Fostering a green, clean, renewable environment

Comprehensive Annual Financial Report

For the Fiscal Years Ended December 31, 2017 and 2016

PUBLIC UTILITY DISTRICT NO. 1 OF FRANKLIN COUNTY

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

PUBLIC UTILITY DISTRICT NO. 1
OF FRANKLIN COUNTY
PO BOX 2407
PASCO, WA 99302-2407

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2017 AND 2016

PREPARED BY
DEPARTMENT OF ADMINISTRATIVE SERVICES, FINANCE DIVISION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended December 31, 2017 and 2016

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Introductory Section

Comprehensive Annual Financial Report for the Years Ended December 31, 2017 and 2016

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June 14, 2018

To the Board of Commissioners and Customers
Public Utility District No. 1 of Franklin County, Washington

FORMAL TRANSMITTAL OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The Comprehensive Annual Financial Report (CAFR) of Franklin County Public Utility District (District) for the years ended December 31, 2017 and 2016 is hereby submitted. The report is designed to assess the District's financial condition, educate readers about District services, and examine current challenges facing the District. Additionally, this report is used to fulfill reporting requirements required by Washington State law and the Securities and Exchange Commission. The management of the District is responsible for preparing the information in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles (GAAP) applied on a consistent basis and include amounts that are based on management's best estimates and judgments. To provide a reasonable basis for making these representations, management has established and maintains a comprehensive internal control framework that includes organization, administrative and accounting processes. The internal control system provides reasonable assurance as to the integrity and reliability of the financial statements, the safeguarding of assets from unauthorized use or disposition, and that business transactions are conducted in compliance with State laws and regulations. However, because the cost of internal controls should not outweigh their benefits, the District's system of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Washington State Auditor's office has issued an unmodified ("clean") opinion on the District's financial statements for years ended December 31, 2017 and 2016. The independent auditor's report is presented at the beginning of the financial section of this report.

The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal years ended December 31, 2017 and 2016 are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The District has included Management's Discussion and Analysis (MD&A) to accompany the basic financial statements. The MD&A is an opportunity for the District's management provide information regarding the District's financial condition and past performance. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE DISTRICT

The District is a municipal corporation of the State of Washington established in 1938 for the purpose of engaging in the purchase, generation, transmission, distribution and sale of electric energy. Additionally, the District is authorized under state law to provide wholesale telecommunication services. The District is governed by an elected three-member board and maintains its administrative offices in the city of Pasco.

The District is a statutory preference customer of the Bonneville Power Administration (Bonneville) and purchases most of its power from Bonneville. The District's remaining power supply requirements are supplied by various contracted resources (see Note 8).

The District is located in southeastern Washington, encompassing approximately 435 square miles of Franklin County and including the incorporated cities of Pasco (the Franklin County seat), Connell, Kahlotus, and Mesa. The District's largest city, Pasco, as well as the Cities of Kennewick and Richland in adjacent Benton County make up what is known as the Tri-Cities.

The District operates 21 substations as well as 1,070 miles of transmission and distribution lines to serve its customers.

Annual Budget

The District records financial transactions within a single proprietary fund. The District has no governmental funds with legally adopted budgets that carry the force of law. Accordingly, the District's budget is not contained within this report.

The District adopts an annual budget for purposes of planning and management control. The budget process involves preparation of a proposed operating and capital budget by District staff for the ensuing year that is presented to the Board of Commissioners. The preliminary budgets are reviewed and revised during public hearings held at regular meetings of the Board of Commissioners. The budget is adopted by the Board of Commissioners and becomes the basis for operations for the next calendar year.

Local Economy

Franklin County's economy is based mainly on the agriculture and food processing industries. Farmland comprises the majority of Franklin County's land area. Crops grown in Franklin County are shipped to both domestic and export markets. With the strength of farm production throughout the county, food processing has become a major factor in the Franklin County economy.

The economic base of agriculture and food manufacturing, along with industrial diversity has consistently placed Franklin County in the top 10 of fastest growing counties in the State of Washington for the past two decades. The county's population growth continues to drive demand for more educational opportunities and healthcare services.

Long-Term Financial Planning

The District's five-year forecast is continually updated to follow projections and changes affecting the District. The forecast includes both operating and capital activity with a focus on reserve levels, debt service coverage levels, and potential rate action.

The District has adopted a financial policy and procedures for purposes of managing the District's finances. The policies cover such issues as debt service coverage, debt financing, retail rates, power supply risk, credit risk, investment policies and practices, insurance, budgetary and procurement controls, and financial reporting. The financial policies and procedures call for developing financial plans to maintain cash reserves sufficient to provide funding for 90 days of non-power expenses and funding for anticipated power costs based on 10% of gross power expenses for the planned year's budget and 25% of planned capital expenditures. The financial policies also define the District's goals for debt to asset ratio, debt service coverage, and establishment of a Rate Stabilization Fund.

Major Initiatives

In 2017, the District began the process of implementing an integrated utility software solution. This new solution replaced the District's stand-alone systems. The District chose an integrated software solution to lower operational and maintenance costs, improve customer accessibility to usage, outage and payment data, utilize mobile work force management, and enhance reporting of financial and other performance metrics. The District expects that optimization of the installed components of the software solution, as well as planned future enhancements to continue into 2018 and 2019. This software solution is an important step in achieving the District's goal to maintain reliability of internal operational systems, which ultimately provides reliability for the District's customers.

The District's continued growth in the residential, commercial, and industrial sectors brings additional demand to the existing electrical infrastructure system. Construction of an additional substation bay to serve an expanding industrial load in the southern section of Franklin County is underway and expected to be completed in 2018, along with several other projects aimed at improving or replacing older infrastructure with more safe and reliable technology.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a certificate of Achievement for Excellence in Financial Reporting to the District for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2016. This was the thirteenth consecutive year that the District achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the Accounting and Administrative Services Division. We wish to express our appreciation to these staff members for their contributions to the development of this report. Further appreciation is extended to the Board of Commissioners for their leadership and support in planning and conducting the financial operations of the District in a responsible and enterprising manner.

Respectfully Submitted,

Tim Nies
General Manager

Holly Dohrman
Auditor

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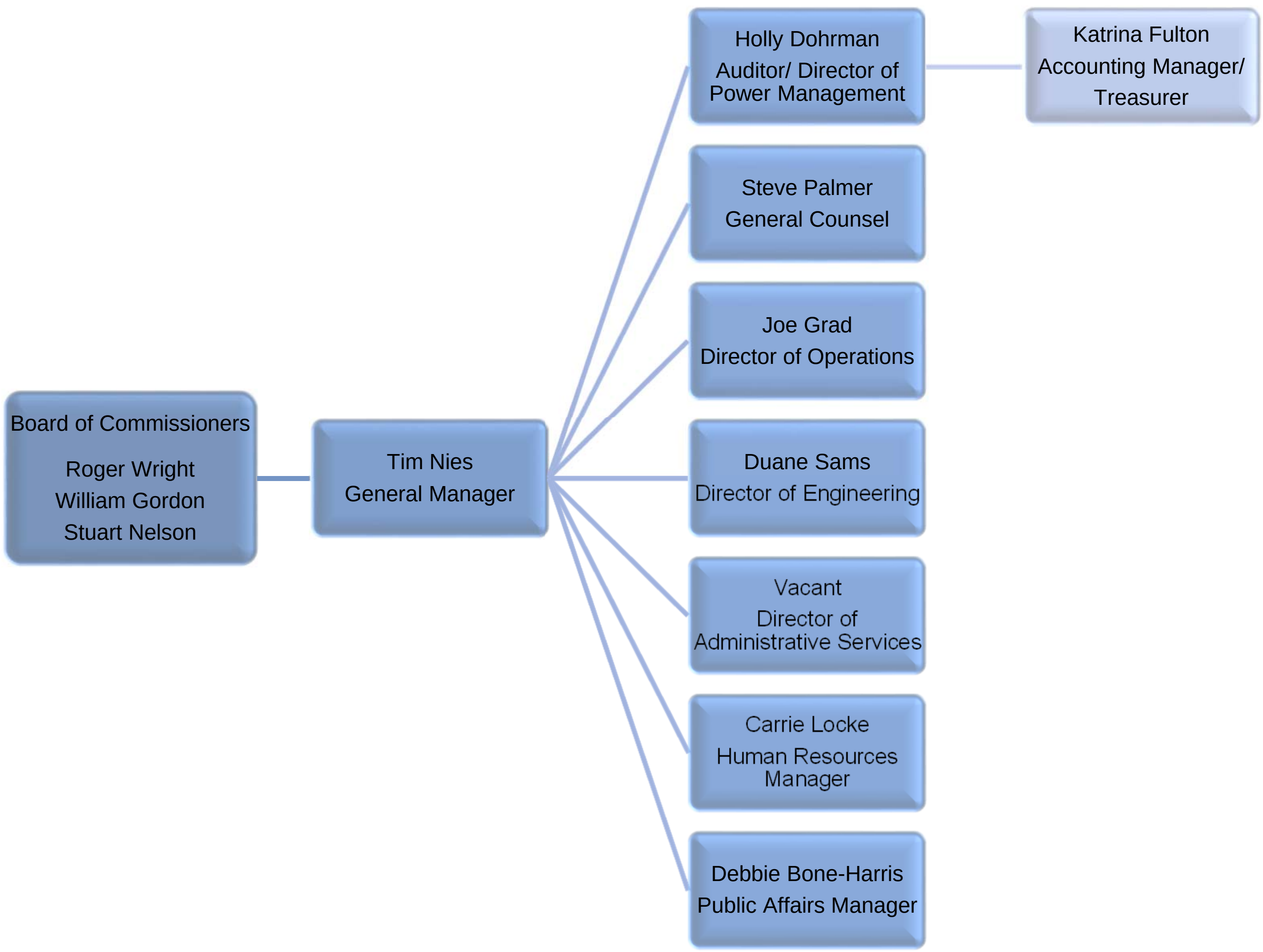
Public Utility District No. 1 of Franklin County
Organizational Chart
as of December 31, 2017



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public Utility District No. 1
of Franklin County, Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2016

Christopher P. Morrill

Executive Director/CEO

Financial Section

Comprehensive Annual Financial Report for the Years Ended December 31, 2017 and 2016

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Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

June 14, 2018

Board of Commissioners
Public Utility District No. 1 of Franklin County
Pasco, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Franklin County, Washington, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of basic of Public Utility District No. 1 of Franklin County, as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents 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.

Supplementary and Other Information

Our audit was conducted for the sole purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated June 14, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides an overview and analysis of key data presented in the basic financial statements for the years ended December 31, 2017 and 2016, with additional comparative data for 2015. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

Overview of the Financial Statements

Public Utility District No. 1 of Franklin County (District) accounts for its financial activities within a single proprietary fund. The District's financial activities are comprised of the purchase, generation, transmission, distribution and sale of electric energy, as well as the sale of wholesale telecommunication services.

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

The basic financial statements, presented in comparative format for the years ended December 31, 2017 and 2016 are comprised of:

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

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

Comparative Statement of Cash Flows: The Comparative Statement of Cash Flows reflects the sources and uses of cash separated into three categories of activities: operating, capital and related financing, and investing. The District does not include cash equivalents within its definition of cash.

