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## **COMPREHENSIVE ANNUAL FINANCIAL REPORT • 2016**

Public Utility District No. 1 of Benton County, Washington for the fiscal years ended December 31, 2016 and 2015





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Public Utility District No. 1 of Benton County, Washington for the fiscal years ended December 31, 2016 and 2015

Prepared by Financial & Business Services and Communications & Governmental Relations of Benton PUD

## **OUR PURPOSE**

To improve the quality of life in our community through leadership, cooperation and stewardship.

## **OUR MISSION**

We contribute high value to our community and customers by providing energy and related services using reliable and efficient delivery systems.

## **OUR VALUES**

Excellence  
Forward Focus  
Integrity  
Mutual Respect  
Teamwork  
Safety

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## **INTRODUCTORY SECTION**



Jeff Hall, Commissioner

Barry Bush, Commissioner

Lori Sanders, Commissioner



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## COMMISSION MESSAGE

*"The only thing that is constant is change." - Heraclitus*

Benton PUD strives to stay current and relevant not only with the products and services we offer but the technology we use to deliver those products and services. As a trusted energy partner in the community, technology enables us to deliver more value and provide our customers with products and services they have come to expect.

Over several years, Benton PUD integrated advanced meters into our electric system. This new technology provided significant benefits to Benton PUD and our customers including operating efficiencies, lower costs and quicker outage restoration. To build upon our advanced meter infrastructure, Benton PUD chose to implement National Information Solution Cooperative (NISC) software in order to connect with our customers in a whole new way. The NISC software integrates customer service, accounting, engineering and operations systems to enable more operating efficiency and improve system planning and analysis.

Along with the NISC software, we prepared to roll out SmartHub, a new online billing and payment system that offers customers improved payment options, access to account and usage data, including access through a mobile device, and better communication tools such as outage and usage alerts. All of these services are available from a computer, smartphone or tablet.

Investment in our electric infrastructure is also a must. This year the District issued \$15 million in bonds to fund a number of capital projects necessary to support our electric system infrastructure. Our first project was construction of an 8.5 mile 115-kilovolt transmission line in south Benton County. The new line provides an interconnection "loop" that will improve the overall reliability of our electric system and help reduce the risk of prolonged outages. The project was the result of several years of planning and is the first of several transmission line and substations projects we expect to complete as part of our vision to create a "21st Century Power Grid."

Finally, we built on the momentum we had with the launch of our first community solar project and energized a second community solar project in Prosser, in response to requests from our customers.

The work achieved in 2016 provides the foundation for continuing to be our customers' trusted energy partner.



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

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

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2015**

Executive Director/CEO

# LETTER OF TRANSMITTAL

May 11, 2017

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

The Comprehensive Annual Financial Report (CAFR) of the Public Utility District (District) No. 1 of Benton County, Washington for the year ended December 31, 2016 is hereby submitted. The report is designed to assess the District's financial position, educate readers about District services, examine current challenges facing the District, and fulfill legal reporting requirements.

State law requires that every local government submit financial reports to the State Auditor within 150 days after the close of each fiscal year. The District's bond covenants require financial information be provided to each nationally recognized municipal securities information repository in accordance with Section (b)(5) of Securities and Exchange Commission Rule 15c2-12 under the Securities and Exchange Act of 1934. This report is published to fulfill both requirements for the fiscal year ended December 31, 2016.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The certified public accounting firm of Moss Adams has issued an unmodified ("clean") opinion on the District's financial statements for the years ended December 31, 2016 and 2015. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this transmittal letter and should be read in conjunction with it.

## **Profile of the District**

The District is a municipal corporation of the State of Washington established in 1934 for the purpose of engaging in the purchase, generation, transmission, distribution and sale of electric energy. Additionally, the District is authorized under state law to provide wholesale telecommunication services. The District is governed by an elected three-member board and maintains its administrative offices in Kennewick, WA.

The District is a statutory preference customer of the Bonneville Power Administration (BPA) and purchases most of its power from BPA. The District's remaining power supply requirements are supplied by various contract purchases (see Note 8). The District's contracted power supply is projected to be surplus for most months of the year. The District purchases and sells power within the wholesale markets to balance resources to load.

The District's properties include 37 substations, approximately 89 miles of 115 kV transmission lines, 1,676 miles of distribution lines, and other buildings, equipment, stores and related facilities.

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

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. During workshop sessions that are open to the public, the staff and Board review and revise the proposed budget. A public hearing is conducted to obtain ratepayer comments. The budget is approved by the Board and becomes the basis for operations for the next calendar year.

### **Local Economy**

Benton County's economy is based on five major industries: agriculture and food processing, manufacturing, retail, technology, and healthcare. Farmland comprises the majority of Benton County's land area. Many corporate farms are located in the District encompassing over 100,000 acres of irrigated and dry land crops. Irrigation has led to increased production of a wide variety of crops including potatoes, apples, sweet corn, onions, grapes, cherries, wheat, hay, and hard and soft fruits. These crops are shipped to both domestic and export markets.

With the strength of farm production throughout the county and region, food processing has become a major factor in the local economy. Production and processing of wine grapes is of significant importance to the county's economy. Other food processing industries include frozen potato products, frozen peas and cut corn. Fruit packing and cold storage also provide significant employment.

Manufacturing activities within the county include a large fertilizer and agricultural products plant which distributes its products throughout the Northwest and California. The Tri-Cities is home to the world's largest crane manufacturer, as well as a manufacturer of zirconium and titanium alloy tubing used for the aerospace industry (hydraulic landing gear), the medical industry (human bone surgery), golf clubs, bicycles, ski poles and tennis racquets. Other industries in the region include paper and cardboard container plants and production of nuclear fuel pellets and rods.

The Hanford Reservation, encompassing 560 square miles within Benton County, has evolved into one of the largest nuclear industrial centers in the United States. Today the focus is on energy research, environmental cleanup and related technology. The major employers in Benton County are the Department of Energy and its contractors associated with the Hanford Project.

The local economy continues to be strong and steady. Overall Tri-Cities employment was up 3.6 percent in December 2016 as compared to December 2015. The Tri-Cities gained more than 3,800 jobs during the year primarily as a result of expanding manufacturing, retail, and food services. In addition, industries such as education and health services continued to be strong. The Tri-Cities is a regional shopping destination for communities throughout south-eastern Washington and northeastern Oregon leading to continued growth in the retail service industry.

### **Long-Term Financial Planning**

The District's leadership team meets at least quarterly to review an updated five-year financial forecast. The forecast includes both operating (including power supply costs) and capital activity with a focus on reserve levels, debt service coverage levels, and potential rate action. The forecast is then reviewed with the Board of Commissioners on a quarterly basis.

The District has adopted a comprehensive set of financial policies for purposes of managing the District's finances. The policies cover such issues as liquidity, debt service coverage, debt financing, retail rates, enterprise risk management, power supply risk, credit risk, investment policies and practices, insurance, integrated planning, budgetary and procurement controls, and financial reporting.

The financial policies call for the development of financial plans to achieve a minimum debt service coverage ratio of 2.0 times annual debt service including capital contributions and 1.75 times annual debt service excluding capital contributions and provide for maintaining a debt ratio at 38% or less.

The financial policies related to reserve levels call for minimum operating reserves to be no less than 90 days cash on hand. In addition, the policies establish financial plans to maintain total unrestricted reserves that are expected to achieve or maintain the targeted bond rating that is the median for public power utilities. The Commission periodically reviews these policies.

### **Relevant Financial Policies**

As a result of rising wholesale net power costs during the period and future years, the District increased retail rates an average of 4.9% effective September 1, 2016. The District will continue to evaluate the need for future retail rate increases in order to meet targets established in financial policies.

### **Major Initiatives**

The District has a Customer Engagement Strategic Plan and IT Strategic Technology Plan that outlines initiatives over the next several years; these initiatives include, a meter data management system, customer portal, mobile phone-enhanced services, and mobile workforce management. A major step to achieving the remaining initiatives was the awarding of a contract in mid-2015 for an integrated utility software solution. This new solution will replace current enterprise systems, will be simpler to maintain, operate at a lower cost, and provide customers with enhanced accessibility to their account information including usage data. It is expected that this solution will be implemented in early 2017.

The District also has substantial transmission and substation projects planned over the next several years to continue to ensure reliable electric service while accommodating growth. Construction of a new 115 kilovolt transmission line in the southern part of the county to improve reliability for agricultural customers began construction in 2016 and will be completed in 2017. The District, in conjunction with the City of Richland, is planning for a new substation utilized by both utilities and will improve system reliability for an area with substantial growth in recent years. Many upgrades to existing substation equipment are also planned for 2017, which will replace older equipment with more advanced, reliable, and safe technology.

