            | (8,382)            | (54,222)                    | 5,671            | (56,933)            |
| Federal rebates on revenue bonds                       | -                  | 10,556                      | -                | 10,556              |
| Amortization of debt expense, discount,<br>and premium | 1,305              | 4,078                       | (474)            | 4,909               |
| Cost of debt issuance                                  | (902)              | (71)                        | -                | (973)               |
| <b>Total other revenues (expenses)</b>                 | <b>3,777</b>       | <b>(33,385)</b>             | <b>-</b>         | <b>(29,608)</b>     |
| <b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>            | <b>10,649</b>      | <b>-</b>                    | <b>-</b>         | <b>10,649</b>       |
| <b>CHANGE IN NET POSITION</b>                          | <b>52,498</b>      | <b>23,662</b>               | <b>-</b>         | <b>76,160</b>       |
| <b>NET POSITION</b>                                    |                    |                             |                  |                     |
| Beginning of year                                      | 720,703            | 273,044                     | (26)             | 993,721             |
| End of year                                            | <b>\$ 773,201</b>  | <b>\$ 296,706</b>           | <b>\$ (26)</b>   | <b>\$ 1,069,881</b> |

*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*

## Notes to the Financial Statements (cont.)

### CONDENSED SCHEDULE OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017  
(AMOUNTS IN THOUSANDS)

|                                                                         | Electric<br>System | Priest<br>Rapids<br>Project | Other             | Total           |
|-------------------------------------------------------------------------|--------------------|-----------------------------|-------------------|-----------------|
| Net cash provided by (used in) operating activities                     | \$ 76,587          | \$ 85,249                   | \$ (1,023)        | \$ 160,813      |
| Net cash provided by (used in) capital and related financing activities | (5,909)            | (54,482)                    | (126,743)         | (187,134)       |
| Net cash provided by (used in) investing activities                     | (70,192)           | (20,507)                    | 126,526           | 35,827          |
| <b>NET INCREASE/(DECREASE) IN CASH</b>                                  | <b>\$ 486</b>      | <b>\$ 10,260</b>            | <b>\$ (1,240)</b> | <b>\$ 9,506</b> |
| <br>                                                                    |                    |                             |                   |                 |
| CASH AT END OF YEAR                                                     | \$ 4,571           | \$ 49,982                   | \$ (2,328)        | \$ 52,225       |
| CASH AT BEGINNING OF YEAR                                               | 4,085              | 39,722                      | (1,088)           | 42,719          |
| <b>NET INCREASE/(DECREASE) IN CASH</b>                                  | <b>\$ 486</b>      | <b>\$ 10,260</b>            | <b>\$ (1,240)</b> | <b>\$ 9,506</b> |

*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*

## Required Supplementary Information (Unaudited)

### Schedule of the District's Proportionate Share of the Net Pension Liability (amounts in thousands)

| Measurement Date Ended June 30                                                                   | PERS 1    |           |           |           |           |
|--------------------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|
|                                                                                                  | 2018      | 2017      | 2016      | 2015      | 2014      |
| Proportion of the net pension liability                                                          | 0.493735% | 0.509107% | 0.524928% | 0.544648% | 0.574446% |
| Proportionate share of the net pension liability                                                 | \$ 22,050 | \$ 24,158 | \$ 28,191 | \$ 28,490 | \$ 28,938 |
| Covered-employee payroll                                                                         | 65,002    | 63,510    | 61,646    | 56,606    | 63,970    |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 33.92%    | 38.04%    | 45.73%    | 50.33%    | 45.24%    |
| Plan fiduciary net position as a percentage of the total pension liability                       | 63.22%    | 61.24%    | 57.03%    | 59.10%    | 61.19%    |

