



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDING DECEMBER 31, 2018 AND 2017



Public Utility District #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, 2018 AND 2017

PREPARED BY
DEPARTMENT OF ADMINISTRATIVE SERVICES, FINANCE DIVISION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended December 31, 2018 and 2017

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Fostering a green, clean, renewable environment

Introductory Section

Comprehensive Annual Financial Report for the Years Ended December 31, 2018 and 2017

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June 7, 2019

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, 2018 and 2017 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, 2018 and 2017. 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, 2018 and 2017 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, 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 7).

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, Kahlottus, 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 1,095 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 approved by the Board 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 utility. 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 policies 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, procurement controls, and financial reporting. The financial policies and procedures call for developing financial plans to maintain a "target" amount of cash reserves sufficient to provide funding for 25 percent of non-power expenses and 10 percent of anticipated

gross power costs for the planned year's budget and 25 percent 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 account.

Major Initiatives

In 2018 the District focused its efforts on promoting hydroelectric power generated by the Columbia and Snake River dams. The District's customers receive approximately 80 percent of their electricity from these dams. Hydroelectricity is the Pacific Northwest's premier clean, renewable and reliable resource, and the District was an active participant in events to showcase this resource throughout the year. The District worked with its regional partners to host Riverfest – a community event aimed at promoting the benefits of the dams including navigation, irrigation, recreation, and hydroelectric power. Additionally, the United States House Committee on Natural Resources conducted a field hearing in the region to showcase the value of this abundant resource. The District will continue to support these efforts for the benefit of its customers into 2019 and beyond.

The District's continued growth in the residential, commercial, and industrial sectors bring 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 was completed in 2018, along with several other projects aimed at improving or replacing older infrastructure with more safe and reliable technology.

The District continued optimization of the installed components of the enterprise software solution first implemented in 2017, with the completion of a new mapping system and integrated mobile workforce capabilities. The continued streamlining of processes supported by this solution is key to realizing the District's goal to maintain reliability of internal operational systems, ultimately providing reliability for the District's customers.

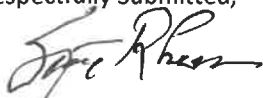
AWARDS AND ACKNOWLEDGEMENTS

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, 2017. This was the fourteenth 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 entire staff 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,



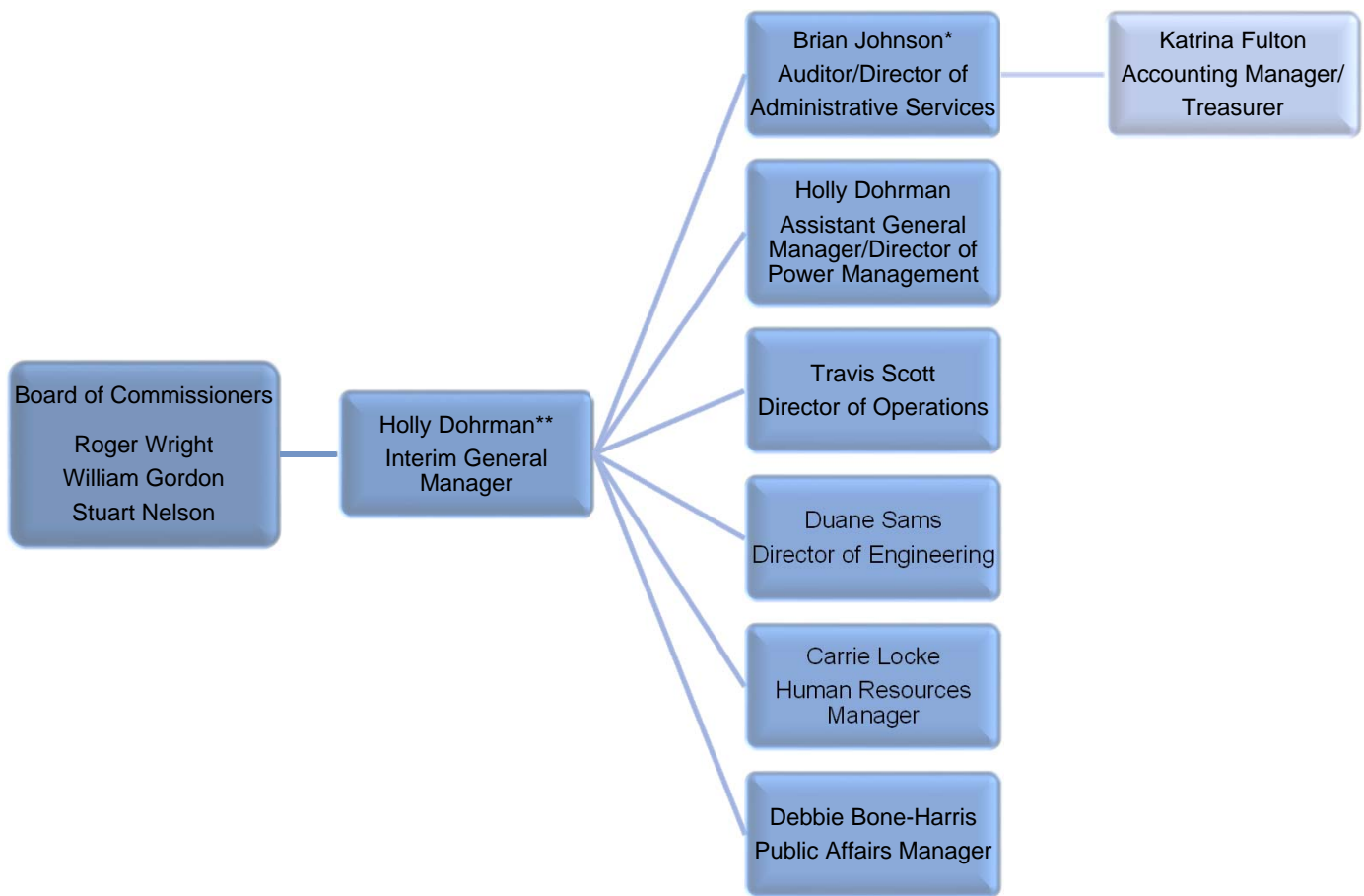
Scott Rhees
General Manager



Brian Johnson
Auditor/Director of Administrative Services

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Franklin PUD Organizational Chart



*May 2018 - Brian Johnson became Auditor/Director of Administrative Services

**October 2018 - Tim Nies resigned; Holly Dohrman became Interim General Manager

***April 2019 – Scott Rhees became General Manager



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
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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, 2017

Christopher P. Morill

Executive Director/CEO

Financial Section

Comprehensive Annual Financial Report for the Years Ended December 31, 2018 and 2017

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**Office of the Washington State Auditor
Pat McCarthy**

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

June 7, 2019

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, as of and for the years ended December 31, 2018 and 2017, 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 financial position of Public Utility District No. 1 of Franklin County, as of December 31, 2018 and 2017, and the 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 are 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 7, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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,

A handwritten signature in black ink, appearing to read "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

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, 2018 and 2017, with additional comparative data for 2016. 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, 2018 and 2017 are comprised of:

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.

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.