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

Statement of Net Position (in thousands)

	2017	2016	2016 to 2017 Change	2015
Current and Other Assets	$53,230	$55,841	-4.68%	$59,839
Capital Assets and Work in Progress	237,110	228,452	3.79%	215,297
Accumulated Depreciation	(96,968)	(91,026)	6.53%	(84,280)
Total Assets	**193,372**	**193,267**	0.05%	**190,856**
Deferred Outflows of Resources	1,938	2,874	-32.57%	2,595
Total Assets and Deferred Outflows	**195,310**	**196,141**	-0.42%	**193,451**
Current and Other Liabilities	16,977	16,198	4.81%	17,361
Long-Term Liabilities	66,385	72,235	-8.10%	68,685
Total Liabilities	**83,362**	**88,433**	-5.73%	**86,046**
Deferred Inflows of Resources	1,978	1,665	18.80%	3,090
Total Liabilities and Deferred Inflows	**85,340**	**90,098**	-5.28%	**89,136**
Net Investment in Capital Assets	80,975	77,790	4.09%	70,465
Restricted for Debt Service	3,915	3,915	0.00%	3,142
Unrestricted	25,080	24,338	3.05%	30,708
Total Net Position	**$109,970**	**$106,043**	3.70%	**$104,315**

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

	2017	2016	2016 to 2017 Change	2015
Operating Revenues:				
Retail Energy Sales	$80,670	$73,895	9.17%	$75,121
Sales for Resale	6,856	7,970	-13.98%	9,257
Other	2,007	1,976	1.57%	2,022
Total Operating Revenues	89,533	83,841	6.79%	86,400
Nonoperating Revenues	362	246	47.15%	184
Total Revenues	**89,895**	**84,087**	**6.91%**	**86,584**
Operating Expenses:				
Power Supply	57,805	57,475	0.57%	58,300
Operations, Maintenance & Administrative	13,412	13,215	1.49%	12,601
Taxes & Depreciation	11,839	11,718	1.03%	11,635
Total Operating Expenses	83,056	82,408	0.79%	82,536
Nonoperating Expenses	2,132	2,807	-24.05%	2,885
Total Expenses	**85,188**	**85,215**	**-0.03%**	**85,421**
Income (Loss) Before Capital Contributions	4,707	(1,128)	-517.29%	1,163
Capital Contributions	2,220	2,856	-22.27%	2,788
Special Items	(3,000)	0		(3,000)
Change in Net Position	**3,927**	**1,728**	**127.26%**	**951**
Beginning Net Position	106,043	104,315	1.66%	103,364
Ending Net Position	**$109,970**	**$106,043**	3.70%	**$104,315**

Financial Analysis

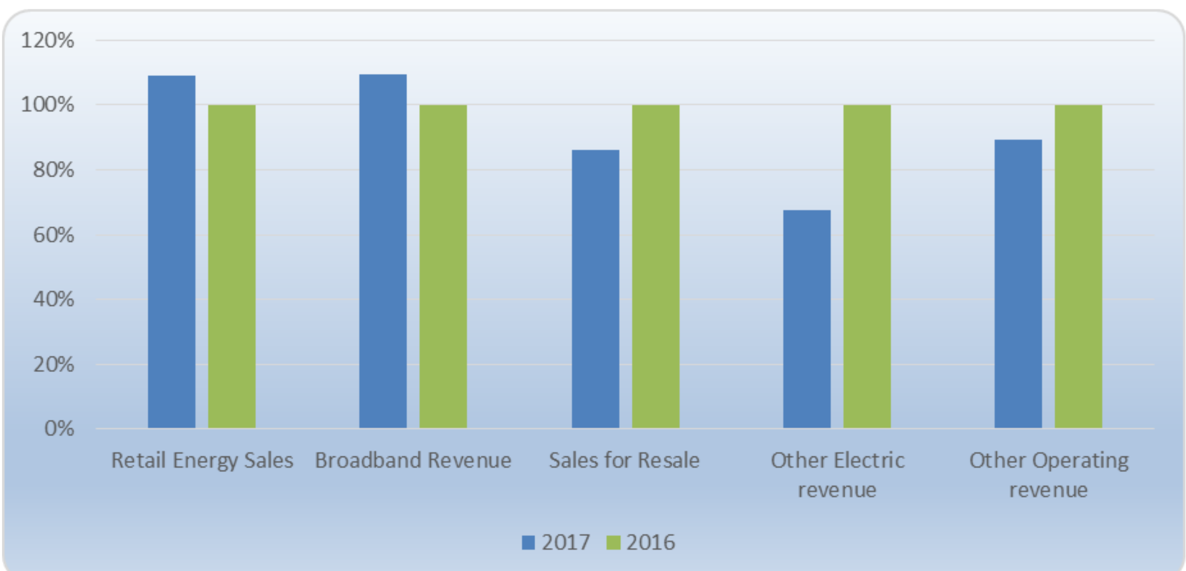
The District maintained a strong overall financial position in 2017, with total Net Position increasing 3.70% over 2016. The following narrative is an analysis of the change in net position by major components of income, with a primary focus on changes between 2017 and 2016.

Operating Revenues

2016 to 2017:
An unseasonably long and cold winter propelled the District's Retail Energy Sales to a strong start in 2017. The District began to see a surge in retail energy consumption at the end of 2016, and this continued throughout the first quarter of 2017. Coupled with a retail rate increase of 4.1% effective May 1, 2017, the District ended the year with Retail Energy Sales revenues of 9.17% over 2016.

Revenues from wholesale energy (Sales for Resale) decreased 13.98% in 2017. Despite stronger average wholesale power prices in 2017 than in 2016, the District used available excess power to serve its load, rather than sell on the wholesale power market. This was due to the increased retail consumption resulting from the colder than expected winter.

The following chart is graphical representation of the District's 2017 Operating Revenues as a percentage of 2016 Operating Revenues:



2015 to 2016:
Seasonally mild weather across the region for most of 2016 impacted the District's sales of kilowatt hours to retail energy customers. Retail energy consumption was consistently below expected throughout the majority of the year, with a short period very high consumption at the end of the year due to record cold temperatures and snowfall. This is reflected in the overall $1.2 million (1.63%) decrease in Retail Energy Sales from 2015 to 2016.

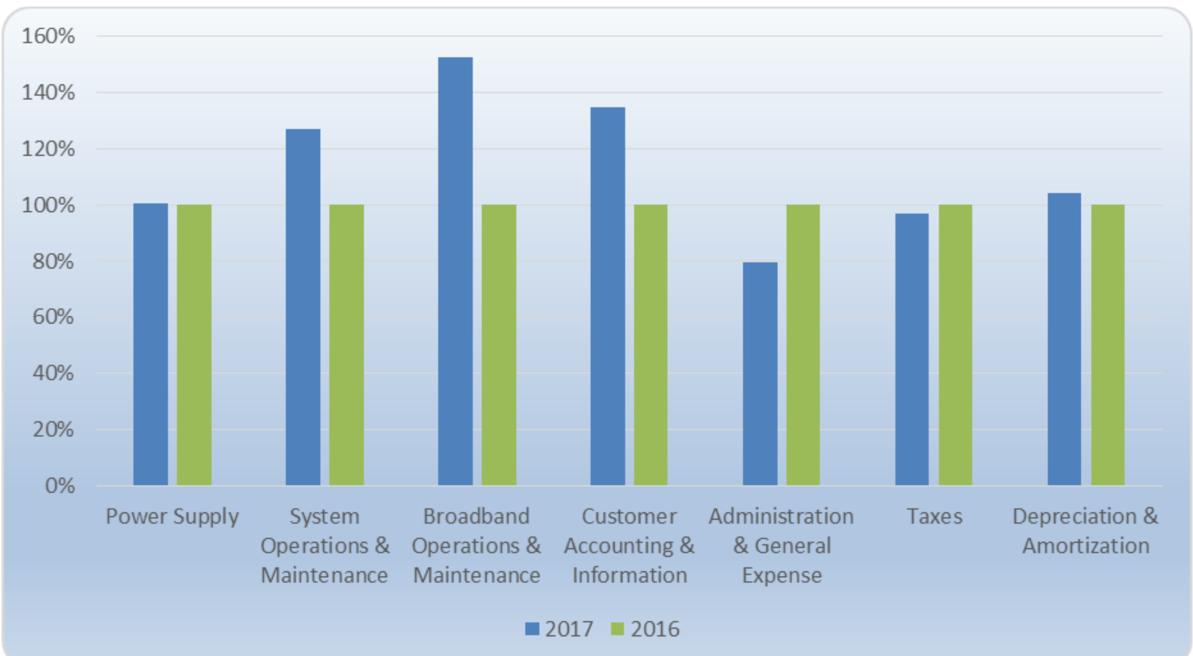
Revenues from wholesale energy (Sales for Resale) decreased 2.27% in 2016. While the average wholesale power prices received for sales of excess megawatt hours increased from 2015, the District sold approximately 19% fewer megawatt hours.

Operating Expenses

2016 to 2017:
The District's Total Operating Expenses held steady with a modest increase of .79% in 2017 over 2016. The District's largest Operating Expense, Power Supply, remained relatively flat in 2017 with an increase of just .57%. The unseasonably cold winter caused spikes in the number of kilowatt hours needed to serve the District's load, which increased power purchased on the open market by approximately 15%, or $300,000. This increase in Power Supply cost was offset by decreases in power supplied by the District's share of the Frederickson combustion turbine plant (see Note 7 – Power Supply).

In 2017, the District began the practice of allocating employer paid payroll taxes, as well as other employee benefits to the functional areas worked by employees. This practice resulted in decreases in Taxes and Administrative and General Expense and increases in other operating expense items.

The following chart is graphical representation of the District's 2017 Operating Expenses as a percentage of 2016 Operating Expenses:



2015 to 2016:
The District experienced a small decrease of approximately $127,000 (.16%) in Total Operating Expenses in 2016. Power supply and tax expense decreased approximately $954,000 due to the reduced kilowatt hour sales to retail electric customers discussed previously. This decrease was offset by increases in Operations, Maintenance & Administrative of $484,000, which is in part due to a reduction of pension expense of approximately $300,000 experienced in 2015 with the implementation of GASB Statement No. 68. An adjustment of this magnitude was not recorded for 2016.

Capital Contributions

Revenues from Capital Contributions decreased in 2017 due to the status of several capital projects still under construction for which revenue has not been recognized. Beginning in 2017, the District recognizes revenues collected from Contributions in Aid of Construction at the beginning of a capital project as a deferred revenue (Customer Advances for Construction) until the capital project is completed, at which point the revenue is recognized as revenue from Capital Contributions on the Statement of Changes in Revenues, Expenses and Net Position. The deferred amount for the unrecognized portion (Customer Advances for Construction) of Capital Contributions is presented under Current Liabilities as Other Credits and Liabilities on the Statement of Net Position.

Capital Contributions increased approximately $68,000 in 2016, as the District continued to add new customers in both the residential and commercial business sectors. The District realized approximately $100,000 in revenues related to serving new customers as well system upgrades for current customers, an increase of 3.6% over 2015. This was offset by a decrease in state grant revenue of $31,735.

Summary of Financial Position

The District's overall financial position improved in 2017, with an increase in net position of almost $4 million.

District management monitors the effectiveness of its financial operations by measuring results against the financial policy adopted by the District's governing body. This policy directs District management to develop financial plans that position the District for current and future years while being fiscally responsible to the District's ratepayers. The financial policy consists of three key financial performance metrics – minimum cash/investment reserve balance (sufficient to fund 10% of gross power supply costs, 25% of other operating costs, and 25% of planned capital spending); minimum debt service coverage ratio of 1.6; maximum debt/asset ratio of 40%; and funding of a Rate Stabilization Fund at a level sufficient to meet the fiscal needs of the District. The District's performance over the past three years achieved these goals:

	2017 Financial Policy Targets	2017	2016	2015
Unrestricted Cash & Investments (in millions)	$13.7	$26.3	$21.5	$27.7
Minimum Debt Service Coverage	1.6	2.85	1.93	2.29
Maximum Debt/Asset Ratio	40%	33%	33%	32%
Rate Stabilization Fund	$5.9*	$5.9	$5.9	$5.9

*Funding level currently established, to be reviewed periodically by the District's governing body.

Capital Asset and Long-Term Debt Activity

Capital Assets (in thousands)

	2017	2016	Increase (Decrease)	% Change
Land	$893	$893	$0	0.0%
Electric Plant in Service	230,193	223,836	6,357	2.8%
Construction Work in Progress	6,024	3,723	2,301	61.8%
Accumulated Depreciation	(96,968)	(91,026)	(5,942)	6.5%
Total Net Capital Assets	$140,142	$137,426	$2,716	2.0%

During 2017, the District embarked on a conversion to an enterprise wide software system, including a new capital asset tracking system. As of December 31, 2017 the capital asset system was not fully implemented and approximately $6 million of projects completed in 2017 were awaiting capital asset classification. The District expects this classification to occur in 2018 as implementation of the capital asset tracking system progresses. This $6 million is considered to be placed in service and comprises the majority of asset additions in 2017, along with $1 million of new broadband assets resulting from increased demand for residential broadband service. The District also retired $1 million of obsolete General Plant assets in 2017.

At the end of 2016, the District had $228 million invested in capital assets. The District purchased a mobile substation and replaced a power transformer in the Franklin Substation during 2016. These projects alone encompassed 18% of the increase in plant placed in service, or approximately $3 million. The total increase in the District's investment in capital assets for the current year was $13.1 million, or 6.1%.

More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Long Term Debt (in thousands)

	2017	2016	Increase (Decrease)	% Change
Revenue Bonds	$60,738	$64,246	($3,508)	-5.5%

The District issued a total of $32.2 million in revenue and refunding bonds in 2016 to fund capital improvements and refund various outstanding bond issues. This issue refunded all but the 2017 maturities of the outstanding 2007 series revenue and refunding bonds, and resulted in a net present value savings to the District of $2.4 million.

Debt service payments totaled $5.5 million in 2017, and $5.7 million annually for 2016 and 2015.

More detailed information regarding the District's long term debt is presented in Note 4 to the financial statements.

Bond Ratings

In 2016, the District affirmed its credit ratings with Standard & Poor's (A) and Moody's Global Ratings Scale (A1). There was no change to these ratings in 2017.