| Measurement Date Ended June 30                                                                   | PERS 2/3  |           |           |           |           |
|--------------------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|
|                                                                                                  | 2018      | 2017      | 2016      | 2015      | 2014      |
| Proportion of the net pension liability                                                          | 0.622917% | 0.639308% | 0.650080% | 0.679264% | 0.706321% |
| Proportionate share of the net pension liability                                                 | \$ 10,636 | \$ 22,213 | \$ 32,731 | \$ 24,271 | \$ 14,277 |
| Covered-employee payroll                                                                         | 64,541    | 62,862    | 60,733    | 55,717    | 62,709    |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 16.48%    | 35.34%    | 53.89%    | 43.56%    | 22.77%    |
| Plan fiduciary net position as a percentage of the total pension liability                       | 95.77%    | 90.97%    | 85.82%    | 89.20%    | 93.29%    |

## Required Supplementary Information (Unaudited)

**Schedule of the District's Contributions**  
(amounts in thousands)

|                                                                               | PERS 1    |           |           |           |           |           |           |           |
|-------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                                                               | 2018      | 2017      | 2016      | 2015      | 2014      | 2012      | 2010      | 2009      |
| Contractually Required Contribution                                           | \$ 3,385  | \$ 3,222  | \$ 2,985  | \$ 2,653  | \$ 2,535  | \$ 883    | \$ 138    | \$ 212    |
| Contributions in Relation to the Contractually Required Contribution Subtotal | (3,385)   | (3,222)   | (2,985)   | (2,653)   | (2,535)   | (883)     | (138)     | (212)     |
| Contribution Deficiency (Excess)                                              | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |
| Covered-Employee Payroll                                                      | \$ 66,174 | \$ 64,999 | \$ 61,575 | \$ 59,113 | \$ 61,536 | \$ 59,498 | \$ 57,383 | \$ 55,952 |
| Contributions as a Percentage of Covered Employee Payroll                     | 5.12%     | 4.96%     | 4.85%     | 4.49%     | 4.12%     | 1.48%     | 0.24%     | 0.38%     |
|                                                                               | PERS 2/3  |           |           |           |           |           |           |           |
|                                                                               | 2018      | 2017      | 2016      | 2015      | 2014      | 2012      | 2010      | 2009      |
| Contractually Required Contribution                                           | \$ 4,927  | \$ 4,418  | \$ 3,788  | \$ 3,293  | \$ 3,022  | \$ 3,297  | \$ 2,807  | \$ 3,442  |
| Contributions in Relation to the Contractually Required Contribution          | (4,927)   | (4,418)   | (3,788)   | (3,293)   | (3,022)   | (3,297)   | (2,807)   | (3,442)   |
| Contribution Deficiency (Excess)                                              | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |
| Covered-Employee Payroll                                                      | \$ 65,702 | \$ 64,444 | \$ 60,809 | \$ 58,216 | \$ 60,489 | \$ 57,410 | \$ 54,551 | \$ 52,424 |
| Contributions as a Percentage of Covered Employee Payroll                     | 7.50%     | 6.86%     | 6.23%     | 5.66%     | 5.00%     | 5.74%     | 5.15%     | 6.57%     |