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)

	2018	2017	2017 to 2018 Change	2016
Current and Other Assets	\$56,042	\$53,230	5.28%	\$55,841
Capital Assets and Work in Progress	244,990	237,110	3.32%	228,452
Accumulated Depreciation	(102,856)	(96,968)	6.07%	(91,026)
Total Assets	198,176	193,372	2.48%	193,267
Deferred Outflows of Resources	3,933	1,938	102.94%	2,874
Total Assets and Deferred Outflows	202,109	195,310	3.48%	196,141
Current and Other Liabilities	19,338	16,977	13.91%	16,198
Long-Term Liabilities	60,659	66,385	-8.63%	72,235
Total Liabilities	79,997	83,362	-4.04%	88,433
Deferred Inflows of Resources	3,919	1,978	98.13%	1,665
Total Liabilities and Deferred Inflows	83,916	85,340	-1.67%	90,098
Net Investment in Capital Assets	86,735	80,975	7.11%	77,790
Restricted for Debt Service	3,915	3,915	0.00%	3,915
Unrestricted	27,543	25,080	9.82%	24,338
Total Net Position	\$118,193	\$109,970	7.48%	\$106,043

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

	2018	2017	2017 to 2018 Change	2016
Operating Revenues:				
Retail Energy Sales	\$81,797	\$80,670	1.40%	\$73,895
Sales for Resale	12,756	6,856	86.06%	7,970
Other	2,312	2,007	15.20%	1,976
Total Operating Revenues	96,865	89,533	8.19%	83,841
Nonoperating Revenues	466	362	28.73%	246
Total Revenues	97,331	89,895	8.27%	84,087
Operating Expenses:				
Power Supply	63,035	57,805	9.05%	57,475
Operations, Maintenance & Administrative	14,106	13,412	5.17%	13,215
Taxes & Depreciation	12,114	11,839	2.32%	11,718
Total Operating Expenses	89,255	83,056	7.46%	82,408
Nonoperating Expenses	2,396	2,132	12.38%	2,807
Total Expenses	91,651	85,188	7.59%	85,215
Income (Loss) Before Capital Contributions	5,680	4,707	20.67%	(1,128)
Capital Contributions	2,543	2,220	14.55%	2,856
Special Items	0	(3,000)		0
Change in Net Position	8,223	3,927	109.40%	1,728
Beginning Net Position	109,970	106,043	3.70%	104,315
Ending Net Position	\$118,193	\$109,970	7.48%	\$106,043

Financial Analysis

The District maintained a strong overall financial position in 2018, with total Net Position increasing 7.48% over 2017. The following narrative is an analysis of the change in net position by major components of income and expense, with a primary focus on changes between 2018 and 2017.

Operating Revenues

The following chart is graphical representation of the District's previous three years Operating Revenues:



2017 to 2018:

The District experienced a 1.40% overall increase in Retail Energy Sales during 2018. Although the District added 602 new accounts to the Residential sector, revenues decreased by (1.62%) due to lower retail energy consumption from 2017 for that Rate Class. Regional weather returned to more normal patterns than were experienced in 2017. The Commercial sector realized increased sales of 2.71% over 2017, due to the addition of several new accounts including one new food processing plant.

Revenues from wholesale energy (Sales for Resale) increased in 2018 by 86.06%, largely as a result of higher than normal pricing experienced in the summer months as well as an extreme pricing event occurring in the fall. A natural gas pipeline rupture in October of 2018 forced several west coast gas plants offline, creating a demand for wholesale power. This drove up per megawatt hour prices. The District had entered into hedge agreements which protected against this pricing event and left the District in a net receivable position.

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.

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.

Operating Expenses

The following chart is graphical representation of the District's previous three years Operating Expenses:



Power Supply Costs represent the cost of providing electricity to the District's customer base. Gross Power Supply Costs comprised approximately 70% of the District's total operating expenses in 2018 and 2017. The following graph illustrates the components of the District's Power Supply Costs on both a gross and net basis.



2017 to 2018:

Power Supply Costs increased 9.05% in 2018, with the majority of the increase coming from energy purchased on the open market to serve the District's load. In addition, the District purchased gas to run the Frederickson plant as

well as gas hedges purchased as part of the District's risk management strategy. Many of these transactions were subject to the extreme wholesale pricing event discussed in the Operating Revenues section, and their settlement resulted in higher than average 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.

Capital Contributions

In 2018, recognized revenue from Capital Contributions in the amount of \$2.5 million, an increase from 2017. This is due to the completion of several capital projects still in progress at the end of 2017, including a substantial new commercial addition in the food processing industry.

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.

Summary of Financial Position

The District's overall financial position improved in 2018, with an increase in net position of approximately \$8 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:

	2018 Financial Policy Targets	2018	2017	2016
Unrestricted Cash & Investments (in millions)	\$13.5	\$26.2	\$26.3	\$21.5
Minimum Debt Service Coverage	1.6	3.17	2.85	1.93
Maximum Debt/Asset Ratio	40%	29%	31%	33%
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)

	2018	2017	Increase (Decrease)	% Change	2016
Land	\$893	\$893	\$0	0.0%	\$893
Electric Plant in Service	241,880	230,193	11,687	5.1%	223,836
Construction Work in Progress	2,217	6,024	(3,807)	-63.2%	3,723
Accumulated Depreciation	(102,856)	(96,968)	(5,888)	6.1%	(91,026)
Total Net Capital Assets	\$142,134	\$140,142	\$1,992	1.4%	\$137,426

The District's investment in Capital Assets continued in 2018, with Electric Plant in Service increasing by 5.1%. The largest area of growth was in the Distribution system assets as new residential housing developments continued to build in the District's service territory. Distribution assets to serve new commercial loads were also added to Capital Assets, as well as completion of a new bay at the Foster Wells substation.

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.

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

Long Term Debt (in thousands)

	2018	2017	Increase (Decrease)	% Change	2016
Revenue Bonds	\$57,190	\$60,738	(\$3,548)	-5.8%	\$64,246

Debt service payments totaled \$5.5 million annually in 2018 and 2017, and \$5.7 million for 2016.

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 or 2018, and the district plans to reaffirm the ratings in 2019.

Other Significant Matters

The District was identified in pending litigation during 2018. Further information regarding this litigation is discussed in Note 12 of the Financial Statements – Subsequent Event.

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 11 of the financial statements – Special Item.