Other Significant Matters

During 2017, the District adjusted the value of the Pasco Combustion Turbine plant to approximate market value based on Management's estimate of the plant's potential sales price. The plant is reported as an Asset Held for Sale on the Statement of Net Position. The impact of this revaluation is shown as a Special Item on the District's Statement of Changes in Revenues, Expenses and Net Position. Further information regarding the revaluation of the Pasco Combustion Turbine plant is presented in Note 12 of the financial statements – Special Item.

STATEMENT OF NET POSITION
As of December 31, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	***2017***	***2016***
ASSETS		
Current Assets		
Cash (Note 2)	$6,041,434	$5,235,070
Investments (Note 2)		
Restricted Construction Account		3,276,911
Unrestricted	20,269,182	16,279,039
Accounts Receivable	10,799,153	10,184,417
Inventories	3,170,629	3,704,492
Prepayments	141,084	91,676
Derivative Asset (Note 1)	597,754	1,249,771
Asset Held for Sale (Note 11)	2,447,004	5,447,004
Other Current Assets		7,551
Total Current Assets	***43,466,240***	***45,475,931***
Noncurrent Assets		
Other Receivables (Note 1)	5,850,000	6,450,000
Restricted Debt Service Reserve Fund	3,914,649	3,914,649
Utility Plant (Note 3)		
Land	893,104	893,104
Electric Plant in Service	230,192,758	223,836,397
Construction Work in Progress	6,024,104	3,722,684
Accumulated Depreciation	(96,968,445)	(91,025,824)
Net Utility Plant	140,141,521	137,426,361
Total Noncurrent Assets	***149,906,170***	***147,791,010***
TOTAL ASSETS	***193,372,410***	***193,266,941***
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	659,844	970,795
Deferred loss on refunding	389,303	477,162
Deferred Pension Outflows (Note 5)	888,388	1,425,779
Total Deferred Outflows of Resources	***1,937,535***	***2,873,736***
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	***$195,309,945***	***$196,140,677***
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts Payable	$6,644,929	$6,264,087
Customer Deposits	1,497,534	1,413,965
Accrued Taxes Payable	2,099,278	1,849,489
Accrued Interest Payable	768,758	753,059
Other Credits and Liabilities	2,046,119	1,745,611
Revenue Bonds, Current Portion	3,260,000	3,200,000
Derivative Liability (Note 1)	659,844	970,795
Total Current Liabilities	***16,976,462***	***16,197,006***
Noncurrent Liabilities		
Outstanding Revenue Bonds (Note 4)	57,478,168	61,045,939
Net Pension Liability (Note 5)	6,467,185	8,573,908
Other Credits and Liabilities	2,440,080	2,614,969
Total Noncurrent Liabilities	***66,385,433***	***72,234,816***
TOTAL LIABILITIES	***83,361,895***	***88,431,822***
DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging derivatives	597,754	1,249,771
Deferred Pension Inflow (Note 5)	1,141,247	157,778
Deferred Gain on Refunding (Note 4)	239,179	257,938
Total Deferred Inflows of Resources	***1,978,180***	***1,665,487***
NET POSITION		
Net Investment in Capital Assets	80,974,959	77,790,267
Restricted for Debt Service	3,914,649	3,914,649
Unrestricted	25,080,262	24,338,452
TOTAL NET POSITION	***109,969,870***	***106,043,368***
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	***$195,309,945***	***$196,140,677***

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Retail Energy Sales (Note 1)	$80,670,148	$73,894,581
Broadband Revenue	1,486,057	1,358,933
Sales for Resale	6,855,980	7,970,459
Other Electric revenue	89,260	132,478
Other Operating revenue	432,141	484,693
TOTAL OPERATING REVENUES	***89,533,586***	***83,841,144***
OPERATING EXPENSES		
Power Supply (Note 8)	57,804,660	57,475,326
System Operations & Maintenance	4,840,509	3,819,269
Broadband Operations & Maintenance	343,799	258,317
Customer Accounting & Information	2,353,652	1,747,416
Administration & General Expense	5,873,726	7,390,042
Taxes	4,973,711	5,138,588
Depreciation & Amortization of Intangible Assets	6,866,123	6,579,684
TOTAL OPERATING EXPENSES	***83,056,180***	***82,408,642***
OPERATING INCOME	6,477,406	1,432,502
NONOPERATING REVENUES & EXPENSES		
Interest Income	244,147	123,991
Bond Interest, Debt Premium/Discount Amortization and Issuance Costs	(2,133,021)	(2,806,788)
Other Nonoperating Revenue (Expense)	118,245	121,967
TOTAL NONOPERATING REVENUES & EXPENSES	***(1,770,629)***	***(2,560,830)***
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY LOSS	4,706,777	(1,128,328)
CAPITAL CONTRIBUTIONS	2,219,725	2,855,788
SPECIAL ITEMS	(3,000,000)	
CHANGE IN NET POSITION	**3,926,502**	**1,727,460**
NET POSITION, BEGINNING OF YEAR	**106,043,368**	**104,315,908**
NET POSITION, END OF YEAR	**$109,969,870**	**$106,043,368**

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$94,239,929	$88,965,237
Cash paid to suppliers and counterparties	(67,389,087)	(67,517,199)
Cash paid to employees	(8,316,348)	(8,729,489)
Taxes Paid	(4,646,773)	(4,729,852)
Other receipts	100,141	262,027
Net cash provided (used) by operating activities	***13,987,862***	***8,250,724***
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(9,457,148)	(12,730,607)
Interest paid on long-term debt	(2,355,994)	(2,844,970)
Principal paid on long-term debt	(3,200,000)	(2,865,000)
Proceeds from sale of bonds		5,006,665
Contributions in aid of construction	2,310,915	2,189,009
Proceeds from disposal of plant	7,464	29,990
Net cash provided (used) by capital and related financing activities	***(12,694,763)***	***(11,214,913)***
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment purchases	(10,369,157)	(11,900,536)
Investment sales and maturities	9,655,992	14,872,485
Interest Income	226,430	104,885
Net cash provided (used) by investing activities	***(486,735)***	***3,076,834***
Net increase (decrease) in cash	***806,364***	***(97,125)***
Cash balance, beginning of year	***5,235,070***	***5,332,195***
Cash balance, end of year	***$6,041,434***	***$5,235,070***
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$6,477,406	$1,432,502
Adjustments to reconcile operating income to net Cash provided (used) by operating activities		
Depreciation and amortization	6,866,123	6,579,684
Miscellaneous other revenue and receipts	1,060,509	1,147,478
Miscellaneous other disbursements and expenses	(50,789)	(114,836)
(Increase) decrease in accounts receivable (Net)	(614,736)	700,239
(Increase) decrease in plant supplies	533,864	(180,371)
(Increase) decrease prepaid expenses	(49,408)	12,125
(Increase) decrease in deferred derivative outflow	310,951	228,566
(Increase) decrease in other assets	662,701	777,725
(Decrease) increase in payables	237,132	(1,455,310)
(Decrease) increase in deferred derivative inflow	(652,017)	(771,995)
(Decrease) increase in other credits	(793,874)	(105,083)
Net cash provided by operating activities	***$13,987,862***	***$8,250,724***

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

During 2017 and 2016, the District received $534,332 and $581,435, respectively, in non-cash capital contributions.

During 2016, the District issued $32,175,000 in Revenue and Refunding bonds and retired various outstanding bond issues (Note 4).

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Franklin County (the District) was established in 1938 and purchases, generates, transmits, distributes and sells electric energy. In addition, the District is authorized under state law to provide wholesale telecommunications services. The District's service area is approximately 435 square miles in Franklin County, and includes approximately 80 percent of the County's population. The District's properties include 21 substations, 1,070 miles of transmission and distribution lines, and other buildings, equipment, and related facilities. The District has 103 employees and serves 29,918 active accounts. The District has revenues in excess of $89 million and total assets of over $195 million. An elected three-member Board of Commissioners administers the District.

A. Basis of Accounting and Presentation

The accounting and reporting policies of the District are regulated by the Washington State Auditor's Office under chapter 43.09 RCW and are based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC). The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing, and investing activities are considered to be non-operating revenues and expenses.

The District's accounting policies conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements including GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 - *Pension Transition for Contributions made Subsequent to the Measurement Date,* and in 2016, GASB Statement No. 72 – *Fair Value Measurement and Application,* GASB No. 76- *Hierarchy of Generally Accepted Accounting Principles,* and GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. The following is a summary of the most significant policies:

B. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes both restricted and unrestricted cash balances. Short-term highly liquid investments are not considered to be cash equivalents (see Note 2). The Rate Stabilization Fund was established in 2009 with a transfer of $5.9 million. No transfers were made to or from the Rate Stabilization Fund in 2017 or 2016.

C. Restricted Funds

In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. The assets held in these funds are restricted for specific uses including debt service, and are classified as current or non-current assets as appropriate. As of October 2016, the balance of the Rural Economic Development Fund was dissolved and $262,027 was transferred into restricted funds to be used to fund conservation projects in accordance with state law. As of December 31, 2017 $197,514 was remaining in this fund.

D. Investments

The District is a participant in the Local Government Investment Pool which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov. Refer to Note 2 – Deposits and Investments.

E. Accounts Receivable

The District uses the percentage-of-sales method to record amounts estimated to be uncollectible based on the prior year's write offs. Uncollected accounts over 60 days, except those with special arrangements, are approved monthly for write off by the Board of Commissioners.

F. Inventories

Inventories are valued at average cost, which approximates the fair value.

G. Derivative Instruments

The District has adopted GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*. Subject to certain exceptions, GASB 53 requires that every derivative instrument be recorded on the statement of net position as an asset or liability, measured at its fair value and that changes in the derivatives fair value be recognized currently in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred. It is the District's policy to document and apply as appropriate the normal purchase and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity, natural gas and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales". These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options, and financial swaps for electricity and natural gas, are considered to be derivatives under GASB Statement No. 53, but do not generally meet the "normal purchases and normal sales" criteria.

As of December 31, 2017, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2017			
	Classification	Amount	Classification	Amount	Notional	
Cash Flow Hedges:						
Financial Swap Forward	Deferred Inflow	$ 462,697	Derivative Asset	$ 462,697	153,508	MWh
Financial Swap Forward	Deferred Inflow	$ 135,057	Derivative Asset	$ 135,057	19,294	mmbtu
Financial Swap Forward	Deferred Outflow	$ (306,158)	Derivative Liability	$ (306,158)	98,600	MWh
Financial Swap Forward	Deferred Outflow	$ (353,686)	Derivative Liability	$ (353,686)	1,303,200	mmbtu

These derivative instruments were entered into between May 2016 and December 2017 with maturities between January 2018 and December 2019.

As of December 31, 2016, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31,2016			
	Classification	Amount	Classification	Amount	Notional	
Cash Flow Hedges:						
Financial Swap Forward	Deferred Inflow	$ 462,361	Derivative Asset	$ 462,361	64,916	MWh
Financial Swap Forward	Deferred Inflow	$ 787,410	Derivative Asset	$ 787,410	1,151,400	mmbtu
Financial Swap Forward	Deferred Outflow	$ (582,511)	Derivative Liability	$ (582,511)	111,814	MWh
Financial Swap Forward	Deferred Outflow	$ (373,695)	Derivative Liability	$ (373,695)	43,200	mmbtu
Put Options	Deferred Outflow	$ (14,589)	Derivative Liability	$ (14,589)	10,800	MWh

These derivative instruments were entered into between April 2015 and December 2016 with maturities between January 2017 and September 2018.

The fair values of the commodity swap contracts are based on the futures price curve for the Mid-Columbia Intercontinental Exchange for electricity. There are instances when the variance between prices at the Sumas gas trading hub and the Henry gas trading hub are wide, creating an illiquid market. The District has approved using Henry Hub to hedge Frederickson (refer to Note 9) when this occurs, but requires the position to be converted to Sumas by six months to delivery. This reduction of basis risk is achieved through the use of financial basis swaps. The fair value of the options was calculated using the Black-76 options pricing model. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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. All of the District's fair value measurements are classified as Level 2.

Objective & Strategies:

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

Combustion Turbines – The District purchases gas for future periods to generate electricity when the plant is economically viable on a marginal basis for that period based on parameters set by the Risk Management Committee. If load projections indicate that the District does not require the electricity to serve its customers, an equivalent quantity of power will concurrently be sold or otherwise hedged for the same period.

Surplus Purchased Power Resources – The District hedges projected surpluses in future periods by selling power or by purchasing put options. Surplus power is generally sold forward at a fixed-price, either physically or financially, when the probability of surplus is very high; surplus power is hedged through the purchase of physical or financial put options when the projected surplus is less certain, but nevertheless expected to be available under expected scenarios.