**Notes to Schedules**

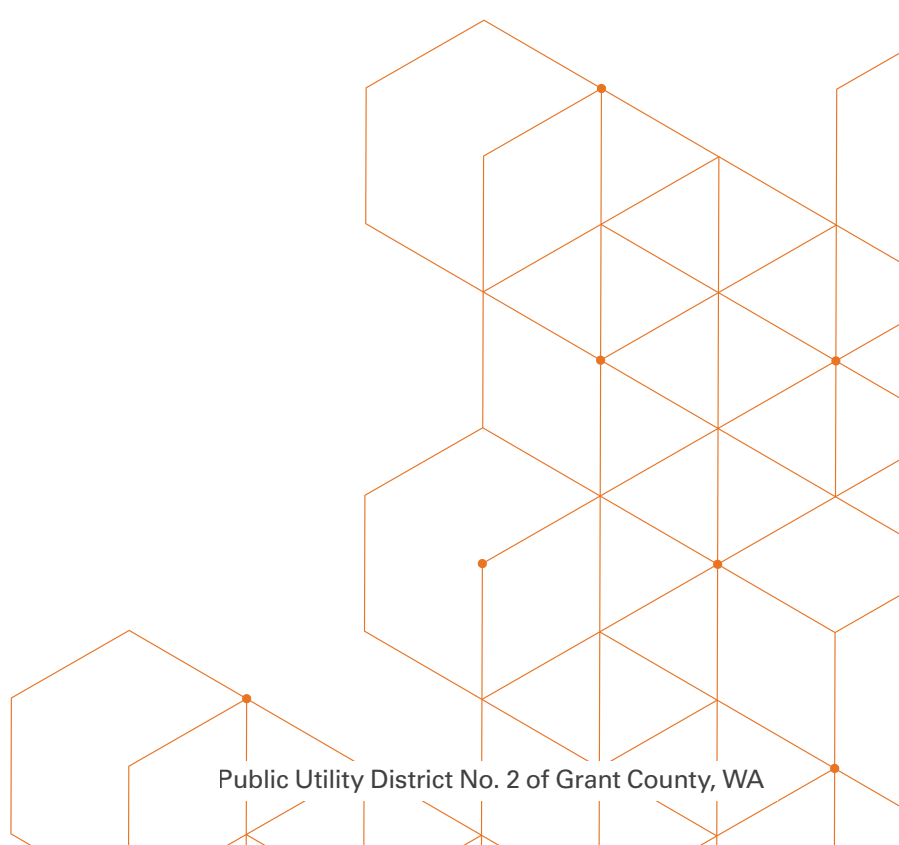
Grant County PUD #2 implemented GASB 68 for the year ended June 30, 2015. Information is presented only for those years for which information is available.

\*DRS allocates certain portion of contributions from PERS Plan 2/3 to PERS Plan 1 in order to fund its unfunded actuarially accrued liability (UAAL).

**NOTE - Changes made to presentation**

The PERS 1 UAAL is considered a PERS 1 contribution as it is contributed to that plan. This has been added to the PERS 1 contributions and deducted from PERS 2/3. PERS Plan 1 UAAL\*

GASB 82 - Changes the covered payroll in RSI to the payroll on which contributions are based. Accordingly, PERS 1 will include the payroll of PERS 1 and the payroll of PERS 2/3 when there is a PERS 1 UAAL contribution.



**Required Supplementary Information (Unaudited)**

**Schedule of Changes in Total OPEB Liability and Related Ratios  
(amounts in thousands)**

|                                                                     | <b>2018</b>            | <b>2017</b>            |
|---------------------------------------------------------------------|------------------------|------------------------|
| Service Cost                                                        | \$ 362                 | \$ 351                 |
| Interest on Total OPEB Liability                                    | 237                    | 229                    |
| Changes of Benefit Terms                                            | -                      | -                      |
| Effect of Economic/Demographic Gains or (Losses)                    | -                      | -                      |
| Effect of Assumptions Changes or Inputs                             | -                      | -                      |
| Benefit Payments                                                    | <u>(428)</u>           | <u>(299)</u>           |
| Net Change in Total OPEB Liability                                  | 171                    | 281                    |
| Total OPEB Liability - Beginning                                    | <u>6,806</u>           | <u>6,525</u>           |
| Total OPEB Liability - Ending                                       | <u><b>\$ 6,977</b></u> | <u><b>\$ 6,806</b></u> |
| Covered-Employee Payroll                                            | \$ 68,629              | \$ 66,630              |
| Total OPEB Liability as a Percentage of<br>Covered-Employee Payroll | 10.17%                 | 10.21%                 |

**Notes to Schedule**

Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for only those years for which information is available.

Grant County PUD No. 2 implemented GASB 75 effective January 1, 2017.



There are no assets accumulated in a qualified trust to provide benefits under the plan.







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