STATEMENT OF NET POSITION
As of December 31, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2018	2017
ASSETS		
Current Assets		
Cash (Note 2)	\$6,911,248	\$6,041,434
Investments (Note 2)		
Unrestricted	19,302,857	20,269,182
Accounts Receivable	12,052,399	10,799,153
Inventories	4,112,721	3,170,629
Prepayments	195,193	141,084
Derivative Asset (Note 1)	1,853,497	597,754
Asset Held for Sale (Note 11)	2,447,004	2,447,004
Other Current Assets	2,568	
Total Current Assets	46,877,487	43,466,240
Noncurrent Assets		
Other Receivables (Note 1)	5,250,000	5,850,000
Restricted Debt Service Reserve Fund	3,914,649	3,914,649
Utility Plant (Note 3)		
Land	893,104	893,104
Electric Plant in Service	241,880,449	230,192,758
Construction Work in Progress	2,216,822	6,024,104
Accumulated Depreciation	(102,856,022)	(96,968,445)
Net Utility Plant	142,134,353	140,141,521
Total Noncurrent Assets	151,299,002	149,906,170
TOTAL ASSETS	198,176,489	193,372,410
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	2,859,807	659,844
Deferred loss on Refunding	301,444	389,303
Deferred Pension Outflows (Note 5)	771,498	888,388
Total Deferred Outflows of Resources	3,932,749	1,937,535
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$202,109,238	\$195,309,945
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts Payable	\$7,825,736	\$6,644,929
Customer Deposits	1,580,926	1,497,534
Accrued Taxes Payable	1,746,551	2,099,278
Accrued Interest Payable	751,527	768,758
Other Credits and Liabilities	1,253,894	2,046,119
Revenue Bonds, Current Portion	3,320,000	3,260,000
Derivative Liability (Note 1)	2,859,807	659,844
Total Current Liabilities	19,338,441	16,976,462
Noncurrent Liabilities		
Outstanding Revenue Bonds (Note 4)	53,870,050	57,478,168
Net Pension Liability (Note 5)	4,620,744	6,467,185
Other Credits and Liabilities	2,168,077	2,440,080
Total Noncurrent Liabilities	60,658,871	66,385,433
TOTAL LIABILITIES	79,997,312	83,361,895
DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging derivatives	1,853,497	597,754
Deferred Pension Inflow (Note 5)	1,844,829	1,141,247
Deferred Gain on Refunding (Note 4)	220,419	239,179
Total Deferred Inflows of Resources	3,918,745	1,978,180
NET POSITION		
Net Investment in Capital Assets	88,939,977	83,468,127
Restricted for Debt Service	3,914,649	3,914,649
Unrestricted	25,338,555	22,587,094
TOTAL NET POSITION	118,193,181	109,969,870
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$202,109,238	\$195,309,945

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, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Retail Energy Sales (Note 1)	\$81,797,071	\$80,670,148
Broadband Revenue	1,671,791	1,486,057
Sales for Resale	12,755,537	6,855,980
Other Electric revenue	100,800	89,260
Other Operating revenue	539,940	432,141
TOTAL OPERATING REVENUES	96,865,139	89,533,586
OPERATING EXPENSES		
Power Supply (Note 7)	63,035,372	57,804,660
System Operations & Maintenance	5,667,060	4,840,509
Broadband Operations & Maintenance	485,574	343,799
Customer Accounting & Information	2,464,239	2,353,652
Administration & General Expense	5,489,306	5,873,726
Taxes	4,749,889	4,973,711
Depreciation & Amortization of Intangible Assets	7,363,965	6,866,123
TOTAL OPERATING EXPENSES	89,255,405	83,056,180
OPERATING INCOME	7,609,734	6,477,406
NONOPERATING REVENUES & EXPENSES		
Interest Income	465,544	244,147
Bond Interest, Debt Premium/Discount Amortization and Issuance Costs	(2,070,025)	(2,133,021)
Other Nonoperating Revenue (Expense)	(325,715)	118,245
TOTAL NONOPERATING REVENUES & EXPENSES	(1,930,196)	(1,770,629)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY LOSS	5,679,538	4,706,777
CAPITAL CONTRIBUTIONS	2,543,773	2,219,725
SPECIAL ITEMS (Note 11)		(3,000,000)
CHANGE IN NET POSITION	8,223,311	3,926,502
NET POSITION, BEGINNING OF YEAR	109,969,870	106,043,368
NET POSITION, END OF YEAR	\$118,193,181	\$109,969,870

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

CASH FLOWS FROM OPERATING ACTIVITIES	2018	2017
Cash received from customers	\$97,971,386	\$94,239,929
Cash paid to suppliers and counterparties	(72,799,512)	(67,389,087)
Cash paid to employees	(8,416,069)	(8,316,348)
Taxes Paid	(4,719,051)	(4,646,773)
Other receipts	43,931	100,141
Net cash provided by operating activities	12,080,685	13,987,862
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(9,345,052)	(9,457,148)
Interest paid on long-term debt	(2,306,275)	(2,355,994)
Principal paid on long-term debt	(3,260,000)	(3,200,000)
Contributions in aid of construction	2,280,441	2,310,915
Proceeds from disposal of plant	6,878	7,464
Net cash (used) by capital and related financing activities	(12,624,008)	(12,694,763)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment purchases	(9,465,544)	(10,369,157)
Investment sales and maturities	10,413,137	9,655,992
Interest Income	465,544	226,430
Net cash provided (used) by investing activities	1,413,137	(486,735)
Net increase in cash	869,814	806,364
Cash balance, beginning of year	6,041,434	5,235,070
Cash balance, end of year	\$6,911,248	\$6,041,434
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$7,609,734	\$6,477,406
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	7,363,965	6,866,123
Miscellaneous other revenue and receipts	589,115	474,646
Miscellaneous other disbursements and expenses	(428,188)	(63,806)
Pension Expense (Credit)	(837,780)	(585,863)
(Increase) decrease in accounts receivable (Net)	(1,253,246)	(614,736)
(Increase) decrease in plant supplies	(942,092)	533,864
(Increase) decrease in prepaid expenses	(54,108)	(49,408)
(Increase) decrease in other assets	(2,568)	10,684
(Decrease) increase in payables	828,078	254,200
(Decrease) increase in other credits	(792,225)	684,752
Net cash provided by operating activities	\$12,080,685	\$13,987,862

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

During 2018 and 2017, the District received \$263,332 and \$534,332, respectively, in non-cash capital contributions.

Accumulated increases and decreases in the fair value of hedging derivatives had no effect on cash flows for 2018 or 2017, respectively. For accumulated increases in fair value, the District records an offsetting asset.

For accumulated decreases in fair value, the District records an offsetting liability.

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF 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, 1,095 miles of transmission and distribution lines, and other buildings, equipment, and related facilities. The District has 99 employees and serves 30,593 active accounts. The District has revenues in excess of \$96 million and total assets of over \$202 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 entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In 2017, the District adopted GASB Statement 82 – *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*.

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 2018 or 2017.

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 non-current assets. 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, 2018 there was no balance 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, 2018, the District had the following derivative instruments outstanding:

As of December 31, 2018, the District had the following derivative instruments outstanding:						
	Changes in Fair Value		Fair Value at December 31, 2018		Notional	
	Classification	Amount	Classification	Amount		
Cash Flow Hedges:						
Financial Swap Forward	Deferred Inflow	\$ 822,656	Derivative Asset	\$ 822,656	850,216	MWh
Financial Swap Forward	Deferred Inflow	\$ 1,030,841	Derivative Asset	\$ 1,030,841	2,710,048	mmbtu
Financial Swap Forward	Deferred Outflow	\$ (2,745,105)	Derivative Liability	\$ (2,745,105)	5,435,071	MWh
Financial Swap Forward	Deferred Outflow	\$ (114,702)	Derivative Liability	\$ (114,702)	24,192	mmbtu

These derivative instruments were entered into between July 2017 and December 2018 with maturities between January 2019 and September 2020.

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

As of December 31, 2017, the District had the following derivative instruments outstanding:						
	Changes in Fair Value		Fair Value at December 31, 2017		Notional	
	Classification	Amount	Classification	Amount		
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.

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 7) 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, 2018 or 2017.

Credit Risk

The District's Risk Management Committee (RMC) partners with The Energy Authority (TEA) to develop credit policies and credit limits for the counterparties with whom the District conducts physical and financial commodity transactions. Services performed by TEA include monitoring of credit exposure on a real time basis on behalf of the District, as well as providing recommendations regarding counterparty credit quality based on various credit evaluation factors.