Deficit Power Resources – The District hedges projected power resource deficits in future periods by purchasing power or by purchasing power call options (or if the Frederickson Project (see Note 7) is economically viable for the period, by buying gas or gas call options). Power is generally purchased to cover projected deficits at a fixed price, either physically or financially, when the probability of the deficit position is very high; such deficit positions are hedged through the purchase of physical or financial call options when the projected deficits are less certain, but nevertheless expected under the approved planning conditions.

Derivatives authorized under the Risk Management Policy and employed by the District include:

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

There is no associated debt for these instruments at December 31, 2017 or 2016.

Credit Risk

The District is a client of The Energy Authority, Inc. (TEA). The District adheres to the credit policies and credit limits established by TEA. TEA's policy addresses guidelines for setting credit limits and monitors credit exposure on a real time basis on behalf of the District. TEA's management determines the credit quality of the District's counterparties based upon various credit evaluation factors, including collateral requirements under certain circumstances.

All physical electricity transactions (for hourly and/or daily) for the District are traded by TEA as principle (on behalf of the District) and rely on TEA's credit limits. All forward physical/financial commodity transactions are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness; credit limits based on market conditions and available qualified counterparties are established and reviewed annually by the Risk Management Committee. As of December 31, 2017, the District had 47 counterparties with credit ratings ranging from "not rated" to AA, or secured by guarantors with BBB to AA credit ratings. As of December 31, 2016, the District had 47 counterparties. The maximum credit extended to any single counterparty is $3 million.

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

Transactions under the physical enabling agreements are used to deal with long and short physical positions under the direction of the Risk Management Committee and pursuant to the risk management policy. Transactions under the ISDA agreements are used to financially hedge long or short positions so that the agreements also permit the District to hedge the risk of an underlying physical position by using call options, or put options.

The aggregate fair value of hedging derivative instruments in asset positions was $579,754 and $1,249,771 as of December 31, 2017 and 2016, respectively. The District transacts with various counterparties throughout the year, and as of December 31, 2017 four counterparties comprised 96% of the net exposure to credit risk, with credit ratings ranging from Not Rated/Baa2 to A. As of December 31, 2016, three counterparties comprised 94% of the net exposure to credit risk, with credit ratings ranging from Not Rated/Baa2 to A.

Basis Risk

The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. At December 31, 2017 and 2016, there are no derivative transactions outstanding that carry basis risk. As applicable, all power related transactions are to be settled on the relevant Mid-Columbia index and all gas transactions are to be settled on the relevant Sumas/Huntingdon index or be converted to the Sumas/Huntingdon index within six months of delivery. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

Termination Risk

As of December 31, 2017 and 2016, no termination events have occurred and there are no outstanding transactions with material termination risk. None of the outstanding transactions have early termination provisions except in the event of default by either counterparty. Events of default are generally related to (i) failure to make payments when due, (ii) failure to provide and maintain suitable credit assurances as required, (iii) bankruptcy or other evidence of insolvency, or (iv) failure to perform under any material provision of the agreement. Failure to provide or receive energy or natural gas under physical commodity transactions does generally not fall under the events of default provisions, unless the non-performing party fails to pay the resulting liquidated damages as they come due.

There is no rollover, interest rate, foreign currency, or market access risk for these derivative products as of December 31, 2017 and 2016.

H. Other Receivables

In 2013, a long term receivable was established as a result of participation in the BPA prepay program. The outstanding balance of this receivable was $6,450,000 as of December 31, 2017. Of this amount $600,000 will be collected within one year and is accordingly classified within current accounts receivable, the remaining $5,850,000 is shown under noncurrent liabilities. For more information regarding the BPA prepay program, refer to Note 7.

I. Utility Plant and Depreciation

Major expenses for utility plant and major repairs that increase useful lives are capitalized. The District's capitalization threshold is $5,000 for non-infrastructure capital. All costs related to infrastructure are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

Utility plant in service and other capital assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated cost. Contributions by developers and customers are recorded at contract price or cost as contributions in aid of construction. The District records depreciation on assets acquired by contributions.

Capital assets are depreciated using the straight-line method over the following estimated useful lives for major asset classes:

Broadband	5-15 years
Transmission	33-50 years
Distribution	15-50 years
General Plant	5-40 years
Production	20 years

Intangible assets are amortized over their estimated useful life at the time of purchase, if the asset meets the criteria for amortization. Initial depreciation on utility plant is recorded in the month subsequent to purchase or project completion.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant. Charges that relate to abandoned projects are expensed.

The estimated original cost of operating property retired or otherwise disposed of and the cost of removal, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income. There were no sales of significant units or systems in 2017. Refer to Note 3.

J. Other Credits and Liabilities:

Changes in Other Credits and Liabilities as of December 31, 2017 were as follows:

Other Credits & Liabilities - Current	**2016**	**Increases**	**Decreases**	**2017**
Compensated Absences – Current	620,653	1,021,458	(972,547)	669,564
Conservation Credit	796,065	298,524	(806,355)	288,234
Extended Sick Leave	32,576		(8,979)	23,597
Customer Advances for Construction	0	4,461,900	(3,606,911)	854,989
Other Current Liabilities	296,317	39,134	(125,716)	209,735
Total Other Current Liabilities	**$1,745,611**	**$5,821,016**	**($5,520,508)**	**$2,046,119**

Other Credits & Liabilities – Noncurrent	**2016**	**Increases**	**Decreases**	**2017**
Compensated Absences – Long Term	720,188	203,605	(217,236)	706,557
BPA Incentive Credit	1,894,781		(161,258)	1,733,523
Total Other Credits & Liabilities	**$2,614,969**	**$203,605**	**($378,494)**	**$2,440,080**

Changes in Other Credits and Liabilities as of December 31, 2016 were as follows:

Other Credits & Liabilities - Current	2015	Increases	Decreases	2016
Compensated Absences – Current	596,635	713,888	(689,870)	620,653
Conservation Credit	512,257	283,808	0	796,065
Extended Sick Leave	31,643	933		32,576
Other Current Liabilities	279,946	70,194	(53,823)	296,317
Total Other Current Liabilities	**$1,420,481**	**$1,068,823**	**($743,693)**	**$1,745,611**

Other Credits & Liabilities – Noncurrent	2015	Increases	Decreases	2016
Compensated Absences – Long Term	814,406	924,660	(1,018,878)	720,188
BPA Incentive Credit	2,056,039		(161,258)	1,894,781
Total Other Credits & Liabilities	**$2,870,445**	**$924,660**	**($1,180,136)**	**$2,614,969**

The District records unpaid leave for compensated absences as an expense and liability when incurred. Personal leave may accumulate to a maximum of 1,200 hours, and is payable upon separation of service, retirement, or death. Employees hired after April 1, 2011 may accumulate a maximum of 700 hours. The District estimates a minimum of $669,564 in compensated absences will be paid within one year. As of December 31, 2017 and 2016, $669,564 and $620,653 respectively, were included in other accrued liabilities on the statement of net position.

Conservation Credit is generally expected to be used within one year. Extended sick leave is sick leave accrued by employees (at 30%) prior to April 1, 1993, adjusted to actual as of December 31, 2017 and 2016. This total is no longer current sick leave; it is used at the employee's option to supplement the District sponsored short-term disability plan. The amount also represents the portion of leave that may be used upon retirement towards health insurance.

Beginning in 2017, the District recognizes revenues collected from Contributions in Aid of Construction at the beginning of a capital project as a deferred revenue (Customer Advances for Construction) until the capital project is completed, at which point the revenue is recognized as revenue from Capital Contributions on the Statement of Changes in Revenues, Expenses and Net Position. The deferred amount for the unrecognized portion (Customer Advances for Construction) of Capital Contributions is presented under Current Liabilities as Other Credits and Liabilities on the Statement of Net Position. As of December 31, 2017 $854,989 was included in Other Credits and Liabilities under Current Liabilities on the Statement of Net Position.

K. Debt Premium & Discount

Original issue and reacquired bond premiums and discounts relating to revenue bonds are amortized over the lives of the related bonds using the straight-line method. Unamortized premium and discount is included in the amount shown as Outstanding Revenue Bonds within the financial statements. Debt issuance costs are expensed in the period incurred in accordance with GASB Statement No. 65.

L. Revenue Recognition

Revenues from retail sales of electricity include an estimate for energy delivered to customers between the last billing date and the end of the year. This amount is included within Retail Energy Sales in the accompanying financial statements in the amount of $2.5 million at December 31, 2017 and $2.1 million at December 31, 2016.

M. Pensions

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

N. Contributed Capital

Capital contributions of $2,219,725 and $2,855,788 are reported for 2017 and 2016, respectively, on the statement of revenues, expenses and changes in net position. There were no capital contributions resulting from federal grant awards for either 2017 or 2016.

O. Use of Estimates

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

P. Construction Financing

Capital expenditures in 2017 were made using 17.82% from Capital Contributions, 53.12% from Bond Funds, and 29.06% from rate revenue.

Q. Reclassification

Certain amounts reported within the 2016 financial statements have been reclassified to conform to the 2017 presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits: The District's deposits and certificates of deposits are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Deposit accounts are reconciled to the District's accounting records at year end, and the book balance of these accounts does not materially differ from the bank balance.

Investments:

Investments Measured at Amortized Cost

As of December 31, 2017, the District held the following investments at amortized cost:

Investments	Maturities	Total
State Treasurers Local Government Investment Pool (LGIP)	37 days average	$24,183,830

As of December 31, 2016, the District held the following investments at amortized cost:

Investments	Maturities	Total
State Treasurers Local Government Investment Pool (LGIP)	30 days average	$23,470,599

Credit Risk –The District's investment policy conforms with state law, which restricts investments of public funds to funds to debt securities and obligations of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit, and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), bankers' acceptances, investment-grade general obligation debt of state and local governments and public authorities, and the Washington State Treasurer's Local Government Investment Pool (LGIP). The LGIP portfolio meets the requirements set forth in GASB 79 to report the investment at amortized cost. The reported value of the pool is the same as the fair value of the pool shares. There is no formal withdrawal transaction limit, however, the LGIP requests a one day notice for transaction sizes of ten million dollars or more. The LGIP has very strong credit ratings as follows, Fitch AA+, Moody's Aa1, ad S&P AA+. The LGIP is governed by the State Finance Committee and is administered by the State Treasurer. The District does not have a policy specifically addressing custodial credit risk.

NOTE 3 – CAPITAL ASSETS

Utility Plant Activity for the year ended December 31, 2017 was as follows:

Utility Plant	Balance, 12/31/2016	Increase	Decrease	Balance, 12/31/2017
Assets not subject to depreciation:				
Land	$893,104			$893,104
Completed Construction Not Classified		6,006,219		$6,006,219
Construction Work in Progress	3,722,684	14,741,124	(12,439,704)	6,024,104
Assets subject to depreciation or amortization:				
Intangible	1,373,365		(55,280)	1,318,085
Broadband	18,478,164	1,057,451	(29,907)	19,505,708
Transmission	6,655,327		(2,084)	6,653,243
Distribution	173,332,869	534,332	(81,890)	173,785,311
General Plant	23,996,672		(1,072,480)	22,924,192
Subtotal	228,452,185	22,339,126	(13,681,345)	237,109,966
Less Accumulated Depreciation & Amortization:				
Intangible	(503,500)	(158,595)	33,213	(628,882)
Broadband	(9,948,761)	(1,192,257)	27,902	(11,113,116)
Transmission	(2,902,571)	(158,822)	2,082	(3,059,311)
Distribution	(62,929,847)	(4,853,624)	72,011	(67,711,460)
General Plant	(14,741,146)	(729,002)	1,014,471	(14,455,677)
Total Accumulated Depreciation & Amortization	(91,025,824)	(7,092,300)	1,149,679	(96,968,445)
Net Utility Plant	**$137,426,361**	**$15,246,826**	**($12,531,666)**	**$140,141,521**

Utility Plant Activity for the year ended December 31, 2016 was as follows:

Utility Plant	Balance, 12/31/2015	Increase	Decrease	Balance, 12/31/2016
Assets not subject to depreciation:				
Land	$893,104			$893,104
Construction Work in Progress	7,462,430	13,103,162	(16,842,908)	3,722,684
Assets subject to depreciation or amortization:				
Intangible	1,269,291	104,074		1,373,365
Broadband	16,751,057	1,760,743	(33,636)	18,478,164
Transmission	6,384,664	270,663		6,655,327
Distribution	159,543,082	13,906,821	(117,034)	173,332,869
General Plant	22,994,790	1,012,621	(10,739)	23,996,672
Subtotal	215,298,418	30,158,084	(17,004,317)	228,452,185
Less Accumulated Depreciation & Amortization:				
Intangible	(340,165)	(163,335)		(503,500)
Broadband	(8,986,569)	(968,075)	5,883	(9,948,761)
Transmission	(2,747,814)	(154,757)		(2,902,571)
Distribution	(58,356,294)	(4,638,624)	65,071	(62,929,847)
General Plant	(13,848,779)	(902,998)	10,631	(14,741,146)
Total Accumulated Depreciation & Amortization	(84,279,621)	(6,827,788)	81,585	(91,025,824)
Net Utility Plant	**$131,018,797**	**$23,330,296**	**($16,922,732)**	**$137,426,361**

The District has active construction projects as of December 31, 2017 in the amount of $6,024,104. The District does not require future financing to complete these projects.