The District also has worked with the City of Kennewick on major roadway expansions in 2016. A new roadway project began construction in 2016 and is anticipated to be completed in the summer of 2017. This project will connect the west side of the city to the Southridge area, an area of more recent significant growth, and opens up a large area for potential future growth.

### **Awards and Acknowledgments**

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, 2015. This was the fourteenth consecutive year the District has 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 Finance and Business Services and the Communications and Governmental Relations departments. 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,



**Chad B. Bartram**  
General Manager

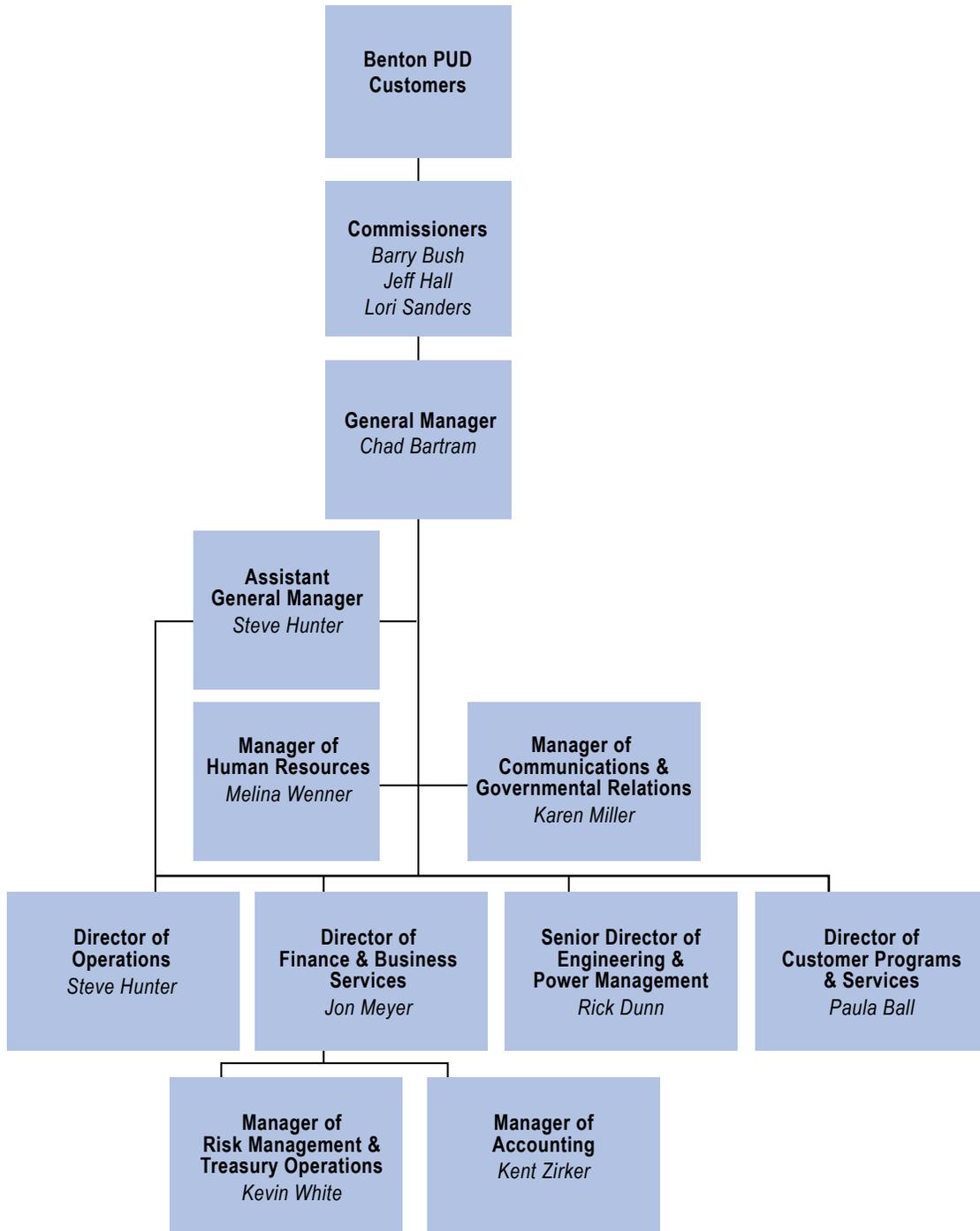


**Jon L. Meyer**  
Director of Finance &  
Business Services



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# ORGANIZATIONAL CHART







## FINANCIAL SECTION

## REPORT OF INDEPENDENT AUDITORS

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

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

We have audited the accompanying financial statements of Public District No. 1 of Benton County, Washington (“the District”), which comprise the statements of net position as of December 31, 2016, and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***Auditor’s Responsibility***

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

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

## REPORT OF INDEPENDENT AUDITORS (continued)

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1(i) Derivative Instruments and Note 2 Investments to the financial statements, the District adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, effective January 1, 2016. The investment and hedging instrument disclosure notes have been appropriately updated to list corresponding fair market value levels. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

*Miss Adams UP*

Portland, Oregon  
April 4, 2017

# Management's Discussion and Analysis

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This section provides an overview and analysis of key data presented in the basic financial statements for the years ended December 31, 2016 and 2015, with additional comparative data for 2014. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

## Overview of the Financial Statements

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

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

The basic financial statements, presented on a comparative format for the years ended December 31, 2016 and 2015, consist of:

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

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

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

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

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

## Condensed Comparative Financial Information

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

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

	2016	2015	Increase (Decrease) 2016-2015	% Change 2016-2015	2014 Restated
<b>Assets and Deferred Outflows of Resources</b>					
Current & Noncurrent Assets	\$92,043	\$83,118	\$8,925	11%	\$87,372
Utility Plant	123,470	120,791	2,679	2%	122,401
Subtotal Assets	215,513	203,909	11,604	6%	209,773
Deferred Outflows of Resources	3,937	3,893	44	1%	1,943
Total Assets and Deferred Outflows of Resources	219,450	207,802	11,648	6%	211,716
<b>Liabilities and Deferred Inflows of Resources</b>					
Current Liabilities	20,515	18,507	2,008	11%	18,630
Noncurrent Liabilities	80,576	68,152	12,424	18%	68,272
Subtotal Liabilities	101,091	86,659	14,432	17%	86,902
Deferred Inflows of Resources	2,323	4,836	(2,513)	-52%	6,076
Total Liabilities and Deferred Inflows of Resources	103,414	91,495	11,919	13%	92,978
<b>Net Position</b>					
Net Investment in Capital Assets	58,672	68,040	(9,368)	-14%	65,364
Restricted for Debt Service	1,108	1,084	24	2%	140
Unrestricted	56,256	47,183	9,073	19%	53,234
Total Net Position	\$116,036	\$116,307	(\$271)	0%	\$118,738

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

	2016	2015	Increase (Decrease) 2016-2015	% Change 2016-2015	2014 Restated
<b>Operating Revenues</b>					
Retail Energy Sales	\$120,439	\$116,820	\$3,619	3%	\$117,642
Energy Sales for Resale	15,723	18,370	(2,647)	-14%	23,959
Other	3,700	3,695	5	0%	3,663
<b>Nonoperating Revenues</b>					
Interest Income	326	245	81	33%	204
Other Income	321	504	(183)	-36%	321
Unrealized Gain/(Loss) on Investments	(4)	25	(29)	-116%	174
Total Revenues	140,505	139,659	846	1%	145,963
<b>Operating Expenses</b>					
Power Supply	94,193	95,574	(1,381)	-1%	97,730
Operations, Maintenance and A&G	19,966	21,179	(1,213)	-6%	20,303
Taxes/Depreciation/Amortization	25,261	25,472	(211)	-1%	25,289
<b>Nonoperating Expenses</b>					
Interest Expense	2,665	2,757	(92)	-3%	2,845
Debt Premium Amortization & Loss on Defeased Debt	(144)	(420)	276	-66%	(446)
Total Expenses	141,941	144,562	(2,621)	-2%	145,721
Income/(Loss) before Contributions	(1,436)	(4,903)	3,467	-71%	242
Capital Contributions	1,165	2,472	(1,307)	-53%	3,834
Change in Net Position	(271)	(2,431)	2,160	-89%	4,076
<b>Beginning Net Position</b>	\$116,307	\$118,738	(\$2,431)	-2%	\$126,880
<b>Cumulative Effect Of Restatement</b>					(12,218)
<b>Beginning Net Position As Restated</b>					114,662
<b>Ending Net Position</b>	\$116,036	\$116,307	(\$271)	0%	\$118,738

## Financial Analysis

During 2016, the District's overall financial position and results of operations improved over last year. The District's net position decreased by \$0.271 million compared to a decrease of \$2.4 million in 2015. Provided below is a year-over-year analysis of the change in net position by major component of income, with a primary focus on changes between 2016 and 2015.