All physical electricity transactions (for hourly and/or daily) for the District are traded by TEA as principal (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, 2018, the District had 47 counterparties. The maximum credit extended to any single counterparty is \$3 million. 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. 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 \$1,853,497 and \$579,754 as of December 31, 2018 and 2017, respectively. The District transacts with various counterparties throughout the year, and as of December 31, 2018 four counterparties comprised 100% of the net exposure to credit risk, with credit ratings ranging from Not Rated/Baa2 to A. 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.

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017.

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 \$5,850,000 as of December 31, 2018. Of this amount \$600,000 will be collected within one year and is accordingly classified within current accounts receivable, the remaining \$5,250,000 is shown under noncurrent assets. 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 generally 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 2018. Refer to Note 3.

J. Other Credits and Liabilities:

Changes in Other Credits and Liabilities as of December 31, 2018 were as follows:

Other Credits & Liabilities - Current	2017	Increases	Decreases	2018
Compensated Absences – Current	669,564	1,078,548	(1,038,023)	710,089
Conservation Credit	288,234	255,314	(543,548)	0
Extended Sick Leave	23,597	888	(18,309)	6,176
Customer Advances for Construction	854,989	1,968,329	(2,336,016)	487,302
Other Current Liabilities	209,735	87,681	(247,089)	50,327
Total Other Current Liabilities	\$2,046,119	\$3,390,760	(\$4,182,985)	\$1,253,894

Other Credits & Liabilities – Noncurrent	2017	Increases	Decreases	2018
Compensated Absences – Long Term	706,557		(110,745)	595,812
BPA Incentive Credit	1,733,523		(161,258)	1,572,265
Total Other Credits & Liabilities	\$2,440,080	\$0	(\$272,003)	\$2,168,077

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

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 \$710,089 in compensated absences will be paid within one year. As of December 31, 2018 and 2017, \$710,089 and \$669,564 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, 2018 and 2017. 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 unearned 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 unearned 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, 2018 \$487,302 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 \$2.6 million at December 31, 2018 and \$2.5 million at December 31, 2017.

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 \$2,543,773 and \$2,219,725 are reported for 2018 and 2017, respectively, on the statement of revenues, expenses and changes in net position. There were no capital contributions resulting from federal grant awards for either 2018 or 2017.

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 2018 were made using 23.33% from Capital Contributions and 76.67% from rate revenue.

Q. Reclassification

Certain amounts reported within the 2017 financial statements have been reclassified to conform to the 2018 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, 2018, the District held the following investments at amortized cost:

Investments	Maturities	Total
State Treasurers Local Government Investment Pool (LGIP)	42 days average	\$23,217,506

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

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, and 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, 2018 was as follows:

Utility Plant	Balance, 12/31/2017	Increase	Decrease	Balance, 12/31/2018
Assets not subject to depreciation:				
Land	\$893,104			\$893,104
Completed Construction Not Classified	6,006,219	3,076,321	(9,082,540)	0
Construction Work in Progress	6,024,104	11,961,706	(15,768,988)	2,216,822
Assets subject to depreciation or amortization:				
Intangible	1,318,085	3,203,144	(3,855,245)	665,984
Broadband	19,505,708	695,607	(8,701)	20,192,614
Transmission	6,653,243	1,018,444	(13,634)	7,658,053
Distribution	173,785,311	23,662,627	(8,462,302)	188,985,636
General Plant	22,924,192	3,692,286	(2,238,316)	24,378,162
Subtotal	237,109,966	47,310,135	(39,429,726)	244,990,375
Less Accumulated Depreciation & Amortization:				
Intangible	(628,882)	(171,302)	452,191	(347,993)
Broadband	(11,113,116)	(1,148,602)	8,701	(12,253,017)
Transmission	(3,059,311)	(174,673)	13,634	(3,220,350)
Distribution	(67,711,460)	(8,356,233)	3,841,213	(72,226,480)
General Plant	(14,455,677)	(861,219)	508,713	(14,808,183)
Total Accumulated Depreciation & Amortization	(96,968,445)	(10,712,029)	4,824,452	(102,856,022)
Net Utility Plant	\$140,141,521	\$36,598,106	(\$34,605,274)	\$142,134,353

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

The District has active construction projects as of December 31, 2018 in the amount of \$2,216,822. The District does not require future financing to complete these projects.

NOTE 4 – LONG TERM DEBT

During the year ended December 31, 2018, the following changes occurred in long term debt:

Issue	Original Issue Amount	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2013A Electric Revenue & Refunding Bonds - interest rates ranging 2.0% - 5.0%, maturing in 2031	18,370,000	\$17,760,000		(\$170,000)	\$17,590,000	\$180,000
2013B Electric Revenue & Refunding Bonds - interest rates ranging 1.0% - 4.2%, maturing in 2023	9,155,000	8,505,000		(175,000)	8,330,000	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		15,110,000		(2,915,000)	12,195,000	2,965,000
Subtotal		58,245,000		(3,260,000)	54,985,000	3,320,000
Plus: Unamortized premium		2,716,774		(303,140)	2,413,634	
Less: Unamortized discount		(223,606)	15,022		(208,584)	
Total Long-Term Liabilities		\$60,738,168	\$15,022	(\$3,563,140)	\$57,190,050	\$3,320,000

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

Issue	Original Issue Amount	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	\$15,022	(\$3,522,793)	\$60,738,168	\$3,260,000

Future Debt Service on these bonds is as follows:

Year	Principal	Interest	Total
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	2,180,000	1,972,676	4,152,676
2024-2028	12,600,000	8,160,071	20,760,071
2029-2033	14,375,000	4,862,756	19,237,756
2034-2038	11,270,000	1,881,900	13,151,900
2039-2041	1,005,000	63,438	1,068,438
Total	\$ 54,985,000	\$ 25,571,012	\$ 80,556,012

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, 2018 and 2017, 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 maintains 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 2018 and does not anticipate utilizing it in 2019.

NOTE 5 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2018:

Aggregate Pension Amounts – All Plans	2018	2017
Pension liabilities	\$4,620,744	\$6,467,185
Pension assets	\$0	\$0
Deferred outflows of resources	\$771,498	\$888,388
Deferred inflows of resources	\$1,844,829	\$1,141,247
Pension expense/expenditures	\$129,216	\$450,741

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 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January - August 2018		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%
September - December 2018		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%

*For employees participating in the JBM, the contribution rate was 12.26%

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 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January - August 2018		
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%
September - December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.41%

* For employees participating in JBM, the contribution rate was 18.45% to 18.53%

The District's actual PERS plan contributions were \$493,987 to PERS Plan 1 and \$661,198 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

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

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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

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

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 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 7.4 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 7.4 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, 2018, 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 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

2018:

	1% Decrease (6.40%)	Current Rate (7.40%)	1% Increase (8.40%)
PERS 1 (.071672%)	\$3,933,701	\$3,200,896	\$2,566,139
PERS 2/3 (.083158%)	\$6,494,422	\$1,419,848	(\$2,740,735)

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	\$2,983,918	(\$1,157,962)

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, 2018, the District reported a total pension liability of \$4,620,744 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$3,200,896
PERS 2/3	\$1,419,848

At June 30, 2017, the District reported a total pension liability of \$6,467,185 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$3,483,267
PERS 2/3	\$2,983,918

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.073408%	0.071672%	-0.001736%
PERS 2/3	0.085880%	0.083158%	-0.002722%

	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%

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.