NOTE 4 – LONG TERM DEBT

During the year ended December 31, 2017, the following changes occurred in long term debt:

Issue		Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2007 Electric Revenue & Refunding Bonds – interest rates ranging 4.0% - 5.0%, maturing in 2032	50,715,000	$2,670,000		($2,670,000)	$0	
2013A Electric Revenue & Refunding Bonds - interest rates ranging 2.0% - 5.0%, maturing in 2031	18,370,000	17,930,000		(170,000)	17,760,000	170,000
2013B Electric Revenue & Refunding Bonds - interest rates ranging 1.0% - 4.2%, maturing in 2023	9,155,000	8,670,000		(165,000)	8,505,000	175,000
2016A Electric Revenue & Refunding Bonds - interest rates ranging 3.1% - 5.0%, maturing in 2041		16,870,000			16,870,000	
2016B Electric Revenue & Refunding Bonds - interest rates ranging 1.0% - 2.2%, maturing in 2022		15,305,000		(195,000)	15,110,000	2,915,000
Subtotal		61,445,000		(3,200,000)	58,245,000	3,260,000
Plus: Unamortized premium		3,039,567		(322,793)	2,716,774	
Less: Unamortized discount		(238,628)	15,022		(223,606)	
Total Long-Term Liabilities		**$64,245,939**		**($3,522,793)**	**$60,738,168**	**$3,260,000**

During the year ended December 31, 2016, the following changes occurred in long term debt:

Issue		Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2007 Electric Revenue & Refunding Bonds – interest rates ranging 4.0% - 5.0%, maturing in 2032	50,715,000	$33,005,000		($30,335,000)	$2,670,000	$2,670,000
2013A Electric Revenue & Refunding Bonds - interest rates ranging 2.0% - 5.0%, maturing in 2031	18,370,000	18,090,000		(160,000)	17,930,000	170,000
2013B Electric Revenue & Refunding Bonds - interest rates ranging 1.0% - 4.2%, maturing in 2023	9,155,000	8,835,000		(165,000)	8,670,000	165,000
2016A Electric Revenue & Refunding Bonds - interest rates ranging 3.1% - 5.0%, maturing in 2041			16,870,000		16,870,000	
2016B Electric Revenue & Refunding Bonds - interest rates ranging 1.0% - 2.2%, maturing in 2022			15,305,000		15,305,000	195,000
Subtotal		59,930,000		(30,660,000)	61,445,000	3,200,000
Plus: Unamortized premium		1,968,012	2,862,129	(1,790,574)	3,039,567	
Less: Unamortized discount		(377,190)	(31,818)	170,380	(238,628)	
Total Long-Term Liabilities		**$61,520,822**		**($32,280,194)**	**$64,245,939**	**$3,200,000**

Future Debt Service on these bonds is as follows:

Year	Principal	Interest	Total
2018	$ 3,260,000	$ 2,306,275	$ 5,566,275
2019	3,320,000	2,254,581	5,574,581
2020	3,365,000	2,194,813	5,559,813
2021	3,445,000	2,128,193	5,573,193
2022	3,425,000	2,052,585	5,477,585
2023-2027	12,015,000	8,741,014	20,756,014
2028-2032	15,195,000	5,569,384	20,764,384
2033-2037	10,740,000	2,414,256	13,154,256
2038-2041	3,480,000	216,188	3,696,188
Total	**$ 58,245,000**	**$ 27,877,287**	**$ 86,122,287**

In March 2007, the District issued Electric Revenue and Refunding Bonds, Series 2007 in the amount of $ 50,715,000. The Bonds were issued to finance improvements to the electric utility system and to refund certain Outstanding Electric Revenue and Refunding Bonds; to acquire a surety policy to fund the Reserve Account; and to pay costs of issuance of the Bonds. The District cash defeased $2,744,547 portions of Electric Revenue Refunding Bonds, Series 1996 and 2002. This advance refunding was undertaken to reduce debt service payments over the next ten years by $1,908,645 and recognize total present value savings of $2,122,687. The transaction resulted in an economic loss of $796,785.

During 2013 the District issued Series 2013A Electric Revenue and Refunding bonds in the amount of $18,370,000 and Series 2013B (Taxable) in the amount of $9,155,000 for the purpose of financing certain capital improvements to the District's electric system and refund the 2001, 2002 and 2003 outstanding bonds, as well as certain maturities of the 2007 bonds. The refunding portion of the bond proceeds was placed in an irrevocable trust for future debt service on the refunded bonds. At December 31, 2013, the 2001, 2002 and 2003 bonds were considered defeased and are no longer reflected in the District's financial statements. The refunding resulted in net present value cash flow savings of ($1,071,453) and an economic loss from refunding of $770,025. Bond proceeds were also used to establish the debt service reserve fund in the amount of $3,142,483 as required by the bond resolutions.

In October 2016, the District issued Electric Revenue and Refunding Bonds Series 2016A and 2016B (taxable) in the amounts of $16,870,000 and $15,305,000, respectively. The bonds were issued for the purpose of refunding the portion of the 2007 series bonds maturing after September 1, 2017 and to fund future improvement to the electric utility system in the amount of $5 million. The refunding proceeds were placed in an irrevocable trust for future debt service on the refunded bonds and as of December 31, 2016 are no longer report within the District's Financial Statements. The transaction resulted in a net present value cash flow savings to the District of $2.4 million over the life of the refunded bonds and an economic gain of $257,938. The refunding resulted in an increase to the District's Debt Service Reserve Fund of $772,166. As of December 31, 2017 there were no unspent bond proceeds in the bond construction fund.

As of December 31, 2017 and 2016, there was $3,914,649 and $3,914,649 respectively in restricted assets related to bonded debt of the District. This represents the debt service reserve fund as required by the bond resolutions. There are a number of other limitations and restrictions contained in the various bond resolutions. The District is in compliance with all significant limitations and restrictions, including those regarding federal arbitrage.

Line of Credit

The District's renewable $3 million line of credit with Bank of the West expired October 31, 2016. This line of credit was not renewed. In October 2016, the District entered into a non-revolving line of credit to support standby letters of credit with Umpqua Bank in the amount of $3 million. The District did not utilize this line of credit in 2017 and does not anticipate utilizing it in 2018.

NOTE 5 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the years 2017 and 2016:

Aggregate Pension Amounts – All Plans	2017	2016
Pension liabilities	$6,467,185	$8,573,908
Pension assets	$0	$0
Deferred outflows of resources	$888,388	$1,425,779
Deferred inflows of resources	$1,141,247	$157,778
Pension expense/expenditures	$450,741	$863,394

State Sponsored Pension Plans

Substantially all of 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.

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 non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1 Actual Contribution Rates:	Employer	Employee
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**

PERS Plan 2/3 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 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.

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 non-duty 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.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3 **Actual Contribution Rates:**	**Employer 2/3**	**Employee 2***
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
Total	**11.18%**	**6.12%**
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
Total	**12.70%**	**7.38%**

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July - December 2017.

The District's actual PERS plan contributions were $455,221 to PERS Plan 1 and $581,381 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The 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, 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.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. 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:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 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 since the last valuation.

- For all plans except LEOFF Plan 1, 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.
- For all plans, 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 7.5 percent.

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, 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 as of June 30, 2017, are summarized in the table 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.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
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%
	100%	

Sensitivity of the Net Pension Liability

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

2017:

	1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
PERS 1 (.073408%)	$4,243,285	$3,483,267	$2,824,928
PERS 2/3 (.085880%)	$8,038,991	$2,983,919	($1,157,962)

2016:

	1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
PERS 1 (.076313%)	$4,942,219	$4,098,368	$3,372,181
PERS 2/3 (.088890%)	$8,240,276	$4,475,541	($2,329,778)

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 June 30, 2017, the District reported a total pension liability of $6,467,186 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$3,483,267
PERS 2/3	$2,983,919

At June 30, 2016, the District reported a total pension liability of $8,573,908 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$4,098,368
PERS 2/3	$4,475,540

At June 30, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.076313%	0.073408%	-0.002905%
PERS 2/3	0.088890%	0.085880%	-0.003010%

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.075912%	0.076313%	0.000401%
PERS 2/3	0.089208%	0.088890%	-0.000318%

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* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.

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

Pension Expense

For the year ended December 31, 2017 and 2016, the District recognized pension expense as follows:

2017	Pension Expense
PERS 1	$59,642
PERS 2/3	$391,099
Total	**$450,741**

2016	Pension Expense
PERS 1	$239,709
PERS 2/3	$610,555
Total	**$850,264**

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments		$129,985
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$233,596	
Total	**$233,596**	**$129,985**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$302,341	$98,136
Net difference between projected and actual investment earnings on pension plan investments		$795,440
Changes of assumptions	$31,695	
Changes in proportion and differences between contributions and proportionate share of contributions	$5,286	$117,686
Contributions subsequent to the measurement date	$315,470	
Total	**$654,792**	**$1,011,262**

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments	$103,190	
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$219,941	
Total	**$323,131**	**$0**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$238,319	$147,744
Net difference between projected and actual investment earnings on pension plan investments	$547,678	
Changes of assumptions	$46,258	
Changes in proportion and differences between contributions and proportionate share of contributions	$9,062	$10,034
Contributions subsequent to the measurement date	$261,331	
Total	**$1,102,648**	**$157,778**

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	PERS 1
2018	(87,862)
2019	27,739
2020	(6,441)
2021	(63,422)
2022	
Thereafter	
Total $	**(129,986)**

Year ended December 31		PERS 2/3
2018		(333,887)
2019		65,441
2020		(87,365)
2021		(337,514)
2022		9,298
Thereafter		12,087
Total	**$**	**(671,940)**

NOTE 6 – DEFERRED COMPENSATION AND HEALTH BENEFIT PLANS

Deferred Compensation Plans
The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(a) permitting employees to defer a portion of their salary until future years. The District match is locked at a maximum rate of 2%. The deferred compensation is not available to employees until separation from service through termination, retirement, death or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries. The District made matching contributions of $143,712 and $148,162 in 2017 and 2016, respectively. Employees made contributions of $534,853 and $515,593 to the 457 and 401(a) plans in 2017 and 2016, respectively.

Heath Benefit Plans
Employees who elect to participate in a District provided wellness program receive a $150 per month contribution into their health reimbursement agreement (HRA). In addition, the District makes annual contributions to employee HRA accounts for those employees who enroll in the District's consumer directed health plan (CDHP). The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

NOTE 7- POWER SUPPLY

Bonneville Power Administration (BPA)
The District obtains power from BPA under a long-term power purchase agreement. BPA supplies the District's power under a Block and Slice Power Sale Agreement, which extends from October 1, 2011 through September 30, 2028. The Block product provides power in monthly amounts ranging between 50 average megawatts (aMW) to 81 aMW. Monthly Block purchase amounts are fixed, but are shaped to the District's monthly power requirements. The Slice product provides the District 0.78% of the output of the federal system. The District's share of the Slice product is expected to be 75 aMW, but may vary considerably based on water conditions within the Northwest. Depending upon hydroelectric generating conditions and market prices, the District expects to procure between 90% and 95% of its total energy resources from BPA on an average annual basis.

Beginning October 1, 2011, BPA changed its rate-making methodology to a tiered rate approach. Each preference customer received a High Water Mark (HWM) based on its 2010 load that defined its right to buy power at a Tier 1 rate. The Tier 1 rate is based on the cost of the existing federal system. HWMs are translated into "Tier 1 Cost Allocators" (TOCAs) which, when multiplied by the estimated costs of the federal system, determine their power costs. There is an additional monthly load shaping charge (or credit) for Block and Load Following products, determined by the shape of customers' loads when compared to the shape of the federal system.

If a preference customer wants to buy more BPA power beyond their HWM, it will be sold by BPA at a Tier 2 rate set to fully recover BPA's cost to serve the additional power. Preference customers also have the option of serving some, or all, of their above-HWM load with non-federal resources. At this time the District has no plans to buy Tier 2 power from BPA.

BPA is required by federal law to recover all of its costs through the rates that it charges its customers. The rate provisions for the Block product include a cost recovery adjustment clause (CRAC). The CRAC allows BPA to raise rates to collect sufficient funds to pay costs. A dividend distribution clause (DDC) results in dollars being returned to customers, in the form of future power rate decreases, if excess dollars are collected.

Pursuant to the Slice product rate provisions, the District is subject to additional charges or credits from BPA if BPA's actual costs deviate from budgeted amounts. The Slice product is not subject to the CRAC or DDC; but rather, the District pays its share of cost increases or receives its share of cost decreases through an annual true-up mechanism. The District's share of the true-up was approximately ($303,555) and ($68,233) in 2017 and 2016, respectively.