### Operating Revenues

#### 2015 to 2016:

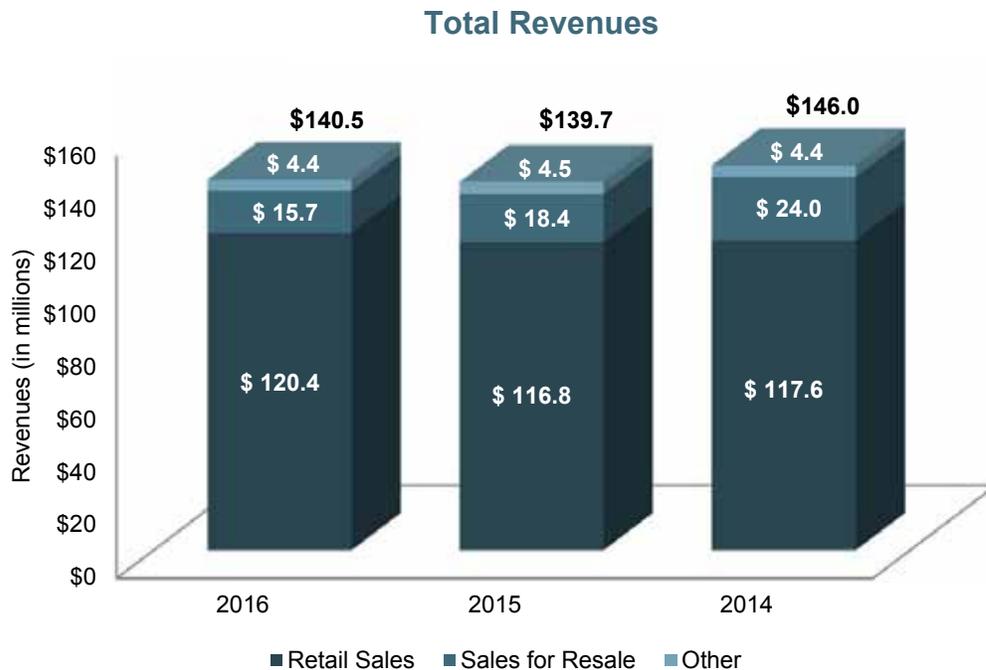
Revenues from sales to retail customers (retail energy sales) in 2016 increased \$3.6 million (3%) from 2015. Continued milder weather contributed to a decrease in kilowatt hours (kWh) sold to customers of 2.5%. However, revenues increased as a result of a September 1, 2015 retail revenue rate increase of 3.9% and a September 1, 2016 retail revenue rate increase of 4.9%.

Revenues from wholesale energy and natural gas sales decreased by \$2.6 million (-14%), primarily as a result of a decrease in wholesale prices of about 9%.

#### 2014 to 2015:

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

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



## **Operating Expenses**

### **2015 to 2016:**

Power supply expense decreased by \$1.4 million (-1.4%), primarily as a result of weather and decreased purchase transactions by The Energy Authority (TEA) to manage daily loads. However, net power expense (power supply expense less energy sales for resale) increased by \$1.3 million (1.6%), primarily attributable to lower energy sales for resale and a rate increase from BPA that became effective October of 2015. The District uses net power expense as a means to measure overall financial performance related to power supply management.

Total operations, maintenance and administrative and general (A&G) expenses decreased by \$1.2 million (-6%). The decrease was largely comprised of: temporary budget reductions of \$700,000 that involved some risk but were determined to be acceptable for one year, reduction in pension expense of about \$308,000, and a decrease in labor charged to operations and maintenance expense as a result of resources dedicated to capital projects. The District charges internal labor to operations, maintenance, A&G activities, and capital projects. In 2016, the internal labor required for operations and maintenance activities decreased \$468,000 from 2015 while internal labor performed on capital projects increased \$1,000,000.

Taxes assessed by state and municipal governments increased by \$367,000 (3%), primarily as a result of higher retail sales. Depreciation and amortization decreased \$577,000 as a result of assets becoming full depreciated and updating useful lives to better match the service life of certain assets.

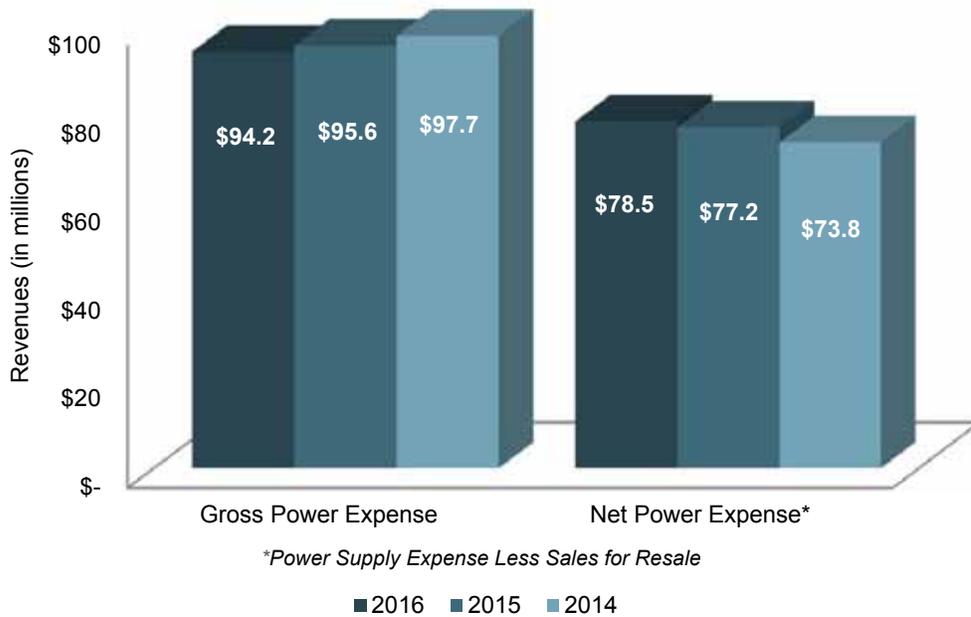
### **2014 to 2015:**

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

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

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

## Gross and Net Power Expenses



### Other Income & Expense

During 2016, interest income increased by \$81,000 (33%) due to higher interest rates on longer term investments as compared to previous investment purchases. In addition, the average investment rate of the Washington State Treasurer’s Local Government Investment Pool (LGIP) increased from 0.16% in 2015 to 0.47% in 2016. At year-end, the District’s investments had an unrealized loss of \$4,000.

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

There were no significant restrictions, commitments, or other limitations that would affect the availability of resources for future use in 2016, 2015, and 2014.

### Capital Contributions

During 2016, capital contributions decreased by \$1.3 million (-53%), primarily due to 2015 including larger one-time projects related to broadband and community solar.

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

### Summary of Financial Position

The overall financial position of the District decreased \$271,000, primarily due to slightly lower than expected retail loads. Other financial areas of the District remained stable as the District maintained solid cash and investment reserves and achieved a debt service coverage ratio well above policy limits. The District had not increased electric rates since January 1, 2012 until implementing a 3.9% average rate increase effective September 1, 2015 and a 4.9% average rate increase effective September 1, 2016.

District financial policies require that financial plans be developed to maintain minimum end-of-year cash and investment balances contained within unrestricted accounts sufficient to provide funding for a specified amount of operating expenses, power supply expenses, catastrophic loss, debt service, and capital improvements. The District's unrestricted cash and investment balances totaled \$54.2 million, \$45.5 million, and \$49.4 million at December 31, 2016, 2015 and 2014, respectively. Actual balances exceeded the minimum required level per District financial policies for each year.

In accordance with District financial policies and covenants established within the District's bond resolutions, the District is required to maintain and collect rates and charges sufficient to provide net revenues (defined as net position less depreciation, amortization, and interest expense) in each fiscal year in an amount at least equal to 1.25 times the annual debt service. For the years ended 2016, 2015 and 2014, the District was in compliance with such policies and covenants.

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

During 2016, gross capital additions totaled \$15.7 million. Capital contributions associated with these additions totaled \$1.2 million. Major capital additions included completion of additions and improvements to existing distribution infrastructure and substations, installation of electric facilities along new major road expansions, and a 1.8% growth in customers served by the District, as well as internal capital expenditures to meet District needs. Construction work-in-progress totaled \$5.7 million at year-end, a net increase of \$3.0 million over 2015.

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

In September 2016, the District issued \$22,470,000 of Electric Revenue and Refunding Bonds, Series 2016. The bond proceeds were used to fund \$15.1 million of improvements and replacements of the District's electric utility system and to refund the 2011 bonds maturing on or after November 1, 2023. (See Note 5)

The Bonds, as well as the District's credit ratings, were affirmed by three rating agencies: Standard & Poor's at A+, Fitch Ratings at A+, and Moody's at Aa3.