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

Pension Expense

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

2018	Pension Expense
PERS 1	\$193,915
PERS 2/3	(\$64,699)
Total	\$129,216

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

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, 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		\$127,202
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	\$248,513	
Total	\$248,513	\$127,202

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$174,036	\$248,589
Net difference between projected and actual investment earnings on pension plan investments		\$871,285
Changes of assumptions	\$16,610	\$404,077
Changes in proportion and differences between contributions and proportionate share of contributions	\$1,510	\$193,676
Contributions subsequent to the measurement date	\$330,829	
Total	\$522,985	\$1,717,627

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

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
2019	5,565
2020	(27,807)
2021	(83,441)
2022	(21,519)
2023	
Thereafter	
Total \$	(127,202)

Year ended December 31	PERS 2/3
2019	(174,140)
2020	(322,071)
2021	(564,272)
2022	(228,452)
2023	(104,062)
Thereafter	(132,473)
Total \$	(1,525,471)

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 \$144,659 and \$143,712 in 2018 and 2017, respectively. Employees made contributions of \$570,139 and \$534,853 to the 457 and 401(a) plans in 2018 and 2017, respectively.

Health 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 (\$380,816) and (\$303,555) in 2018 and 2017, 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 4 – Capital Assets.

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, having satisfied all of the requirements for relicensing with the Federal Energy Regulatory Commission, was issued a new forty-year license on October 1, 2018. 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 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 EEI Funds also provide 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
Electromagnetic Field Liability	\$500,000
Umbrella Liability	\$15,000,000
Directors, Officers & Mgrs. Liability	\$10,000,000
Employee Theft Liability	\$4,000,000
Crime/Faithful Performance	\$2,000,000
Forgery or Alteration	\$2,000,000
Computer Fraud/Funds Transfer	\$4,000,000

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.

NoaNet recorded a decrease in net position (unaudited) of \$5,362,412 and a decrease of \$9,351,837 for 2018 and 2017, 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, 7195 Wagner Way, Suite 104, Gig Harbor, WA 98335.

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 2018 and 2017:

Broadband	2018	2017
Operating Revenues:		
Drop Fees	\$77,783	\$98,588
Fiber Transport charges	1,001,346	811,942
WiFi Transport	8,767	8,630
Collocation Rental	103,994	97,408
Miscellaneous Broadband Services	348,097	329,824
BTOP Program Income	131,804	139,665
Total Operating Revenues	\$1,671,791	\$1,486,057
Operating Expenses:		
Labor and Benefits	227,301	186,202
Supplies	5,486	3,320
Professional Services	43,474	26,889
Other Charges	91,730	85,387
Hardware and Fiber Maintenance	117,583	42,001
Depreciation	1,148,602	1,192,257
Total Operating Expenses	\$1,634,176	\$1,536,056
Capital Investment:		
Current	686,906	1,027,544
Cumulative (since 2000)	\$20,192,614	\$19,505,708

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.

NOTE 12 – SUBSEQUENT EVENT

In 2018, the District was named as a defendant in pending litigation regarding the District's rate setting methodology. On February 22, 2019, the District's motion for case dismissal was denied. Because the eventual outcome of the case remains unknown, and although it is reasonably possible that a loss may occur, the amount of such a loss cannot be estimated at this time.

Required Supplementary Information

Schedules of Proportionate Share of the Net Pension Liability

As of June 30, 2018

Last 10 Fiscal Years*

PERS Plan 1	2014	2015	2016	2017	2018
District's proportion of the net pension liability (asset)	0.079646%	0.075912%	0.076313%	0.073408%	0.071672%
District's proportionate share of the net pension liability	\$4,012,205	\$3,970,904	\$4,098,368	\$3,483,267	\$3,200,896
Covered payroll	\$8,110,199	\$8,269,970	\$8,640,630	\$8,782,843	\$8,995,977
District's proportionate share of the net pension liability as a percentage of covered payroll	49.47%	48.02%	47.43%	39.66%	35.58%
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%	61.24%	63.22%

PERS Plan 2 & 3	2014	2015	2016	2017	2018
District's proportion of the net pension liability (asset)	0.079646%	0.075912%	0.088890%	0.085880%	0.083158%
District's proportionate share of the net pension liability	\$1,795,150	\$3,187,453	\$4,475,541	\$2,983,919	\$1,419,849
Covered payroll	\$7,585,236	\$7,921,255	\$8,279,471	\$8,419,679	\$8,624,717
District's proportionate share of the net pension liability as a percentage of covered payroll	23.67%	40.24%	54.06%	35.44%	16.46%
Plan fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%	90.97%	93.29%

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, 2018

Last 10 Fiscal Years*

PERS Plan 1	2015	2016	2017	2018
Statutorily or contractually required contributions	\$392,546	\$435,891	\$455,221	\$493,987
Contributions in relation to the statutorily or contractually required contributions	(392,546)	(435,891)	(455,221)	(493,987)
Contribution deficiency (excess)	0	0	0	0
Covered payroll	\$8,516,494	\$8,666,873	\$8,801,724	\$9,203,426
Contributions as a percentage of covered payroll	4.61%	5.03%	5.17%	5.37%

PERS Plan 2 & 3	2015	2016	2017	2018
Statutorily or contractually required contributions	\$457,619	\$517,463	\$581,381	\$661,198
Contributions in relation to the statutorily or contractually required contributions	(457,619)	(517,463)	(581,381)	(661,198)
Contribution deficiency (excess)	0	0	0	0
Covered payroll	\$8,156,162	\$8,306,014	\$8,435,389	\$8,822,218
Contributions as a percentage of covered payroll	5.61%	6.23%	6.89%	7.49%

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.

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

	2018	2017	2016
OPERATING REVENUES			
Retail Energy Sales	\$81,797,071	\$80,670,148	\$73,894,581
Broadband Revenue	1,671,791	1,486,057	1,358,933
Sales for Resale	12,755,537	6,855,980	7,970,459
Other Electric Revenue	100,800	89,260	132,478
Other Operating Revenues	539,940	432,141	484,693
TOTAL OPERATING REVENUES	96,865,139	89,533,586	83,841,144
OPERATING EXPENSES			
Power Supply ¹	63,035,372	57,804,660	57,475,326
System Operations & Maintenance	5,667,060	4,840,509	3,819,269
Broadband Operations & Maintenance	485,574	343,799	258,317
Customer Accounting & Information	2,464,239	2,353,652	1,747,416
Administrative & General Expense	5,489,306	5,873,726	7,390,042
Taxes	4,749,889	4,973,711	5,138,588
Depreciation	7,363,965	6,866,123	6,579,684
TOTAL OPERATING EXPENSES	89,255,405	83,056,180	82,408,642
NET OPERATING (EXPENSE)/REVENUE	7,609,734	6,477,406	1,432,502
NONOPERATING REVENUES (EXPENSES)			
Interest Income	465,544	244,147	123,991
Interest, Amortization and Bond Issuance Costs ²	(2,070,025)	(2,133,021)	(2,806,788)
Other Nonoperating Revenue (Expense)	(325,715)	118,245	121,967
TOTAL	(1,930,196)	(1,770,629)	(2,560,830)
OTHER CHANGES IN NET POSITION			
Capital Contributions	2,543,773	2,219,725	2,855,788
Special Item		(3,000,000)	
TOTAL CHANGE IN NET POSITION	8,223,311	3,926,502	1,727,460
NET POSITION			
Net Investment in Capital Assets	88,939,977	83,468,127	80,591,206
Restricted ¹	3,914,649	3,914,649	3,914,649
Unrestricted ^{2,3}	25,338,555	22,587,094	21,537,513
TOTAL NET POSITION	\$118,193,181	\$109,969,870	\$106,043,368

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.