After determining that it had over collected from its public customers in providing payments to IOU's for residential exchange benefits in FY 2002-2006, BPA decided to credit the District to reimburse for these over collections. After that decision was challenged by the IOUs and others, parties finally settled the residential exchange issue in 2011. Under the terms of the agreement, the District's credit of approximately $1 million per year will extend through FY 2018.

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

The District also entered into a contract with BPA for transmission service effective May 31, 1997, which provides adequate transmission capacity to meet the District's annual system peak load. The transmission contract extends through September 30, 2031.

Frederickson Project

The District has an agreement with Frederickson Power, L.P. for the purchase of 30 MW of contract capacity from the Frederickson combined-cycle natural gas-fired combustion turbine project station near Tacoma, Washington. The agreement expires September 1, 2022. The District is able to economically dispatch the plant each day based on spot market power and gas prices. Power costs include a capacity charge and fixed and variable operation and maintenance charges indexed to performance and escalation factors. The District is responsible for supplying natural gas to Frederickson Power, L.P. at Huntingdon, British Columbia on days that the plant is generating power. Natural gas is supplied to the Frederickson Project via the Northwest Pipeline. A proportionate share of the cost of this transportation is passed-through to the District each month.

Pasco Combustion Turbine Generating Station

The District and Grays Harbor PUD jointly constructed a four-unit, 44 megawatt (MW), simple-cycle gas-turbine generating station located in the District's service area. Commercial operation commenced in August 2002. The PUDs jointly own certain common facilities and individually own specific facilities (i.e., the turbines and SCR outfitted exhaust systems). In 2013, the District expended funds to repair the Pasco Combustion Turbine Generating Station to make it saleable. It was not intended to be placed back into service and was accordingly reclassified in 2013 as an asset held for sale. Grays Harbor PUD made a similar determination in early 2014. The PUDs are in the process of seeking a buyer for the facility. Refer to Note 12 – Special Item.

Energy Northwest

Energy Northwest is a municipal corporation and a joint operating agency of the State of Washington. It has the authority to acquire, construct and operate works, plants, and facilities for the generation and transmission of electric power and energy. The membership of Energy Northwest consists of twenty-three public utility districts, including the District, and five cities, all located in the State of Washington. The District is a participant in Nuclear Project Nos. 1 and 3, Columbia Generating Station, the Packwood Lake Hydroelectric Project and the Nine Canyon Wind Project. Columbia Generating Station, the Packwood Lake Hydroelectric Project and the Nine Canyon Wind Project are operating; Project Nos. 1 and 3 have been terminated.

The District, Energy Northwest and BPA have entered into separate "net billing agreements" with respect to Energy

Northwest's Project No. 1, Columbia Generating Station and 70% ownership share of Project No. 3. Under terms of these agreements, the District has purchased from Energy Northwest and, in turn, assigned to BPA a maximum of capability of each project. BPA is unconditionally obligated to pay the District and the District is unconditionally obligated to pay Energy Northwest, the pro rata share of the total annual costs of each project, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output. The District's respective shares may be increased by not more than 25% upon default of other public agency participants.

- Packwood Lake Hydroelectric Project
  The District is a 10.5% participant in Energy Northwest's 27 MW Packwood Project (the "Project"), located in the Cascade Mountains south of Mount Rainier. The Project's fifty-year license has expired and the Project has satisfied all of the requirements for relicensing with the Federal Energy Regulatory Commission and is waiting for final issuance. Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized, and no equity is accumulated. Accordingly, no investment for the joint venture is reflected on the District's statement of net position. The participants entered into new Power Sales Contracts with Energy Northwest effective October 1, 2011. The participants' Agreements obligate the 12 participants to pay annual costs and receive excess revenues. The District uses their share of the energy to serve customer load.

- Nine Canyon Wind Project
  The Nine Canyon Wind Project is another Energy Northwest generation project. It is located in the Horse Heaven Hills area southwest of Kennewick. The District has a contract for 2.01 MW of Phase I capacity and 8 MW of Phase III capacity. Nine Canyon has a capacity factor of 29% and the District receives approximately 2.88 aMW.

White Creek Wind Project

The District entered into a 20-year Purchase Agreement with LL&P Wind Energy, Inc., a wholly-owned subsidiary of Lakeview Light and Power. The District purchases all of the energy and associated environmental attributes produced from 10 MW of the White Creek Wind Project's (White Creek) capacity. White Creek has a capacity factor of 30% and the District receives approximately 3 aMW. During the first contract year (2008) the price of energy delivered to the District was $51.97 per MWH; the price will increase by 2% annually during the term of the contract. The environmental attributes included in that price includes any and all credits, benefits, emissions reductions, offset and allowances attributable to the White Creek as a renewable energy resource.

Esquatzel Hydroelectric Project

The District contracted with Green Energy Today, LLC in 2011 to acquire the output from a small conduit hydroelectric project in Pasco, Washington, known as the Esquatzel Project. The Esquatzel Project generates approximately .7 aMW of electricity annually from return water flowing out of an agricultural canal that drains into the Columbia River. Water is diverted from the canal into a penstock and through a turbine with a generating capacity of 1 MW. The Esquatzel Project generally generates electricity year-round. The District's agreement with Green Energy Today, LLC is for a 20-year term, with a first right of refusal for two additional 10-year periods.

Energy Independence Act (I-937)

The citizens of Washington State passed Initiative 937 in November, 2006, now codified in the Revised Code of Washington Chapter 19.285 as the Energy Independence Act (the "Act"), which mandates renewable energy and conservation targets for the State's utilities with more than 25,000 customers. As of December 31, 2016 the District crossed this customer threshold. The Esquatzel, Nine Canyon and White Creek contracts will provide some of the renewable energy the District will need to comply with the Act's targets in the future.

The Esquatzel Project is a distributed generation resource. The Act defines distributed generation as an eligible renewable resource with a generating capacity of not more than 5 MW. As such, each MWH generated by the Esquatzel Project will count double toward the District's requirements under the Act.

Conservation / Energy Services

Conservation funding is available from BPA under the Energy Efficiency Incentive ("EEI") program in two year blocks. The District's EEI budget is $2,495,294 and the District also budgets for self-funded conservation projects. Under EEI, utilities request reimbursement from BPA after conservation dollars have been spent on eligible projects. EEI funds rebate incentives for residential energy efficiency upgrades including: weatherization, heat pumps, compact fluorescent lamps, and Energy Star appliances. The District also provides incentives for industrial, irrigation and commercial accounts for cost-effective energy savings.

NOTE 8 - RISK MANAGEMENT

The District maintains the following insurance coverage:

Coverage	Limit
Buildings and Personal Property	$95,500,000
General Liability	$2,000,000
Cyber Liability	$1,000,000
Electromagnetic Field Liability	$500,000
Umbrella Liability	$15,000,000
Directors, Officers & Mgrs. Liability	$10,000,000
Employee Theft Liability	$4,000,000
Computer Fraud/Funds Transfer	$2,000,000

The District has not paid insurance settlements in excess of coverage in any of the past three years.

NOTE 9 – PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. d.b.a. NOANET

The District, along with eight other Washington State Public Utility Districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over Public Benefit Fibers leased from BPA, throughout Washington. The network began commercial operation in January 2001.

Each member of NoaNet has entered into a Repayment Agreement to guarantee the debt of NoaNet. This agreement was established and authorized by official resolutions adopted by the District's governing board. Under the Repayment Agreement, each Member acknowledges and agrees that it is a guarantor of the payment of principal and interest on the Bonds and is liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such principal and interest up to each Member's Percentage Interest. The management of NoaNet anticipates meeting debt obligations through continuing profitable operations. There were no member assessments in 2015 or in 2014. The District's guarantee is based on its 6.39% interest. This guarantee was intact until the bonds were no longer outstanding as of December 2016.

As of December 31, 2013, NoaNet had two outstanding lines of credit guaranteed by the members. NoaNet may assess its Members for their percentage share of principal and interest on the Notes to the extent that NoaNet does not have sufficient funds to pay the Notes. However, NoaNet met its payment obligations on the lines of credit. During December 2014, NoaNet obtained a $13,000,000 line of credit and transferred the balances of previous lines of credit to this new note. Furthermore, this new line of credit is not guaranteed by members, therefore the District does not have any guarantee obligation as of December 31, 2014 with regards to NoaNet's line of credit. In accordance with GASB No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* the District has determined that based on qualitative factors and historical data, it is not likely that the District will be required to make a payment on the guarantees of NoaNet's bonded debt or lines of credit. Accordingly, no liability has been recorded by the District.

NoaNet recorded a decrease in net position (unaudited) of $6,791,730 and a decrease of $7,206,632 for 2017 and 2016, respectively. In accordance with generally accepted accounting principles as well as a position statement issued by the Washington State Auditor concerning the appropriate accounting treatment for NoaNet, a proportionate share of these gain/losses has not been recorded by the District.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Chief Financial Officer, 5802 Overlook Ave NE, Tacoma, WA 98422.

NOTE 10 – TELECOMMUNICATIONS SERVICES

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

The following is a summary of Broadband activities for 2017 and 2016:

Broadband	2017	2016
Operating Revenues:		
Drop Fees	$98,588	$83,554
Fiber Transport charges	811,942	808,056
WiFi Transport	8,630	8,000
Collocation Rental	97,408	95,030
Miscellaneous Broadband Services	329,824	213,217
BTOP Program Income	139,665	151,076
Total Operating Revenues	1,486,057	1,358,933
Operating Expenses:		
Labor and Benefits	186,202	166,439
Supplies	3,321	2,379
Professional Services	26,889	21,648
Other Charges	85,387	72,112
Hardware and Fiber Maintenance	42,001	65,693
Depreciation	1,192,257	1,139,707
Total Operating Expenses	$1,536,057	$1,467,978
Capital Investment:		
Current	1,027,544	1,760,743
Cumulative (since 2000)	$19,505,708	$18,478,164

The above are included in summarized amounts within the District's financial statements

NOTE 11 – SPECIAL ITEM

During 2010, the District's Pasco Combustion Turbine plant became temporarily inoperable. In 2013, certain repairs were conducted to make the plant operable and available for sale. As of December 31, 2015, District management determined that the fair value of the plant was approximately $5.4 million based on markets for similar assets. Based on continued market research, District management has determined that the approximate fair value of the plant is $2.4 million as of December 31, 2017. This resulted in an adjustment to the value of the plant which is shown as a special item decreasing the change in net position of $3 million for 2017 that is presented within the Statement of Revenues, Expenses and changes in Net Position. Refer to Note 7 for additional information.

Required Supplementary Information

Schedules of Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last 10 Fiscal Years*

PERS Plan 1	2014	2015	2016	2017
District's proportion of the net pension liability (asset)	0.079646%	0.075912%	0.076313%	0.073408%
District's proportionate share of the net pension liability	$4,012,205	$3,970,904	$4,098,368	$3,483,267
Covered payroll	$524,963	$348,715	$361,159	$363,164
District's proportionate share of the net pension liability as a percentage of covered payroll	764.28%	1138.72%	1134.78%	959.14%
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%	61.24%

PERS Plan 2 & 3	2014	2015	2016	2017
District's proportion of the net pension liability (asset)	0.079646%	0.075912%	0.088890%	0.085880%
District's proportionate share of the net pension liability	$1,795,150	$3,187,453	$4,475,541	$2,983,919
Covered payroll	$7,585,236	$7,921,255	$8,279,471	$8,419,679
District's proportionate share of the net pension liability as a percentage of covered payroll	23.67%	40.24%	51.80%	35.44%
Plan fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%	90.97%

Notes:
*These schedules are to be built prospectively until they contain ten years of data.

Required Supplementary Information

Schedules of Employer Contributions
As of December 31, 2017
Last 10 Fiscal Years*

PERS 1	2015	2016	2017
Statutorily or contractually required contributions	$392,546	$435,891	$455,221
Contributions in relation to the statutorily or contractually required contributions	(392,546)	(435,891)	(455,221)
Contribution deficiency (excess)	0	0	0
Covered payroll	$360,332	$360,859	$366,335
Contributions as a percentage of covered employee payroll	108.94%	120.79%	124.26%

PERS 2 & 3	2015	2016	2017
Statutorily or contractually required contributions	$457,619	$517,463	$581,381
Contributions in relation to the statutorily or contractually required contributions	(457,619)	(517,463)	(581,381)
Contribution deficiency (excess)	0	0	0
Covered payroll	$8,156,162	$8,306,014	$8,435,389
Contributions as a percentage of covered employee payroll	5.61%	6.23%	6.89%

Notes:
*These schedules are to be built prospectively until they contain ten years of data.