Debt service payments totaled \$5.4 million in 2016, \$4.8 million in 2015, and \$6.0 million in 2014. In September 2015, the District called the remaining 2005 bonds of \$1.9 million.

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

## STATEMENT OF NET POSITION

As of December 31, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & Cash Equivalents		
Unrestricted Cash & Cash Equivalents	\$42,306,649	\$28,597,032
Investments (Note 3)	11,916,120	16,887,763
Accounts Receivable, Net	8,725,320	7,663,436
BPA Prepay Receivable (Note 8)	600,000	600,000
Accrued Interest Receivable	32,102	33,697
Wholesale Power Receivable	870,436	1,121,675
Accrued Unbilled Revenues	5,400,000	4,400,000
Inventory - Materials & Supplies	5,660,664	5,166,707
Prepaid Expenses & Option Premiums	434,673	396,067
<b>Total Current Assets</b>	<b>75,945,964</b>	<b>64,866,377</b>
<b>NONCURRENT ASSETS</b>		
Restricted Bond Reserve Fund	1,107,865	1,083,997
BPA Prepay Receivable (Note 8)	6,450,000	7,050,000
Other Receivables (Note 1)	96,895	95,707
Other Charges (Note 4)	8,441,979	10,021,449
<b>Subtotal Noncurrent Assets</b>	<b>16,096,739</b>	<b>18,251,153</b>
Utility Plant (Note 2)		
Land and Intangible Plant	3,474,031	3,416,129
Electric Plant in Service	302,719,921	295,517,712
Construction Work in Progress	5,697,524	2,745,647
Less: Accumulated Depreciation	(188,421,328)	(180,888,261)
<b>Net Utility Plant</b>	<b>123,470,148</b>	<b>120,791,227</b>
<b>Total Noncurrent Assets</b>	<b>139,566,887</b>	<b>139,042,380</b>
<b>TOTAL ASSETS</b>	<b>215,512,851</b>	<b>203,908,757</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized Loss/(Gain) on Defeased Debt	(2,344)	82,981
Pension Deferred Outflow	2,019,756	1,319,722
Accumulated Decrease in Fair Value of Hedging Derivatives	1,919,445	2,490,112
<b>Total Deferred Outflows of Resources</b>	<b>3,936,857</b>	<b>3,892,815</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$219,449,708</b>	<b>\$207,801,572</b>
<b>NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>		
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$10,311,190	\$8,857,868
Warrants Outstanding	-	250,248
Customer Deposits	1,477,457	1,419,318
Accrued Taxes Payable	3,382,660	3,303,531
Other Accrued Liabilities	1,765,047	1,374,722
Accrued Interest Payable	533,772	381,453
Revenue Bonds, Current Portion (Note 5)	3,045,000	2,920,000
<b>Total Current Liabilities</b>	<b>20,515,126</b>	<b>18,507,140</b>
<b>NONCURRENT LIABILITIES</b>		
Revenue Bonds (Note 5)	61,750,315	49,914,629
Pension Liability	13,019,386	11,212,267
BPA Prepay Incentive Credit	1,894,789	2,056,045
Other Credits & Liabilities (Note 4)	3,911,262	4,969,339
<b>Total Noncurrent Liabilities</b>	<b>80,575,752</b>	<b>68,152,280</b>
<b>TOTAL LIABILITIES</b>	<b>101,090,878</b>	<b>86,659,420</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Deferred Inflow	245,673	1,772,202
Accumulated Increase in Fair Value of Hedging Derivatives	2,077,305	3,063,382
<b>Total Deferred Inflows of Resources</b>	<b>2,322,978</b>	<b>4,835,584</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	58,672,489	68,039,579
Restricted for Debt Service	1,107,865	1,083,997
Unrestricted	56,255,498	47,182,992
<b>Total Net Position</b>	<b>116,035,852</b>	<b>116,306,568</b>
<b>TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>\$219,449,708</b>	<b>\$207,801,572</b>

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

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

For the years ended December 31, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES</b>		
Retail Energy Sales	\$120,438,526	\$116,820,422
Energy Sales for Resale	14,808,281	17,678,932
Transmission of Power for Others	915,169	690,639
Broadband Revenue	2,046,068	2,024,661
Other Revenue	1,653,580	1,670,466
<i>Total Operating Revenues</i>	<b>139,861,624</b>	<b>138,885,120</b>
<b>OPERATING EXPENSES</b>		
Power Supply (Includes Prepaid Power Amortization, See Note 8)	94,193,294	95,574,158
Transmission Operation & Maintenance	260,519	81,305
Distribution Operation & Maintenance	9,029,751	9,051,462
Broadband Expense	931,789	1,022,025
Customer Accounting, Collection & Information	3,411,338	3,794,832
Administrative & General Expense	6,331,749	7,229,048
Taxes	12,630,500	12,263,706
Depreciation	12,630,490	13,207,539
<i>Total Operating Expenses</i>	<b>139,419,430</b>	<b>142,224,075</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>442,194</b>	<b>(3,338,955)</b>
<b>NONOPERATING REVENUES &amp; EXPENSES</b>		
Interest Income	325,895	244,709
Other Income	321,466	503,511
Interest Expense, net of amounts capitalized	(2,664,442)	(2,756,755)
Debt Premium Amortization & Loss on Defeased Debt	143,522	419,819
Unrealized Gain/(Loss) on Investments	(4,170)	24,568
<i>Total Nonoperating Revenues &amp; Expenses</i>	<b>(1,877,729)</b>	<b>(1,564,148)</b>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(1,435,535)</b>	<b>(4,903,103)</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>1,164,819</b>	<b>2,471,250</b>
<b>CHANGE IN NET POSITION</b>	<b>(270,716)</b>	<b>(2,431,853)</b>
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<b>116,306,568</b>	<b>118,738,421</b>
<b>TOTAL NET POSITION, END OF YEAR</b>	<b>\$116,035,852</b>	<b>\$116,306,568</b>

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

## STATEMENT OF CASH FLOWS

For the years ended December 31, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers and Counterparties	\$137,809,943	\$138,980,826
Cash Paid to Suppliers and Counterparties	(98,491,760)	(101,542,786)
Cash Paid to Employees for Services	(14,038,554)	(13,382,788)
Taxes Paid	(12,551,371)	(11,898,735)
<i>Net Cash Provided by Operating Activities</i>	<b>12,728,258</b>	<b>12,156,517</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Other Interest Expense	(49,300)	(52,972)
<i>Net Cash Used by Noncapital Financing Activities</i>	<b>(49,300)</b>	<b>(52,972)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Capital Assets	(15,329,337)	(11,702,914)
Proceeds from Sale of Revenue Bonds	15,099,327	-
2005 Series Bond Call Principal	-	(1,900,000)
Bond Principal Paid	(2,920,000)	(1,965,000)
Bond Interest Paid	(2,314,477)	(2,456,243)
Capital Contributions	1,164,818	2,471,250
Proceeds from Sale of Assets	59,233	117,420
<i>Net Cash Used by Capital and Related Financing Activities</i>	<b>(4,240,436)</b>	<b>(15,435,487)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	327,490	288,869
Proceeds from Sale of Investments	11,984,822	16,983,270
Purchase of Investments	(5,933,352)	(10,983,542)
<i>Net Cash Provided (Used) by Investing Activities</i>	<b>6,378,960</b>	<b>6,288,597</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>14,817,482</b>	<b>2,956,655</b>
<b>CASH &amp; CASH EQUIVALENTS BALANCE, BEGINNING OF YEAR</b>	<b>28,597,032</b>	<b>25,640,377</b>
<b>CASH &amp; CASH EQUIVALENTS BALANCE, END OF YEAR</b>	<b>\$43,414,514</b>	<b>\$28,597,032</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income/(Loss)	\$442,194	(\$3,338,955)
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	12,630,490	13,207,539
BPA Prepaid & Power Contracts Amortization	1,178,400	1,178,400
(Increase) Decrease in Unbilled Revenues	(1,000,000)	(600,000)
Misellaneous Other Revenue & Receipts	22,741	100,113
Pension Expense/(Credit)	(308,366)	(157,447)
Decrease (Increase) in Accounts Receivable	(1,051,681)	695,706
Decrease (Increase) in Inventories	(493,958)	(332,670)
Decrease (Increase) in Wholesale Power Receivable	251,239	734,808
Decrease (Increase) in Miscellaneous Assets	13,805	(2,373)
Decrease (Increase) in Prepaid Expense & Option Premiums	(38,606)	300,224
Increase (Decrease) in Warrants Outstanding	(250,248)	(57,387)
Increase (Decrease) in Accounts Payable	1,453,322	(110,029)
Increase (Decrease) in Accrued Taxes Payable	79,129	364,971
Increase (Decrease) in Customer Deposits	58,139	(3,748)
Increase (Decrease) in BPA Prepay Incentive Credit	(161,256)	(161,256)
Increase (Decrease) in Other Current Liabilities	390,324	(3,511)
Increase (Decrease) in Other Credits	(487,410)	342,132
<b>Net Cash Provided by Operating Activities</b>	<b>\$12,728,258</b>	<b>\$12,156,517</b>

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

The District's investments had an unrealized loss of \$4,170 at December 31, 2016 and an unrealized gain of \$24,568 at December 31, 2015.