2015	2014 as restated	2013	2012 as restated	2011 as restated	2010	2009
\$75,121,236	\$74,003,036	\$70,510,591	\$64,731,883	\$64,223,925	\$62,117,034	\$58,384,793
1,457,290	1,096,225	1,126,104	773,295	692,344	674,984	499,303
9,256,768	12,051,753	8,965,265	7,289,135	7,102,867	7,181,842	10,905,987
68,229	179,078	47,384	67,075	75,424	75,410	594,085
496,287	358,286	469,021	504,368	362,747	412,946	4,562,914
86,399,810	87,688,378	81,118,365	73,365,756	72,457,307	70,462,216	74,947,082
58,299,865	58,573,957	54,427,647	49,332,150	44,376,498	46,007,418	46,725,990
3,680,766	3,732,851	4,002,534	3,920,438	3,617,829	3,438,314	3,463,755
283,743	279,119	240,929	240,184	403,627	342,010	348,901
1,757,472	1,814,313	1,527,148	1,517,748	1,461,454	1,422,055	1,381,032
6,878,866	6,814,262	6,597,487	6,283,650	5,976,327	5,882,274	5,520,565
5,268,784	5,246,807	5,304,774	4,685,698	4,565,185	3,973,385	4,445,213
6,366,029	6,004,302	6,595,192	6,360,582	6,059,197	5,702,314	4,275,321
82,535,525	82,465,611	78,695,711	72,340,450	66,460,117	66,767,770	66,160,777
3,864,285	5,222,767	2,422,654	1,025,306	5,997,190	3,694,446	8,786,305
76,330	56,170	58,716	95,128	65,549	112,332	260,718
(2,884,549)	(3,023,280)	(2,802,736)	(2,358,967)	(2,501,539)	(2,744,745)	(2,879,664)
107,782	220,549	229,853	322,082	146,647	(89,833)	113,349
(2,700,437)	(2,746,561)	(2,514,167)	(1,941,757)	(2,289,343)	(2,722,246)	(2,505,597)
2,787,707 (3,000,000)	3,119,480	1,956,989	2,786,887	2,731,640	2,680,505	2,778,890
951,555	5,595,686	1,865,476	1,870,436	6,439,487	3,652,705	9,059,598
70,465,479	70,054,868	70,618,709	78,659,916	71,626,137	67,758,243	62,659,492
3,142,483	3,142,483	3,142,483				
30,707,946	30,167,002	31,849,470	25,085,270	30,248,613	29,082,536	30,528,582
\$104,315,908	\$103,364,353	\$105,610,662	\$103,745,186	\$101,874,750	\$96,840,779	\$93,188,074

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

	2018	2017	2016	2015
RETAIL ELECTRIC SALES				
Residential	\$34,672,340	\$35,242,145	\$30,751,621	\$30,772,955
General and Industrial	38,250,963	37,242,986	35,011,340	35,701,569
Small Irrigation	4,544,648	4,258,328	4,208,177	4,311,667
Large Irrigation	4,014,032	3,601,798	3,596,505	4,004,706
Street Lighting	225,128	234,957	236,036	241,178
Security Lighting	89,960	89,934	90,902	89,161
TOTAL	\$81,797,071	\$80,670,148	\$73,894,581	\$75,121,236
RETAIL ELECTRIC SALES (MWh)				
Residential	357,358	380,711	337,391	336,228
General and Industrial	554,369	551,076	529,445	558,860
Small Irrigation	68,285	63,090	68,740	76,148
Large Irrigation	31,776	56,626	59,864	67,087
Street Lighting	1,045	3,129	5,328	5,277
Security Lighting	593	599	640	634
TOTAL	1,013,426	1,055,231	1,001,408	1,044,234
RETAIL ELECTRIC LOAD PERCENTAGE				
Residential	35.3%	36.1%	33.7%	32.2%
General and Industrial	54.7%	52.2%	52.9%	53.5%
Small Irrigation	6.7%	6.0%	6.9%	7.3%
Large Irrigation	3.1%	5.4%	6.0%	6.4%
Street Lighting	0.1%	0.3%	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	9.70	9.26	9.11	9.15
General and Industrial	6.90	6.76	6.61	6.39
Small Irrigation	6.66	6.75	6.12	5.66
Large Irrigation	12.63	6.36	6.01	5.97
Street Lighting	21.54	7.51	4.43	4.57
Security Lighting	15.17	15.01	14.20	14.06
TOTAL	8.07	7.64	7.38	7.19
NUMBER OF ACCOUNTS				
Residential	26,119	25,517	25,026	24,569
General and Industrial	3,524	3,460	3,429	3,381
Small Irrigation	823	821	820	828
Large Irrigation	73	73	72	72
Street Lighting	54	47	44	46
TOTAL	30,593	29,918	29,391	28,896

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

2014	2013	2012	2011 ⁽¹⁾	2010 ⁽¹⁾	2009
\$30,573,381	\$29,709,164	\$27,962,396	\$26,124,424	\$24,464,253	\$22,602,671
35,038,905	33,006,390	29,759,365	31,298,121	30,848,817	28,381,144
4,125,092	3,797,756	3,493,096	3,312,697	3,289,724	3,632,093
3,869,279	3,618,056	3,121,575	3,067,506	3,099,202	3,368,734
316,932	301,098	318,531	346,478	341,636	330,047
79,447	78,127	76,920	74,699	73,402	70,104
\$74,003,036	\$70,510,591	\$64,731,883	\$64,223,925	\$62,117,034	\$58,384,793
349,204	350,167	336,205	335,005	321,335	336,923
543,356	534,717	523,009	519,647	504,593	499,974
74,444	66,976	64,969	64,764	62,501	67,710
66,563	63,176	56,688	57,427	56,709	62,696
4,717	4,638	4,201	4,467	4,310	4,182
600	595	592	580	571	569
1,038,884	1,020,269	985,664	981,890	950,019	972,054
33.6%	34.3%	34.1%	33.8%	34.7%	33.3%
52.3%	52.4%	52.9%	53.1%	51.4%	51.7%
7.2%	6.6%	6.6%	6.6%	7.0%	7.6%
6.4%	6.2%	5.8%	6.0%	6.4%	6.9%
0.5%	0.5%	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%
8.76	8.48	7.80	7.61	6.71	6.80
6.45	6.17	6.02	6.11	5.68	5.55
5.54	5.67	5.12	5.26	5.36	5.21
5.81	5.73	5.34	5.47	5.37	5.07
6.72	6.49	7.76	7.93	7.89	7.50
13.24	13.13	12.88	12.85	12.32	12.89
7.12	6.91	6.54	6.54	6.01	5.92
24,117	23,797	23,435	23,059	22,424	21,697
3,348	3,293	3,272	3,224	3,197	3,167
829	830	809	799	804	793
71	69	69	66	69	69
42	38	38	38	38	39
28,407	28,027	27,623	27,186	26,532	25,765