Statistical Section

This part of the District's comprehensive annual financial report is presented as an enhancement to the basic financial statements, notes to the financial statements, and required supplementary information. Information in this section is useful in assessing the District's overall financial condition.

Financial Trends

These schedules present trend information to help the reader understand how the District's financial position has changed over time.

Revenue Capacity

These schedules contain information to guide the reader in assessing the District's primary source of revenue, electric sales.

Debt Capacity

These schedules present historical information about the affordability of the District's debt burden.

Demographic and Economic Information

Demographic and economic information contained in these schedules illustrate the setting in which the District conducts business.

Operating Information

These schedules contain historical service and infrastructure data useful in assessing the District's activities and their relationship to the information in the District's financial report.

Comprehensive Annual Financial Report for the Years Ended December 31, 2017 and 2016

SCHEDULE OF CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31

	2017	2016	2015
OPERATING REVENUES			
Retail Energy Sales	$80,670,148	$73,894,581	$75,121,236
Broadband Revenue	1,486,057	1,358,933	1,457,290
Sales for Resale	6,855,980	7,970,459	9,256,768
Other Electric Revenue	89,260	132,478	68,229
Other Operating Revenues	432,141	484,693	496,287
TOTAL OPERATING REVENUES	89,533,586	83,841,144	86,399,810
OPERATING EXPENSES			
Power Supply[1]	57,804,660	57,475,326	58,299,865
System Operations & Maintenance	4,840,509	3,819,269	3,680,766
Broadband Operations & Maintenance	343,799	258,317	283,743
Customer Accounting & Information	2,353,652	1,747,416	1,757,472
Administrative & General Expense	5,873,726	7,390,042	6,878,866
Taxes	4,973,711	5,138,588	5,268,784
Depreciation	6,866,123	6,579,684	6,366,029
TOTAL OPERATING EXPENSES	83,056,180	82,408,642	82,535,525
NET (EXPENSE)/REVENUE	6,477,406	1,432,502	3,864,285
NONOPERATING REVENUES (EXPENSES)			
Interest Income	244,147	123,991	76,330
Interest, Amortization and Bond Issuance Costs[2]	(2,133,021)	(2,806,788)	(2,884,549)
Other Nonoperating Revenue (Expense)	118,245	121,967	107,782
TOTAL	(1,770,629)	(2,560,830)	(2,700,437)
OTHER CHANGES IN NET POSITION			
Capital Contributions	2,219,725	2,855,788	2,787,707
Special Item	(3,000,000)		(3,000,000)
TOTAL CHANGE IN NET POSITION	3,926,502	1,727,460	951,555
NET POSITION			
Net Investment in Capital Assets	80,974,959	77,790,267	70,465,479
Restricted[1]	3,914,649	3,914,649	3,142,483
Unrestricted[2,3]	25,080,262	24,338,452	30,707,946
TOTAL NET POSITION	$109,969,870	$106,043,368	$104,315,908

1) Certain amounts have been reclassified to conform to the current year presentation.

2) Governmental Accounting Standards Board Statement No. 65 was implemented effective 2013 classifying debt issuance costs as expense when incurred. 2012 was restated for comparative purposes in the financial statements.
2011 was restated for comparative purposes and the cumulative effect of $(1,283,107) has been applied to Net Position.

3) Governmental Accounting Standards Board Statement No. 68 was implemented effective 2015 recording the District's proportionate share of State pension amounts.
2014 was restated for comparative purposes and the cumulative effect of ($7,841,995) has been applied to Net Position.

2014 as restated	2013	2012 as restated	2011 as restated	2010	2009	2008
$74,003,036	$70,510,591	$64,731,883	$64,223,925	$62,117,034	$58,384,793	$56,918,888
1,096,225	1,126,104	773,295	692,344	674,984	499,303	360,118
12,051,753	8,965,265	7,289,135	7,102,867	7,181,842	10,905,987	16,982,707
179,078	47,384	67,075	75,424	75,410	594,085	88,795
358,286	469,021	504,368	362,747	412,946	4,562,914	4,918,265
87,688,378	81,118,365	73,365,756	72,457,307	70,462,216	74,947,082	79,268,773
58,573,957	54,427,647	49,332,150	44,376,498	46,007,418	46,725,990	51,336,913
3,732,851	4,002,534	3,920,438	3,617,829	3,438,314	3,463,755	2,412,930
279,119	240,929	240,184	403,627	342,010	348,901	299,323
1,814,313	1,527,148	1,517,748	1,461,454	1,422,055	1,381,032	1,411,625
6,814,262	6,597,487	6,283,650	5,976,327	5,882,274	5,520,565	5,301,765
5,246,807	5,304,774	4,685,698	4,565,185	3,973,385	4,445,213	4,188,238
6,004,302	6,595,192	6,360,582	6,059,197	5,702,314	4,275,321	4,218,028
82,465,611	78,695,711	72,340,450	66,460,117	66,767,770	66,160,777	69,168,822
5,222,767	2,422,654	1,025,306	5,997,190	3,694,446	8,786,305	10,099,951
56,170	58,716	95,128	65,549	112,332	260,718	911,725
(3,023,280)	(2,802,736)	(2,358,967)	(2,501,539)	(2,744,745)	(2,879,664)	(3,072,517)
220,549	229,853	322,082	146,647	(89,833)	113,349	(82,424)
(2,746,561)	(2,514,167)	(1,941,757)	(2,289,343)	(2,722,246)	(2,505,597)	(2,243,216)
3,119,480	1,956,989	2,786,887	2,731,640	2,680,505	2,778,890	2,208,176
5,595,686	1,865,476	1,870,436	6,439,487	3,652,705	9,059,598	10,064,911
70,054,868	70,618,709	78,659,916	71,626,137	67,758,243	62,659,492	51,605,395
3,142,483	3,142,483					
30,167,002	31,849,470	25,085,270	30,248,613	29,082,536	30,528,582	32,523,081
$103,364,353	$105,610,662	$103,745,186	$101,874,750	$96,840,779	$93,188,074	$84,128,476

REVENUES AND CONSUMPTION BY CUSTOMER CLASS
FOR THE YEARS ENDED DECEMBER 31

	2017	2016	2015	2014
RETAIL ELECTRIC SALES				
Residential	$35,242,145	$30,751,621	$30,772,955	$30,573,381
General and Industrial	37,242,986	35,011,340	35,701,569	35,038,905
Small Irrigation	4,258,328	4,208,177	4,311,667	4,125,092
Large Irrigation	3,601,798	3,596,505	4,004,706	3,869,279
Street Lighting	234,957	236,036	241,178	316,932
Security Lighting	89,934	90,902	89,161	79,447
TOTAL	$80,670,148	$73,894,581	$75,121,236	$74,003,036
RETAIL ELECTRIC SALES (MWh)				
Residential	380,711	337,391	336,228	349,204
General and Industrial	551,076	529,445	558,860	543,356
Small Irrigation	63,090	68,740	76,148	74,444
Large Irrigation	56,626	59,864	67,087	66,563
Street Lighting	3,129	5,328	5,277	4,717
Security Lighting	599	640	634	600
TOTAL	1,055,231	1,001,408	1,044,234	1,038,884
RETAIL ELECTRIC LOAD PERCENTAGE				
Residential	36.1%	33.7%	32.2%	33.6%
General and Industrial	52.2%	52.9%	53.5%	52.3%
Small Irrigation	6.0%	6.9%	7.3%	7.2%
Large Irrigation	5.4%	6.0%	6.4%	6.4%
Street Lighting	0.3%	0.5%	0.5%	0.5%
Security Lighting	0.1%	0.1%	0.1%	0.1%
TOTAL	100.0%	100.0%	100.0%	100.0%
REVENUE PER KWH (Cents)				
Residential	9.26	9.11	9.15	8.76
General and Industrial	6.76	6.61	6.39	6.45
Small Irrigation	6.75	6.12	5.66	5.54
Large Irrigation	6.36	6.01	5.97	5.81
Street Lighting	7.51	4.43	4.57	6.72
Security Lighting	15.01	14.20	14.06	13.24
TOTAL	7.64	7.38	7.19	7.12
NUMBER OF ACCOUNTS				
Residential	25,517	25,026	24,569	24,117
General and Industrial	3,460	3,429	3,381	3,348
Small Irrigation	821	820	828	829
Large Irrigation	73	72	72	71
Street Lighting	47	44	46	42
TOTAL	29,918	29,391	28,896	28,407

(1) As of 2011 the District has included the Basic energy charge in Retail Energy Sales.
Accordingly, 2010 amounts have been reclassified.

2013	2012	2011[1]	2010[1]	2009	2008
$29,709,164	$27,962,396	$26,124,424	$24,464,253	$22,602,671	$21,785,004
33,006,390	29,759,365	31,298,121	30,848,817	28,381,144	27,572,762
3,797,756	3,493,096	3,312,697	3,289,724	3,632,093	3,809,070
3,618,056	3,121,575	3,067,506	3,099,202	3,368,734	3,374,714
301,098	318,531	346,478	341,636	330,047	305,048
78,127	76,920	74,699	73,402	70,104	72,290
$70,510,591	$64,731,883	$64,223,925	$62,117,034	$58,384,793	$56,918,888
350,167	336,205	335,005	321,335	336,923	320,298
534,717	523,009	519,647	504,593	499,974	496,837
66,976	64,969	64,764	62,501	67,710	73,172
63,176	56,688	57,427	56,709	62,696	66,518
4,638	4,201	4,467	4,310	4,182	4,069
595	592	580	571	569	561
1,020,269	985,664	981,890	950,019	972,054	961,455
34.3%	34.1%	34.1%	33.8%	34.7%	33.3%
52.4%	53.1%	52.9%	53.1%	51.4%	51.7%
6.6%	6.6%	6.6%	6.6%	7.0%	7.6%
6.2%	5.8%	5.8%	6.0%	6.4%	6.9%
0.5%	0.4%	0.5%	0.5%	0.4%	0.4%
0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
8.48	8.32	7.80	7.61	6.71	6.80
6.17	5.69	6.02	6.11	5.68	5.55
5.67	5.38	5.12	5.26	5.36	5.21
5.73	5.51	5.34	5.47	5.37	5.07
6.49	7.58	7.76	7.93	7.89	7.50
13.13	12.99	12.88	12.85	12.32	12.89
6.91	6.57	6.54	6.54	6.01	5.92
23,797	23,435	23,059	22,424	21,697	21,193
3,293	3,272	3,224	3,197	3,167	3,106
830	809	799	804	793	814
69	69	66	69	69	69
38	38	38	38	39	41
28,027	27,623	27,186	26,532	25,765	25,223

RETAIL RATES, ALL CLASSES
FOR THE YEARS ENDED DECEMBER 31

All amounts shown in dollars ($)

	2017 (5)	2016	2015 (4)	2014 (3)
Residential				
Monthly Basic Charge (Single Phase)	34.00	34.00	34.00	22.09
Monthly Basic Charge (Three Phase)	58.72	58.72	58.72	38.15
Energy Charge	0.0673	0.0635	0.0635	0.0711
Small General				
Monthly Basic Charge	39.56	38.00	38.00	29.86
Energy Charge	0.0744	0.0715	0.0715	0.0723
Medium General				
Monthly Basic Charge	51.88	49.84	49.84	48.57
Demand Charge	8.26	7.93	7.93	7.73
Energy Charge, April - August	0.0364	0.0350	0.0350	0.0341
Energy Charge, September - March	0.0461	0.0443	0.0443	0.0432
Large General				
Monthly Basic Charge	69.26	66.53	66.53	64.83
Demand Charge	8.44	8.11	8.11	7.9
Energy Charge, April - August	0.0365	0.0351	0.0351	0.0342
Energy Charge, September - March	0.0455	0.0437	0.0437	0.0426
Industrial				
Monthly Basic Charge	486.7	467.53	467.53	455.61
Demand Charge	8.67	8.33	8.33	8.12
Energy Charge, April - August	0.0363	0.0349	0.0349	0.0340
Energy Charge, September - March	0.0456	0.0438	0.0438	0.0427
Small Irrigation				
Demand charge	5.15	4.95	4.95	4.5
Energy Charge, April - August	0.0321	0.0308	0.0308	0.0280
Energy Charge, September - March	0.0526	0.0505	0.0505	0.0459
Large Irrigation				
Demand charge	9.51	9.14	9.14	8.91
Energy Charge, April - August	0.0320	0.0307	0.0307	0.0299
Energy Charge, September - October	0.0437	0.0420	0.0420	0.0409
Energy Charge, November - March	0.0527	0.0506	0.0506	0.0493

(1) Rates shown were effective May 1, 2008. Rates effective January 1 through April 30 are shown in the 2007 column.
(2) Rates shown were effective May 1, 2013. Rates effective January 1 through April 30 are shown in the 2012 column.
(3) Rates shown were effective May 1, 2014. Rates effective January 1 through April 30 are shown in the 2013 column.
(4) Rates shown were effective September 1, 2015. Rates effective January 1 through August 31 are shown in the 2014 column.
(5) Rates shown were effective May 1, 2017. Rates effective January 1 through April 30 are shown in the 2016 column.