Bond Interest Paid does not include subsidy payments on Series 2010 Revenue Build America Bonds made directly by the US Treasury to the Fiscal Paying Agent of \$298,726 in 2016 and \$403,398 in 2015 (see Note 5)

During 2016, the District issued \$22,470,000 of Electric Revenue and Refunding Bonds and retired various outstanding bonds (see Note 5).

The net effect of accumulated increases and decreases in the fair value of hedging derivatives had no effect on cash flows for 2016 and 2015. For accumulated decreases in fair value, \$1,919,445, the District records an offsetting liability. For accumulated increases in fair value, \$2,077,305, the District records an offsetting asset.

The deferred inflows and outflows relating to GASB 68 had no effect on cash flows for 2016. The pension deferred outflow was \$2,019,756, and \$1,319,722 as of December 31, 2016 and 2015 respectively. The pension deferred inflow was \$245,673, and \$1,772,202 as of December 31, 2016 and 2015, respectively.

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

# Notes to Financial Statements - December 31, 2016 & 2015

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

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

The District serves Benton County exclusive of most of the City of Richland, the U.S. Department of Energy's operations on the Hanford Reservation, the City of West Richland and those rural areas of the County that are served by the Benton Rural Electric Association. Cities in the District's service area include Kennewick, population 79,120, Prosser, population 5,940, and Benton City, population 3,325. The District maintains its administrative offices in the City of Kennewick. The District is governed by an elected three-member board.

The District's service area comprises approximately 939 square miles of Benton County. The District's properties include 37 substations, approximately 89 miles of 115kV transmission lines, 1,676 miles of distribution lines, and other buildings, equipment, stores, and related facilities.

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

a) Basis of Accounting and Presentation: The accounting policies of the District conform to GAAP applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In 2015, the District implemented GASB statements No. 68 Accounting and Financial Reporting for Pensions and No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The requirements of the GASB statements are effective for financial statements beginning after July 15, 2014, they were retro-actively adopted by the District effective January 1, 2014. In 2016, the District implemented GASB statements No. 72 Fair Value Measurement and Application, No. 76 Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, and No. 79 Certain External Investment Pools and Pool Participants.

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

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

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

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

Initial depreciation on utility plant is recorded in the month subsequent to purchase or completion of construction. Composite rates are used for asset groups and, accordingly, no gain or loss is recorded on the disposition of an asset unless it represents a major retirement. The composite depreciation rate was approximately 5.1 percent in 2016 and 4.7 percent in 2015. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation.

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

c) Allowance for Funds Used During Construction (AFUDC): AFUDC represents the estimated costs of financing construction projects and is computed using the District's long-term borrowing rate. The allowance totaled \$150,380 and \$72,730 in 2016 and 2015, respectively, and is capitalized as part of the cost of the project and reflected as a reduction of interest expense.

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

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

f) Accounts Receivable: The percentage-of-sales allowance method is used to estimate uncollectible accounts. The reserve is then reviewed for adequacy against an aging schedule of accounts receivable. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis. The reserve for uncollectible accounts totaled \$400,000 in both 2016 and 2015.

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

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

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

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, 2016, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2016		Notional (MWh/MMBtu)
	Classification	Amount	Classification	Amount	
Cash Flow Hedges:					
Financial Swap Forward	Deferred Inflow	(\$2,060,583)	Derivative Asset	\$2,060,583	2,292,860
Financial Swap Forward	Deferred Outflow	\$1,888,788	Derivative Liability	(\$1,888,788)	1,794,100
Put Option	Deferred Inflow	(\$16,722)	Derivative Asset	\$16,722	18,575
Put Option	Deferred Outflow	\$30,657	Derivative Liability	(\$30,657)	16,800

These derivative instruments were entered into between October 2015 and December 2016 with maturities between January 2017 and February 2019. The District paid \$115,783 to enter into these transactions.

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

	Changes in Fair Value		Fair Value at December 31, 2015		Notional (MWh/MMBtu)
	Classification	Amount	Classification	Amount	
Cash Flow Hedges:					
Financial Swap Forward	Deferred Inflow	(\$3,063,382)	Derivative Asset	\$3,063,382	1,420,150
Financial Swap Forward	Deferred Outflow	\$2,490,112	Derivative Liability	(\$2,490,112)	4,179,580

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

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

physical or financial call options when the projected deficits are less certain, but nevertheless expected under the approved planning conditions.

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

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

### **Risks**

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

Commodity transactions, both physical and financial, are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness. The District had 48 counterparties with approved credit limits for electric power and natural gas sales and purchases as of December 31, 2016, and 52 counterparties at December 31, 2015. Counterparty credit limits are based on The Energy Authority's (TEA) (see Note 8) proprietary credit rating system and other factors. Credit ratings for counterparties range from "not-rated" to AAA, with a majority of counterparties rated between BBB- and AAA. Not-rated counterparties either provide additional security or are assigned credit limits of \$25,000 or less.

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

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

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

The aggregate fair value of hedging derivative instruments in asset positions was \$2,077,305 and \$3,063,382 at December 31, 2016 and 2015, respectively. There was no collateral held or liabilities included in the netting arrangements.

Although the District executes hedging derivative instruments with various counterparties, three counterparties comprise 93 percent of the net exposure to credit risk as of December 31, 2016. These counterparties are rated BBB/Baa1 (11 contracts comprising 24 percent of net exposure), Not Rated/Baa2 (26 contracts comprising 38 percent of net exposure) and BBB+/A3 (28 contracts comprising 31 percent of net exposure). At December 31, 2015, three counterparties comprise 89 percent of the net exposure to credit risk. These counterparties are rated A/Baa1 (26 contracts comprising 26 percent of net exposure) and Not Rated/Baa1 (42 contracts comprising 29 percent of net exposure) and BBB+/A3 (32 contracts comprising 34 percent of net exposure).

*Basis Risk* - The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. There are no derivative transactions outstanding that carry basis risk as of December 31, 2016 or 2015. As applicable, all power related transactions are to be settled on the relevant Mid-Columbia index, and all gas transactions are to be settled on the relevant Sumas/Huntingdon index or be converted to the Sumas/Huntingdon index within 6 months of delivery. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

*Termination Risk* - As of December 31, 2016 and 2015, no termination events have occurred, and there are no outstanding transactions with material risk. None of the outstanding transactions have early termination provisions except in the event of default by either counterparty. Events of default are generally related to (i) failure to make payments when due, (ii) failure to provide and maintain suitable credit assurances as required, (iii) bankruptcy or other evidence of insolvency, or (iv) failure to perform under any material provision of the agreement. Failure to provide or receive energy or natural gas under physical commodity transactions generally does not fall under the events of default provisions, unless the nonperforming party fails to pay the resulting liquidated damages when due.

There is no rollover, interest rate, or market access risk for these derivative products at December 31, 2016 or 2015.

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

k) Revenue Recognition: Revenues from retail sales of electricity are recognized when billed and reported net of bad debt expense of \$103,660 and \$123,811 at December 31, 2016 and 2015, respectively. Revenues include an estimate for energy delivered to customers between the last billing date and the end of the year. This amount is reflected in the accompanying financial statements as Accrued Unbilled Revenue in the amount of \$5.4 million at December 31, 2016, and \$4.4 million at December 31, 2015.

l) Capital Contributions: Capital contributions for the District consist mainly of line extension fees. Line extension fees represent amounts collected to recover the costs of installing new lines. Capital contributions are recorded as deferred revenues when received and reclassified to revenue when the related project is completed.

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

n) Compensated Absences: The District consolidated its vacation and sick leave program to a personal leave program May 1, 1993. Accrued unused sick leave balances for active employees as of April 30, 1993, were frozen and converted to a supplemental leave benefit (SLB). The SLB may be used by employees to make up the difference between short-term disability benefit payments and 100 percent of gross, straight-time pay. Additionally, an employee

may restore work hours required for short-term disability eligibility one-time per Collective Bargaining Agreement Contract cycle (3 years). At death, the District is obligated to pay 100 percent of the SLB cash value to the employee's beneficiary. At retirement, the District is obligated to deposit 30 percent of the SLB cash value into the retiring employee's Voluntary Employee Beneficiary Association Trust account. The liability for unpaid supplemental leave benefits was \$20,115 and \$28,290 at December 31, 2016 and 2015, respectively.