RETAIL RATES, ALL CLASSES FOR THE YEARS ENDED DECEMBER 31

All amounts shown in dollars (\$)

	2018	2017 ⁽⁵⁾	2016	2015 ⁽⁴⁾
Residential				
Monthly Basic Charge (Single Phase)	34.00	34.00	34.00	34.00
Monthly Basic Charge (Three Phase)	58.72	58.72	58.72	58.72
Energy Charge	0.0673	0.0673	0.0635	0.0635
Small General				
Monthly Basic Charge	39.56	39.56	38.00	38.00
Energy Charge	0.0744	0.0744	0.0715	0.0715
Medium General				
Monthly Basic Charge	51.88	51.88	49.84	49.84
Demand Charge	8.26	8.26	7.93	7.93
Energy Charge, April - August	0.0364	0.0364	0.0350	0.0350
Energy Charge, September - March	0.0461	0.0461	0.0443	0.0443
Large General				
Monthly Basic Charge	69.26	69.26	66.53	66.53
Demand Charge	8.44	8.44	8.11	8.11
Energy Charge, April - August	0.0365	0.0365	0.0351	0.0351
Energy Charge, September - March	0.0455	0.0455	0.0437	0.0437
Industrial				
Monthly Basic Charge	486.70	486.70	467.53	467.53
Demand Charge	8.67	8.67	8.33	8.33
Energy Charge, April - August	0.0363	0.0363	0.0349	0.0349
Energy Charge, September - March	0.0456	0.0456	0.0438	0.0438
Small Irrigation				
Demand charge	5.15	5.15	4.95	4.95
Energy Charge, April - August	0.0321	0.0321	0.0308	0.0308
Energy Charge, September - March	0.0526	0.0526	0.0505	0.0505
Large Irrigation				
Demand charge	9.51	9.51	9.14	9.14
Energy Charge, April - August	0.0320	0.0320	0.0307	0.0307
Energy Charge, September - October	0.0437	0.0437	0.0420	0.0420
Energy Charge, November - March	0.0527	0.0527	0.0506	0.0506

(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.

2014 ⁽³⁾	2013 ⁽²⁾	2012	2011	2010	2009
22.09	21.45	11.45	11.45	11.45	11.45
38.15	37.04	19.77	19.77	19.77	19.77
0.0711	0.0690	0.0731	0.0731	0.0731	0.0731
29.86	28.99	23.26	23.26	23.26	23.26
0.0723	0.0702	0.0686	0.0686	0.0686	0.0686
48.57	47.16	44.96	44.96	44.96	44.96
7.73	7.5	7.15	7.15	7.15	7.15
0.0341	0.0331	0.0316	0.0316	0.0316	0.0316
0.0432	0.0419	0.0399	0.0399	0.0399	0.0399
64.83	62.94	161.78	161.78	161.78	161.78
7.9	7.67	7.31	7.31	7.31	7.31
0.0342	0.0332	0.0307	0.0307	0.0307	0.0307
0.0426	0.0414	0.0383	0.0383	0.0383	0.0383
455.61	442.34	421.68	421.68	421.68	421.68
8.12	7.88	7.51	7.51	7.51	7.51
0.0340	0.0330	0.0315	0.0315	0.0315	0.0315
0.0427	0.0415	0.0396	0.0396	0.0396	0.0396
4.5	4.37	4.17	4.17	4.17	4.17
0.0280	0.0272	0.0259	0.0259	0.0259	0.0259
0.0459	0.0446	0.0425	0.0425	0.0425	0.0425
8.91	8.65	8.43	8.43	8.43	8.43
0.0299	0.0290	0.0271	0.0271	0.0271	0.0271
0.0409	0.0397	0.0371	0.0371	0.0371	0.0371
0.0493	0.0479	0.0448	0.0448	0.0448	0.0448

**PRINCIPAL RATEPAYERS
FOR THE YEARS ENDED DECEMBER 31**

2018

Customer	Industry	kWh	Percentage of Total kWh	Retail Sales	Percentage of Total Retail Electric Sales
Commerical #1	Food Processing	132,152,523	13.0%	\$8,055,066	9.8%
Commercial #2	Food Processing	33,557,351	3.3%	2,179,221	2.7%
Commercial #3	City Government	25,589,347	2.5%	1,913,036	2.3%
Commerical #4	Education	25,121,042	2.5%	1,879,446	2.3%
Commercial #5	Agriculture	23,022,949	2.3%	1,558,197	1.9%
Commercial #6	Agriculture	22,442,670	2.2%	1,435,154	1.8%
Commerical #7	Food Processing	21,646,262	2.1%	1,374,249	1.7%
Commercial #8	Food Processing	17,541,120	1.7%	1,172,909	1.4%
Commercial #9	Corrections Facility	15,673,200	1.5%	946,720	1.2%
Commerical #10	Food Processing	12,589,520	1.2%	801,753	1.0%
		329,335,984	32.5%	\$21,315,751	26.1%
Total All Ratepayers		1,013,426,000		\$81,797,071	

Source: District Customer Information System

2009

Customer	Industry	kWh	Percentage of Total kWh	Retail Sales	Percentage of Total Retail Electric Sales
Commerical #1	Food Processing	130,903,116	13.5%	\$6,945,872	11.9%
Commercial #2	Food Processing	28,996,960	3.0%	1,788,113	3.1%
Commercial #3	City Government	21,749,096	2.2%	1,333,526	2.3%
Commerical #4	Agriculture	18,140,360	1.9%	1,032,761	1.8%
Commercial #5	Food Processing	17,548,800	1.8%	1,027,800	1.8%
Commercial #6	Food Processing	17,084,920	1.8%	956,792	1.6%
Commerical #7	Education	16,830,915	1.7%	1,269,460	2.2%
Commercial #8	Prison	15,606,440	1.6%	732,736	1.3%
Commercial #9	Agriculture	12,907,480	1.3%	749,653	1.3%
Commerical #10	Education	10,248,287	1.1%	624,324	1.1%
		290,016,374	29.8%	\$16,461,037	28.2%
Total All Ratepayers		972,054,000		\$58,384,793	

DEBT CAPACITY INFORMATION FOR THE YEARS ENDED DECEMBER 31

RATIOS OF OUTSTANDING DEBT

	2018	2017	2016	2015
Outstanding Revenue Bonds	\$54,985,000	\$58,245,000	\$61,445,000	\$59,929,999
Unamortized Premium & Discount	2,205,050	2,493,168	2,800,939	1,590,823
Other Long Term Debt				
Total Outstanding Debt	\$57,190,050	\$60,738,168	\$64,245,939	\$61,520,822
Total Debt to Total Assets	29%	31%	33%	32%
Total Debt per Ratepayer	1,869	2,030	2,129	2,265

DEBT SERVICE COVERAGE

Debt Service Calculation:

Net operating income	\$7,609,734	\$6,477,406	\$1,432,502	\$3,864,285
Rate Stabilization Fund				
Depreciation	7,363,965	6,866,123	6,579,684	6,366,029
Other income	2,683,601	2,463,872	2,979,779	2,864,037
Revenue available for debt service	\$17,657,300	\$15,807,401	\$10,991,965	\$13,094,351
Annual debt service	\$5,566,274	\$5,555,992	\$5,709,970	\$5,712,580
Debt service coverage	3.17	2.85	1.93	2.29