2013 [2]	2012	2011	2010	2009	2008 [1]
21.45	11.45	11.45	11.45	11.45	11.45
37.04	19.77	19.77	19.77	19.77	19.77
0.0690	0.0731	0.0731	0.0731	0.0731	0.0731
28.99	23.26	23.26	23.26	23.26	23.26
0.0702	0.0686	0.0686	0.0686	0.0686	0.0686
47.16	44.96	44.96	44.96	44.96	44.96
7.5	7.15	7.15	7.15	7.15	7.15
0.0331	0.0316	0.0316	0.0316	0.0316	0.0316
0.0419	0.0399	0.0399	0.0399	0.0399	0.0399
62.94	161.78	161.78	161.78	161.78	161.78
7.67	7.31	7.31	7.31	7.31	7.31
0.0332	0.0307	0.0307	0.0307	0.0307	0.0307
0.0414	0.0383	0.0383	0.0383	0.0383	0.0383
442.34	421.68	421.68	421.68	421.68	421.68
7.88	7.51	7.51	7.51	7.51	7.51
0.0330	0.0315	0.0315	0.0315	0.0315	0.0315
0.0415	0.0396	0.0396	0.0396	0.0396	0.0396
4.37	4.17	4.17	4.17	4.17	4.17
0.0272	0.0259	0.0259	0.0259	0.0259	0.026
0.0446	0.0425	0.0425	0.0425	0.0425	0.043
8.65	8.43	8.43	8.43	8.43	8.43
0.0290	0.0271	0.0271	0.0271	0.0271	0.027
0.0397	0.0371	0.0371	0.0371	0.0371	0.037
0.0479	0.0448	0.0448	0.0448	0.0448	0.045

PRINCIPAL RATEPAYERS
FOR THE YEARS ENDED DECEMBER 31

2017

Customer	Industry	kWh	Percentage of Total kWh	Retail Sales	Percentage of Total Retail Electric Sales
Lamb Weston	Food Processing	138,729,861	13.1%	$8,028,609	10.0%
Pasco Processing LLC	Food Processing	36,113,220	3.4%	2,251,934	2.8%
City of Pasco	City Government	24,475,420	2.3%	1,907,190	2.4%
Pasco School District #1	Education	24,411,097	2.3%	1,800,496	2.2%
Frank Tiegs LLC	Agriculture	21,590,095	2.0%	1,344,649	1.7%
Twin City Foods	Food Processing	19,520,568	1.8%	1,244,518	1.5%
Oregon Potato Company	Food Processing	14,838,560	1.4%	895,578	1.1%
WA State DOC	Corrections Facility	15,168,680	0.9%	886,963	1.1%
Columbia Basin College	Education	9,103,442	1.4%	621,914	0.8%
CSS Potato Farms LLC	Agriculture	9,265,262	0.9%	603,660	0.7%
		313,216,205	29.7%	$19,585,511	24.3%
Total All Ratepayers		1,055,231,000		$80,670,148	

Source: District Customer Information System

2008

Customer	Industry	kWh	Percentage of Total kWh	Retail Sales	Percentage of Total Retail Electric Sales
Lamb-Weston Inc	Food Processing	148,463,137	15.4%	$7,876,911	13.8%
Pasco Processing LLC	Food Processing	29,327,840	3.1%	1,751,237	3.1%
City of Pasco	City Government	22,334,271	2.3%	1,390,896	2.4%
Pasco School District #1	Education	17,132,287	1.8%	1,349,718	2.4%
Twin City Foods	Food Processing	17,046,400	1.8%	999,171	1.8%
Bybee Foods	Food Processing	17,053,400	1.8%	956,425	1.7%
Carr Farms	Agriculture	14,750,045	1.5%	900,734	1.6%
Columbia Basin College	Education	11,201,357	1.2%	709,036	1.2%
Resers Fine Foods	Food Processing	10,227,200	1.1%	579,882	1.0%
Frank Tiegs LLC	Agriculture	10,952,183	1.1%	543,332	1.0%
		298,488,120	31.0%	$17,057,342	30.0%
Total All Ratepayers		961,454,640		$56,918,888	

DEBT CAPACITY INFORMATION
FOR THE YEARS ENDED DECEMBER 31

RATIOS OF OUTSTANDING DEBT

	2017	2016	2015	2014 as restated
Outstanding Revenue Bonds	$60,738,168	$61,445,000	$59,929,999	$62,670,000
Unamortized Premium & Discount	2,493,168	2,800,939	1,590,823	1,684,524
Other Long Term Debt				
Total Outstanding Debt	$63,231,336	$64,245,939	$61,520,822	$64,354,524
Total Debt to Total Assets	33%	33%	32%	34%
Total Debt per Ratepayer	2,113	2,186	2,129	2,265

DEBT SERVICE COVERAGE

	2017	2016	2015	2014 as restated
Debt Service Calculation:				
Net operating income	$6,477,406	$1,432,502	$3,864,285	$5,222,767
Rate Stabilization Fund				
Depreciation	6,866,123	6,579,684	6,366,029	6,004,302
Other income	2,463,872	2,979,779	2,864,037	3,175,650
Revenue available for debt service	$15,807,401	$10,991,965	$13,094,351	$14,402,719
Annual debt service	$5,555,992	$5,709,970	$5,712,580	$5,703,945
Debt service coverage	2.85	1.93	2.29	2.53

2013	2012 as restated	2011 as restated	2010	2009	2008
$65,225,000	$50,420,000	$53,855,000	$57,120,000	$60,250,000	$63,300,000
1,778,225	2,175,796	1,854,113	1,924,917	1,995,720	2,066,524
	22,594	45,791	67,656	88,003	107,091
$67,003,225	$52,618,390	$55,754,904	$59,112,573	$62,333,723	$65,473,615
36%	31%	33%	36%	37%	40%
2,391	1,905	2,323	2,517	2,727	2,943
$2,422,654	$1,025,306	$5,997,190	$3,694,446	$8,786,305	$10,099,951
				(5,900,000)	
6,595,192	6,360,582	6,059,197	5,702,314	4,275,321	4,218,028
2,015,705	2,882,015	2,797,189	2,792,837	3,039,608	3,119,901
$11,033,551	$10,267,903	$14,853,576	$12,189,597	$10,201,234	$17,437,880
$5,749,225	$5,962,394	$5,917,006	$5,898,881	$5,960,932	$5,975,035
1.92	1.72	2.51	2.07	1.71	2.92

DEMOGRAPHIC AND ECONOMIC INFORMATION
FOR THE YEARS ENDED DECEMBER 31

	2017	2016	2015	2014	2013
DEMOGRAPHIC STATISTICS					
Population [(1)]					
Franklin County	90,160	88,670	87,150	86,600	84,800
City of Pasco	71,680	70,560	68,240	67,770	65,600
Connell	5,450	5,365	5,405	5,330	5,350
Kahlotus	168	185	185	185	195
Mesa	495	495	495	495	495
Total Personal Income (in thousands) - Franklin County [(2)]	N/A	$3,186,131	$3,015,469	$2,742,073	$2,645,389
Per Capita Income - Franklin County [(2)]	N/A	$35,339	$33,955	$31,228	$30,534
Unemployment Rate - Franklin County [(3)]	8.4%	9.6%	9.4%	11.8%	11.0%

(1) Source: Washington State Office of Financial Management

(2) Source: U.S. Bureau of Economic Analysis

(3) Source: Labor Market and Economic Analysis, Washington Employment Security Department

PRINCIPAL EMPLOYERS - TRI-CITIES METROPOLITAN STATISTICAL AREA [(4)]

For the years ended December 31

2017				
Company	Industry	Employees	Rank	Percentage of Total MSA Employment
Battelle/PNNL	Research & Development	4,500	1	3.7%
Kadlec Medical Center	Health Services	3,532	2	2.9%
ConAgra (Lamb Weston)	Food Processing	3,000	3	2.5%
Bechtel National	Engineering & Construction	2,943	4	2.4%
Kennewick School District	Education	2,336	5	1.9%
Washington River Protection Solutions	Environmental Remediation Services	2,129	6	1.7%
Pasco School District	Education	2,015	7	1.6%
Mission Support Alliance	Support Services - Hanford DOE Site	1,902	8	1.6%
CH2M Hill	Environmental Remediation Services	1,682	9	1.4%
Richland School District	Education	1,500	10	1.2%

(4) Source: TRIDEC (Tri-City Development Council)

2012	2011	2010	2009	2008
82,500	80,500	75,500	72,700	70,200
62,670	61,000	56,300	54,490	52,290
5,320	5,150	4,220	3,430	3,255
195	190	225	220	215
495	495	455	455	440
$2,589,898	$2,479,492	$2,273,045	$2,037,677	$1,827,068
$30,169	$29,711	$28,695	$26,342	$24,965
11.5%	10.9%	9.5%	10.0%	9.5%

2008			
Company	Industry	Employees	Percentage of Total MSA Employment
Batelle PNNL	Research Laboratory	4,220	3.7%
Bechtel National, Inc.	Government Contractor	2,800	2.5%
Wyckoff Farms	Agriculture	2,500	2.2%
ConAgra (Lamb Weston)	Food Processing	2,128	1.9%
Pasco School District	Education	2,002	1.8%
CH2M Hill Hanford Group, Inc.	Government Contractor	1,950	1.7%
Kennewick School District	Education	1,800	1.6%
Tyson Foods	Food Processing	1,800	1.6%
Fluor Hanford	Government Contractor	1,561	1.4%
Kadlec Medical Center	Health Services	1,422	1.2%

OPERATING INDICATORS
FOR THE YEARS ENDED DECEMBER 31

	2017	2016	2015	2014
Total Electric Sales (MWh)				
Retail	1,055,231	1,001,408	1,044,234	1,038,884
Sales for Resale	270,322	281,635	355,794	389,295
Total MWh sales	1,325,553	1,283,043	1,400,028	1,428,179
Annual Revenue per Account				
Residential	$1,381	$1,229	$1,253	$1,268
General and Industrial	$10,764	$10,210	$10,559	$10,466
Small Irrigation	$5,187	$5,132	$5,207	$4,976
Large Irrigation	$49,340	$49,951	$55,621	$54,497
Street Lighting	$4,999	$5,364	$5,243	$7,546
Annual kWh per Account				
Residential	14,920	13,482	13,685	14,480
General and Industrial	159,271	154,402	165,294	162,293
Small Irrigation	76,845	83,829	91,966	89,800
Large Irrigation	775,699	831,444	931,764	937,507
Street Lighting	66,574	121,091	114,717	112,310
Number of employees	103	102	100	99
Number of employees by function:				
Distribution	47	48	47	47
Production	0	0	0	0
Customer Relations	24	20	21	21
Administrative	32	34	32	31
Net Utility Plant	$140,141,521	$137,426,361	$131,018,797	$127,390,697
Utility System Reliability	99.997%	99.99%	99.99%	99.99%
Number of Customer Interruptions	189	242	217	216
CDDs (1)	1,347	1,099	1,534	1,426
HDDs (1)	5,618	4,396	4,228	4,611
Annual Precipitation (inches) (1)	8.6	7.65	6.48	6.53

(1) Source: Hanford Meteorological Station

2013	2012	2011	2010	2009	2008
1,020,269	985,664	981,890	950,019	972,054	961,455
289,220	335,643	247,770	179,688	237,796	240,899
1,309,489	1,321,307	1,229,660	1,129,707	1,209,850	1,202,354
$1,248	$1,193	$1,133	$1,091	$1,042	$1,028
$10,023	$9,095	$9,708	$9,649	$8,962	$8,877
$4,576	$4,318	$4,146	$4,092	$4,580	$4,679
$52,436	$45,240	$46,477	$44,916	$48,822	$48,909
$7,924	$8,382	$9,118	$8,990	$8,463	$7,440
14,715	14,346	14,528	14,330	15,529	15,113
162,380	159,844	161,181	157,833	157,870	159,960
80,694	80,308	81,056	77,738	85,385	89,892
915,594	821,565	870,106	821,870	908,638	964,035
122,053	110,553	117,553	113,421	107,231	99,247
94	94	97	99	98	95
44	45	48	47	48	57
0	0	1	1	0	0
18	18	17	20	22	15
32	31	31	31	28	23
$123,210,127	$130,869,088	$127,381,041	$125,465,209	$123,465,289	$115,428,771
99.99%	99.98%	99.99%	99.99%	99.99%	99.99%
260	242	190	165	185	290
1,318	1,057	884	870	1,214	990
5,297	4,940	5,467	4,899	5,679	5,581
5.38	8.18	4.45	10.19	5.47	5.41