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

The liability for unpaid leave, benefits, and related payroll taxes was \$2,668,304 and \$2,656,510 at December 31, 2016 and 2015, respectively. Of the liability for unpaid leave, \$1,468,894 and \$1,062,160 at December 31, 2016 and 2015, respectively, were classified as a current liability and the remainder as a long-term liability (see Note 4).

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

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

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

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

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

## Note 2 - Utility Plant

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

### Activity for 2016

Electric Plant Assets	Balance			Balance Dec. 31, 2016
	Dec. 31, 2015	Increase	Decrease	
Capital Assets Not Being Depreciated:				
Land and Intangible Plant	\$3,416,129	\$61,911	(\$4,009)	\$3,474,031
Construction Work in Progress	2,745,647	8,866,216	(5,914,339)	5,697,524
Capital Assets Being Depreciated:				
Transmission	7,829,825	256,175	(813)	8,085,187
Generation	1,754,865	157,505	-	1,912,370
Distribution	209,340,236	8,863,374	(4,088,145)	214,115,465
General	76,592,786	3,372,517	(1,358,404)	78,606,899
<b>Subtotal</b>	<b>295,517,712</b>	<b>12,649,571</b>	<b>(5,447,362)</b>	<b>302,719,921</b>
Less Accumulated Depreciation for:				
Transmission	(5,850,947)	(270,066)	1,070	(6,119,943)
Generation	(948,571)	(77,933)	-	(1,026,504)
Distribution	(131,122,802)	(8,561,137)	4,700,626	(134,983,313)
General	(42,965,941)	(5,301,626)	1,975,999	(46,291,568)
<b>Total Accumulated Depreciation</b>	<b>(180,888,261)</b>	<b>(14,210,762)</b>	<b>6,677,695</b>	<b>(188,421,328)</b>
<b>Net Utility Plant</b>	<b>\$120,791,227</b>	<b>\$7,366,936</b>	<b>(\$4,688,015)</b>	<b>\$123,470,148</b>

### Activity for 2015

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

### Note 3 - Deposits and Investments

As of December 31, 2016, the District had the following investments:

Investment Type	Maturities	Fair Value
Federal National Mortgage Assn	6/1/2017	\$1,994,200
Federal Home Loan Banks	9/8/2017	2,019,880
Federal National Mortgage Assn	5/21/2018	1,991,900
US Treasury	5/15/2019	1,937,920
Federal Home Loan Banks	11/15/2019	1,992,020
Federal National Mortgage Assn	3/30/2020	1,980,200
<b>Total</b>		<b>\$11,916,120</b>

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

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

Due to the lack of restrictions on the District's ability to sell these investments, they are all classified as current. In 2015, the restricted bond reserve fund was classified as noncurrent and was comprised of investment monies. In 2016, this fund was comprised of cash and no longer disclosed with the 2016 District investments.

*Fair Market Value* – Investments have been adjusted to reflect available market values as of December 31 of 2015 and 2016 obtained from available financial industry valuation services. 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 market measurements are classified as Level 2.

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

*Credit Risk* - The District's investment policy conforms with state law, which restricts investments of public funds to debt securities and obligations of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit, and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), bankers' acceptances, investment-grade general obligation debt of state and local governments and public authorities, and the Washington State Treasurer's Local

Government Investment Pool (LGIP). The LGIP 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 is governed by the State Finance Committee and is administered by the State Treasurer. The District's investments in the Federal National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation were rated Aaa by Moody's Investor Services and AA+ by Standard & Poor's. The District has a third-party safekeeping agreement for investments through Bank of New York Mellon.

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

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

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

#### Note 4 - Other Charges and Other Credits

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

Other Charges	2016	2015
Derivative Asset (Note 1)	\$2,077,305	\$3,063,382
White Creek Wind Project (Note 8)	6,314,668	6,893,067
Preliminary Surveys	50,006	65,000
<b>Total</b>	<b>\$8,441,979</b>	<b>\$10,021,449</b>

During the year ended December 31, 2016, the following changes occurred in other credits:

Other Credits & Other Liabilities	Balance			Balance Dec. 31, 2016
	Dec. 31, 2015	Increase	Decrease	
Unclaimed Property	\$33,036	\$7,457	\$4,951	\$35,542
Bio Fuel Deposit	100,000	14,541	-	114,541
Derivative Liability (Note 1)	2,490,112	1,919,445	2,490,112	1,919,445
Deferred Revenue	580,305	813,538	931,633	462,210
Asset Retirement Obligation - Finley CT	171,536	8,577	-	180,113
Personal Leave and Benefits*	1,594,350	1,609,171	2,004,110	1,199,411
<b>Total</b>	<b>\$4,969,339</b>	<b>\$4,372,729</b>	<b>\$5,430,806</b>	<b>\$3,911,262</b>

\* In addition to this amount, \$1,468,894 is recorded as a current liability for personal leave and related benefits.

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

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

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

## Note 5 - Long-Term Debt

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

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2010 Revenue Build America Bonds, due in annual installments of \$1,645,000 - \$2,250,000 beginning November 1, 2022 through November 1, 2030; interest at 5.86% - 6.546%; Original issue amount: \$17,345,000	\$17,345,000	\$ -	\$ -	\$17,345,000	\$ -
2011 Revenue and Refunding Bonds, due in annual installments of \$460,000 - \$4,135,000 through November 1, 2035; interest at 2.0% - 5.0% Original issue amount: \$38,545,000	32,390,000	-	12,255,000	20,135,000	3,045,000
2016 Revenue and Refunding Bonds, due in annual installments of \$790,000 - \$1,560,000 beginning November 1, 2023 through November 1, 2041; interest at 4.0% - 5.0%; Original issue amount: \$22,470,000	-	22,470,000	-	22,470,000	-
<i>Subtotal</i>	49,735,000	22,470,000	12,255,000	59,950,000	3,045,000
Plus: Unamortized premium	3,099,629	3,991,739	2,246,053	4,845,315	
<b>Total Long-Term Debt</b>	<b>\$52,834,629</b>	<b>\$26,461,739</b>	<b>\$14,501,053</b>	<b>\$64,795,315</b>	<b>\$3,045,000</b>

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

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

Future debt service requirements on these bonds are as follows:

Year	Principal	Interest	Total
2017	\$3,045,000	\$3,181,648	\$6,226,648
2018	3,570,000	2,949,987	6,519,987
2019	3,750,000	2,771,487	6,521,487
2020	3,940,000	2,583,987	6,523,987
2021	4,135,000	2,386,987	6,521,987
2022-2026	14,175,000	9,333,075	23,508,075
2027-2031	14,535,000	5,093,263	19,628,263
2032-2036	5,710,000	2,475,700	8,185,700
2037-2041	7,090,000	1,098,000	8,188,000
<b>Total</b>	<b>\$59,950,000</b>	<b>\$31,874,134</b>	<b>\$91,824,134</b>

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

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

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

In September 2016, the District issued \$22,470,000 of Electric Revenue and Refunding Bonds, Series 2016. The bond proceeds were used to fund \$15.1 million of improvements and replacements of the District's electric utility system and to refund the 2011 bonds maturing on or after November 1, 2023. The portion of bond proceeds for the refunding was placed in an irrevocable trust for future debt service on the refunded bonds. At December 31, 2016, \$9,335,000 of the 2011 bonds are considered defeased and are no longer reflected in the District's financial statements. The bond refunding resulted in a cash flow savings of \$563,091, and a net present value savings of \$462,691. As a result of the bond issue, the District increased its bond reserve fund from \$1,083,997 to \$1,107,865 in accordance with bond covenants to supplement the bond insurance already in place. The bond construction account had a balance of \$0 at December 31, 2016.

These issuances are subject to certain bond reserve requirements satisfied by bond insurance and a bond reserve fund of \$1,107,865 as of December 31, 2016.

In March 2008, the District established a \$10 million revolving line of credit, the Electric System Revenue Note, 2008, with Bank of America. In late 2014, the line of credit was extended for an additional two-year term expiring December 31, 2016, and in late 2016, the line of credit was extended for an additional two-year term expiring December 31, 2018. The line of credit was established in support of District financial policies that require additional liquidity be maintained above minimum cash and investment reserve levels for the purpose of meeting unforeseen short-term cash needs. Specifically, the line of credit can be used in support of general District operations or for irrevocable letters of credit as may be required to satisfy collateral posting requirements under contracts and agreements within the ordinary course of business. Draws on the Note will bear interest based on a pricing grid and formula using the bank's prime rate or the LIBOR rate. This Note is a special obligation of the District payable solely out of a special fund and has a lien on revenues junior to the payment of operating expenses of the electric system and outstanding electric system bonds. No draws on the line of credit have been made.