2014 as restated	2013	2012 as restated	2011 as restated	2010	2009
\$62,670,000	\$65,225,000	\$50,420,000	\$53,855,000	\$57,120,000	\$60,250,000
1,684,524	1,778,225	2,175,796	1,854,113	1,924,917	1,995,720
		22,594	45,791	67,656	88,003
\$64,354,524	\$67,003,225	\$52,618,390	\$55,754,904	\$59,112,573	\$62,333,723
34%	36%	31%	33%	36%	37%
2,391	1,905	2,323	2,517	2,727	2,943
\$5,222,767	\$2,422,654	\$1,025,306	\$5,997,190	\$3,694,446	\$8,786,305
					(5,900,000)
6,004,302	6,595,192	6,360,582	6,059,197	5,702,314	4,275,321
3,175,650	2,015,705	2,882,015	2,797,189	2,792,837	3,039,608
\$14,402,719	\$11,033,551	\$10,267,903	\$14,853,576	\$12,189,597	\$10,201,234
\$5,703,945	\$5,749,225	\$5,962,394	\$5,917,006	\$5,898,881	\$5,960,932
2.53	1.92	1.72	2.51	2.07	1.71

DEMOGRAPHIC AND ECONOMIC INFORMATION FOR THE YEARS ENDED DECEMBER 31

	2018	2017	2016	2015
DEMOGRAPHIC STATISTICS				
Population ⁽¹⁾				
Franklin County	92,125	90,160	88,670	87,150
City of Pasco	73,590	71,680	70,560	68,240
Connell	5,460	5,450	5,365	5,405
Kahlotus	165	168	185	185
Mesa	495	495	495	495
Total Personal Income (in thousands) - Franklin County ⁽²⁾	N/A	\$3,278,454	\$3,186,131	\$3,015,469
Per Capita Income - Franklin County ⁽²⁾	N/A	\$35,587	\$35,339	\$33,955
Unemployment Rate - Franklin County ⁽³⁾	7.7%	8.4%	9.6%	9.4%

(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

2018				
Company	Industry	Employees	Rank	Percentage of Total MSA Employment
Battelle PNNL	Research & Development	4500	1	3.7%
Kadlec Regional Medical Center	Health Services	3734	2	3.1%
Lamb Weston	Food Processing	3400	3	2.8%
Washington River Protection Solutions	Environmental Remediation Services	2325	4	1.9%
Kennewick School District	Education	2514	5	2.1%
Pasco School District	Education	2200	6	1.8%
Mission Support Alliance	Support Services - Hanford DOE Site	1918	7	1.6%
Richland School District	Education	1800	8	1.5%
CH2M	Environmental Remediation Services	1500	9	1.2%
Tyson Foods	Food Processing	1400	10	1.1%

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

2014	2013	2012	2011	2010	2009
86,600	84,800	82,500	80,500	75,500	72,700
67,770	65,600	62,670	61,000	56,300	54,490
5,330	5,350	5,320	5,150	4,220	3,430
185	195	195	190	225	220
495	495	495	495	455	455
\$2,742,073	\$2,645,389	\$2,589,898	\$2,479,492	\$2,273,045	\$2,037,677
\$31,228	\$30,534	\$30,169	\$29,711	\$28,695	\$26,342
11.8%	11.0%	11.5%	10.9%	9.5%	10.0%

2009			
Company	Industry	Employees	Percentage of Total MSA Employment
Battelle PNNL	Research Laboratory	4,723	4.0%
CH2M Hill	Government Contractor	3,081	2.6%
ConAgra	Agriculture	2,735	2.3%
Bechtel National	Government Contractor	2,300	2.0%
Kadlec Medical Center	Health Services	2,016	1.7%
Pasco School District	Education	1,900	1.6%
Kennewick School District	Education	1,750	1.5%
Washington River Protection Solutions	Government Contractor	1,482	1.3%
Washington Closure Hanford	Government Contractor	1,370	1.2%
Richland School District	Education	1,350	1.2%

OPERATING INDICATORS FOR THE YEARS ENDED DECEMBER 31

	2018	2017	2016	2015
Total Electric Sales (MWh)				
Retail	1,013,426	1,055,231	1,001,408	1,044,234
Sales for Resale	270,690	270,322	281,635	355,794
Total MWh sales	1,284,116	1,325,553	1,283,043	1,400,028
Annual Revenue per Account				
Residential	\$1,328	\$1,381	\$1,229	\$1,253
General and Industrial	\$10,854	\$10,764	\$10,210	\$10,559
Small Irrigation	\$5,522	\$5,187	\$5,132	\$5,207
Large Irrigation	\$54,987	\$49,340	\$49,951	\$55,621
Street Lighting	\$4,137	\$4,999	\$5,364	\$5,243
Annual kWh per Account				
Residential	13,682	14,920	13,482	13,685
General and Industrial	157,309	159,271	154,402	165,294
Small Irrigation	82,971	76,845	83,829	91,966
Large Irrigation	435,288	775,699	831,444	931,764
Street Lighting	19,204	66,574	121,091	114,717
Number of employees	99	103	102	100
Number of employees by function:				
Distribution	46	47	48	47
Production	0	0	0	0
Customer Relations	21	24	20	21
Administrative	32	32	34	32
Net Utility Plant	\$142,134,353	\$140,141,521	\$137,426,361	\$131,018,797
Utility System Reliability	99.99%	99.99%	99.99%	99.99%
Number of Customer Interruptions	210	189	242	217
CDDs ⁽¹⁾	1,221	1,347	1,099	1,534
HDDs ⁽¹⁾	4,668	5,618	4,396	4,228
Annual Precipitation (inches) ⁽¹⁾	6.43	8.60	7.65	6.48

(1) Source: Hanford Meteorological Station

2014	2013	2012	2011	2010	2009
1,038,884	1,020,269	985,664	981,890	950,019	972,054
389,295	289,220	335,643	247,770	179,688	237,796
1,428,179	1,309,489	1,321,307	1,229,660	1,129,707	1,209,850

\$1,268	\$1,248	\$1,193	\$1,133	\$1,091	\$1,042
\$10,466	\$10,023	\$9,095	\$9,708	\$9,649	\$8,962
\$4,976	\$4,576	\$4,318	\$4,146	\$4,092	\$4,580
\$54,497	\$52,436	\$45,240	\$46,477	\$44,916	\$48,822
\$7,546	\$7,924	\$8,382	\$9,118	\$8,990	\$8,463

14,480	14,715	14,346	14,528	14,330	15,529
162,293	162,380	159,844	161,181	157,833	157,870
89,800	80,694	80,308	81,056	77,738	85,385
937,507	915,594	821,565	870,106	821,870	908,638
112,310	122,053	110,553	117,553	113,421	107,231

99	94	94	97	99	98
47	44	45	48	47	48
0	0	0	1	1	0
21	18	18	17	20	22
31	32	31	31	31	28

\$127,390,697	\$123,210,127	\$130,869,088	\$127,381,041	\$125,465,209	\$123,465,289
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99.99%	99.98%	99.99%	99.99%	99.99%	99.99%
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216	260	242	190	165	185
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1,426	1,318	1,057	884	870	1,214
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4,611	5,297	4,940	5,467	4,899	5,679
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6.53	5.38	8.18	4.45	10.19	5.47
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