## Note 6 - Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016 and 2015:

Aggregate Pension Amounts - All Plans		
	2016	2015
Pension liabilities	\$13,019,386	\$11,212,267
Deferred outflows of resources	\$2,019,756	\$1,319,722
Deferred inflows of resources	\$245,673	\$1,772,202
Pension expense/expenditures	\$1,032,801	\$1,075,227

### State Sponsored Pension Plans

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

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

The DRS CAFR may be obtained by writing to:  
 Department of Retirement Systems,  
 Communications Unit,  
 P.O. Box 48380, Olympia, WA 98504-8380

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

**Public Employees' Retirement System (PERS)**

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

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

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

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1

<u>Actual Contribution Rates:</u>	<u>Employer</u>	<u>Employee</u>
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	<u>0.18%</u>	<u>        </u>
Total	11.18%	6.00%

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

PERS Plan 1		
<u>Actual Contribution Rates:</u>	<u>Employer</u>	<u>Employee</u>
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as 2 percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least 5 years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is

reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

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

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3

<u>Actual Contribution Rates:</u>	<u>Employer 2/3</u>	<u>Employee 2</u>	<u>Employee 3</u>
PERS Plan 2/3	6.23%	6.12%	varies
PERS Plan 1 UAAL	4.77%		
Administrative Fee	<u>0.18%</u>		
Total	11.18%	6.12%	varies

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

PERS Plan 2/3

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

Both the District and the employees made the required contributions during fiscal years 2016 and 2015. The District's required employer contributions for the years ended December 31 were as follows:

	<u>2016</u>	<u>2015</u>
PERS Plan 1	\$11,933	\$10,560
PERS Plan 1 UAAL	\$624,583	\$561,091
PERS Plan 2/3	<u>\$815,729</u>	<u>\$720,845</u>
Total	\$1,452,245	\$1,292,496

### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuations completed in 2016 and 2015 with a valuation date of June 30, 2015, and June 30, 2014 respectively. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 and 2014 actuarial valuation reports. The TPL was calculated as of the valuation dates and rolled forward to the measurement dates of June 30, 2016 and June 30, 2015. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016 and June 30, 2014 to June 30, 2015 for the respective fiscal years, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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 minor changes in methods and assumptions since the last valuation.

For 2016:

- The assumed valuation interest rate was lowered from 7.8 percent to 7.7 percent.

For 2015:

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

### Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent. To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3,

whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

### Long-Term Expected Rate of Return

The long-term expected rate of return on DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

### 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, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

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

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

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

### Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
2016			
PERS 1	\$7,201,458	\$5,971,856	\$4,913,708
PERS 2/3	\$12,975,770	\$7,047,530	(\$3,668,646)
2015			
PERS 1	\$7,313,845	\$6,007,252	\$4,883,702
PERS 2/3	\$15,219,734	\$5,205,015	(\$2,462,880)

**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, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.**

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

At December 31, 2016, the District reported a total pension liability of \$13,019,386 for its proportionate share of the net pension liabilities as follows:

	<u>Liability</u>
PERS 1	\$5,971,856
PERS 2/3	\$7,047,530

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

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

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

	<u>Proportionate Share 12/31/15</u>	<u>Proportionate Share 12/31/16</u>	<u>Change in Proportion</u>
PERS 1	0.114841%	0.111198%	(0.003643%)
PERS 2/3	0.145674%	0.139973%	(0.005701%)

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

**Pension Expense**

For the year ended December 31, 2016 and 2015, the District recognized pension expense as follows:

<u>2016</u>	<u>Pension Expense</u>	<u>2015</u>	<u>Pension Expense</u>
PERS 1	\$524,740	PERS 1	\$354,230
PERS 2/3	<u>\$508,061</u>	PERS 2/3	<u>\$720,997</u>
Total	\$1,032,801	Total	\$1,075,227

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

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

PERS 1	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2016	2015	2016	2015
Effect of change in the employer's proportionate share	\$ -	(\$15,163)	\$ -	(\$1,896)
Net difference between projected and actual investment earnings on pension plan investments	150,362	-	-	328,662
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	2,873
Contributions subsequent to the measurement date	323,360	317,445	-	-
<b>TOTAL</b>	<b>\$473,722</b>	<b>\$302,282</b>	<b>\$ -</b>	<b>\$329,639</b>

PERS 2/3	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2016	2015	2016	2015
Effect of change in the employer's proportionate share	(\$124,668)	\$49,139	\$ -	\$52,088
Differences between expected and actual experience	375,276	553,295	232,651	-
Net difference between projected and actual investment earnings on pension plan investments	862,414	-	-	1,389,493
Changes of assumptions	72,842	8,386	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	982
Contributions subsequent to the measurement date	414,299	406,620	-	-
<b>TOTAL</b>	<b>\$1,600,163</b>	<b>\$1,017,440</b>	<b>\$232,651</b>	<b>\$1,442,563</b>
Adjustment to PY amortizations	(54,129)	-	13,022	-
<b>TOTAL ALL PLANS</b>	<b>\$2,019,756</b>	<b>\$1,319,722</b>	<b>\$245,673</b>	<b>\$1,772,202</b>

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

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

Year ended December 31	PERS 1	PERS 2/3
2017	(\$37,022)	(\$28,340)
2018	(37,022)	(28,340)
2019	138,091	612,402
2020	86,315	397,491
2021	-	-
Thereafter	-	-
Total	\$150,362	\$953,213

Excess Compensation

A cash-out of accrued personal leave at termination in excess of 240 hours qualifies as “excess compensation” for PERS Plan 1 members. Excess compensation is included as part of a participant’s AFC. When a payment is made that qualifies as excess compensation, the employer is billed for the resulting increase to the retiree’s benefit to offset the increased cost to the Department of Retirement Systems. The bill is based on the present value of the increase to the retiree’s benefit. Present value is calculated using actuarial tables developed by the Office of the State Actuary and adopted into Washington Administrative Code by the Department of Retirement Systems. Beginning in 2003, the District accrued a liability for future “excess compensation” bills based on personal leave bank balances of PERS Plan 1 employees and actuarial numbers provided by the Office of the State Actuary. The liability for PERS Plan 1 excess compensation at December 31, 2016 and 2015 was \$44,620 and \$44,165, respectively.

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

**Deferred Compensation Plans**

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

**Health Benefit Plans**

Health Reimbursement Arrangement (HRA)

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

## Note 8 - Long-Term Purchased Power Commitments

### Bonneville Power Administration (BPA)

#### Contracts Effective October 2011-September 2028

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

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

In conjunction with the new Slice/Block agreement, BPA implemented a Tiered Rates Methodology (TRM). Under the TRM and new agreements, BPA has implemented a cap on the amount of power that the District can purchase at the lowest cost based rates (Tier 1). The cap is referred to in the contract as a Contract High Water Mark (CHWM). The District's CHWM is 204.6 aMW. The maximum amount of power the District can purchase in any federal fiscal year (FFY) is referred to as the Rate Period High Water Mark (RHWM), which adjusts the CHWM for changes in Federal System Capability. For FFY 2015 the RHWM was 202.4 aMW, for FFY 2016 it was 199.6, and FFY 2017 it is 199.6. BPA has a fiscal year of October through September. The amount of power the District can purchase in a FFY is the lesser of its Net Requirement (Forecast load less its share of Packwood) or RHWM and is the Tier 1 amount. This amount for FFY 2015 was 201.9, for FFY 2016 was 199.6, and FFY 2017 is 199.6.

The TRM provides for the determination of Tier One Cost Allocators (TOCA) to determine monthly charges. The TOCA is determined by dividing the Tier 1 amount by the sum of all BPA customers' RHWM. For FFY 2015, this value for the District was 2.837 percent; for FFY 2016, this value was 2.859 percent, and FFY 2017 is 2.859. The TOCA is multiplied by BPA's monthly Composite Charge to determine that portion of the District's monthly BPA power bill that represents BPA's costs. The nonslice TOCA is the TOCA minus the slice percentage resulting in a FFY 2015 value of 1.466 percent, FFY 2016 value of 1.489 percent and FFY 2017 value of 1.489 percent. The nonslice TOCA is multiplied by BPA's nonslice charge to determine that portion of the District's monthly BPA power bill that represent several BPA revenues, primarily their wholesale sales.

BPA has put in place a Cost Recovery Adjustment Clause (CRAC) that applies to the District's Block purchases. The CRAC will trigger if BPA's forecasted Accumulated Modified Net Revenues (AMNR) were lower than expected. For FFY 2014 and 2015, AMNR represents the Power Services net revenues, modified by certain items, as accumulated since 1999 through the end of each year for FFY 2006 through 2010. The amount of the CRAC would have been determined by the amount AMNR is forecasted to be less than certain values and is capped at \$300 million per year. For FFY 2016, the trigger is based on BPA Power function cash reserves for risk levels. If these levels drop below zero, the CRAC could trigger. It is still capped at \$300 million per year. If triggered, the CRAC amount would be converted to a percentage and would increase the Block rates charged to the District. The \$300 million per year cap would then be increased if BPA triggered a National Marine Fisheries Service FCRPS BiOp (NFB) adjustment. The

NFB adjustment would have been triggered if a court ordered additional expenditures for Fish and Wildlife mitigation, an Endangered Species Act (ESA) litigation settlement occurred which resulted in higher costs, a new, more expensive, Biological Opinion (BiOp) was implemented, or BPA committed to implement a recovery plan under the ESA. The NFB adjustment would have started at the beginning of a fiscal year, or during the fiscal year if an emergency was declared. The CRAC did not trigger for FFY 2015, 2016, or 2017.

The rates also contained a Dividend Distribution Clause (DDC), which would operate similar to the CRAC but would have lowered the Block rates charged to the District. The DDC would have been triggered when generation function reserves exceed \$1.05 billion in 2015. For FFY 2016 and 2017, the trigger is \$750 million. There was no cap on the DDC in FFY 2015. In FFY 2016 and 2017, the cap is \$1 billion. The DDC did not trigger for FFY 2015, 2016, or 2017.

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

The District, along with over 80 percent of BPA's Consumer Owned Utility (COU) customers and the region's IOUs entered into an agreement to settle the amount of the residential exchange benefits paid by BPA to the IOUs. The settlement included a provision for BPA to continue to provide COU's a discount on BPA power bills. For the FFY 2015 period, the discount for the District was \$179,788/month, and for FFY 2016, the discount was \$182,597/month. For FFY 2017, the discount is \$182,097/month.

#### **BPA Prepay Program**

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

#### **Energy Northwest**

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

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

Additionally, the District entered into a Nine Canyon Wind Project Power Purchase Agreement with Energy Northwest for the purchase of 3 MW of the project generating capacity (1 aMW) of Phase I through July 1, 2023. The project

reached commercial operation in late 2002. The District on October 30, 2006, signed an Amended and Restated

Agreement with ENW and the other purchasers, which extended the term of the Agreement through July 1, 2030 (with rights to extend the agreement for 5-year terms) and provided the District with 6 MW (2 aMW) from the Phase III expansion (see Note 12).

#### **Packwood Lake Hydroelectric Project (Packwood)**

The District is a 14 percent participant in Energy Northwest's 27 MW Packwood Project, located in the Cascade Mountains south of Mount Rainier. The Packwood Agreement with Energy Northwest obligates participants to pay annual costs and receive excess revenues. 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. No distributions were made in 2016 or 2015.

#### **Frederickson Plant**

In March 2001, the District entered into a 20-year agreement with Frederickson Power LP for the purchase of 50 MW of contract capacity beginning September 2002 from the 249 MW Frederickson 1 Generating Station combined-cycle natural gas fired combustion turbine plant near Tacoma, Washington. The agreement includes firm gas transportation from the Canadian border to the plant. Power deliveries and variable energy charges are based on a deemed heat rate of 7,100 British thermal units (Btu) per kilowatt-hour (kWh). Up to 40 percent of the contract capacity may be displaced regardless of the dispatch decisions of other purchasers. Power costs include a capacity charge and fixed and variable operation and maintenance charges indexed to performance and escalation factors. The District receives fuel management services for the Frederickson Plant from The Energy Authority (TEA).

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

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

#### **White Creek Wind Project**

In September 2008, the District entered into an Assignment Agreement with Klickitat PUD under which Klickitat PUD assigned the District a 3 percent share of its Energy Purchase Agreement with White Creek Wind I, LLC for \$11.1 million. The purchase is part of the District's strategy for meeting renewable resource requirements of EIA (see Note 12). The purchase cost is being amortized on a straight-line basis over a 19-year term. In both 2015 and 2016, power supply expense includes \$578,400 each year in amortization of the purchase cost. This 3 percent share of the 204.7 MW project represents 6.14 MW (2 aMW).

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

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

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

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

### **Idaho Wind Partners**

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

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

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

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

- At December 31, 2016, the District had entered into various short-term financial forward sales and purchase contracts committing the District through February 2019. Financial forward contracts for electricity and gas had a net positive fair value of \$171,796 at December 31, 2016, and are reflected in the financial statements as deferred inflows of resources and deferred outflows of resources. In addition, the District had entered into put options expiring the first quarter of 2017. These options had a negative fair value of \$13,935 at December 31, 2016, and are reflected in the financial statements as deferred inflows of resources and deferred outflows of resources.
- At December 31, 2015, the District had entered into various short-term financial forward sales and purchase contracts committing the District through September 2017. Financial forward contracts for electricity and gas had a net positive fair value of \$573,270 at December 31, 2015, and are reflected in the financial statements as deferred inflows of resources and deferred outflows of resources.

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

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

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

The District is a member of the Public Utility Risk Management Services (PURMS) Self-Insurance Fund. PURMS is a public entity risk pool organized on December 30, 1976, in the State of Washington under RCW 54.16.200 and interlocal governmental agreements. It currently operates under RCW 48.62. Its members include 17 public utility districts and one non-profit mutual corporation. The objectives of PURMS are to formulate, develop, and administer a program of self-insurance in order to obtain lower costs for the various coverages provided to its members and to develop a comprehensive loss control program.

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

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

PURMS engages an independent qualified actuary on an annual basis to determine the claim financing levels, liabilities for unpaid claims, and claims adjustment expenses for the Liability Pool and the Property Pool. A copy of these reports is provided to the Washington State Risk Manager and to the Washington State Auditor's Office. Audit reports for the Trust are available from the Washington State Auditor's Office (Report Nos. 1017390 and 1017391).

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

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

#### **Liability Risk Pool**

The liability pool has a \$1 million liability coverage limit per occurrence. In addition, the fund maintains \$35 million of excess general liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$25 million is also maintained over the first layer of \$35 million. The fund maintains \$35 million in directors and officers liability coverage with a retention level of \$500,000. The fund also maintains \$10 million in cyber security liability coverage with a retention level of \$500,000. The deductible is \$250.

The liability pool reserve balance is \$3.25 million. Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop to \$500,000 less than the designated level. The minimum reserve balance may be increased above \$3.25 million through member assessments to meet legal funding requirements based on annual actuarial reviews.

#### **Property Risk Pool**

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

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

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

The District is a member of the Central Washington Public Utilities Unified Insurance Program Trust (Trust). The Trust was organized October 1, 1982, pursuant to the provisions of RCW Title 54 and interlocal governmental agreements. The Trust's general objectives are to provide a central fund for the collection and disbursement of employee benefit premiums and claims involving medical, dental, life, and long-term disability coverage. The Trust is administered by a Board of Trustees consisting of an appointed Trustee and Alternate Trustee from each of the seven member Districts. The Trustees are authorized to negotiate, obtain, maintain insurance policies, and authorize disbursements made from the Trust to Third-Party Administrators or other entities. Effective August 1, 2002, the Trust established a self-insured medical plan. Effective January 1, 2009, the Trust established a self-insured dental plan. Both plans are approved by the State Risk Office. The audit reports for the Trust are available from the Washington State Auditor's Office (Report Nos. 1017101 and 1014507).

**Unemployment Claims**

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

**Short-Term Disability Insurance**

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

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

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

As a member of NoaNet and as allowed by RCW 54.16, the District has guaranteed certain portions of NoaNet debt based on its proportionate membership share (see Note 12). The District's membership interest in NoaNet was 20.72 percent in 2016 and 2015. NoaNet continues to meet its debt obligations through profitable operations. NoaNet reserves the right to assess members to cover deficits from operations. There have been no member assessments since 2011.

NoaNet recorded a decrease in net position (excluding grant proceeds) of \$4,555,622 (unaudited) for 2016 and a decrease of \$5,390,113 for 2015. In accordance with GAAP a proportionate share of these gains/losses has not been recorded by the District. In accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the District has included all required disclosures for its guarantees of NoaNet debt (see Note 12).

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

## Note 11 - Telecommunications Services

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

Broadband operations and capital activity for the years ended December 31, 2016 and 2015, follows:

Broadband	2016	2015
<b>Operating Revenues</b>		
Ethernet	\$1,301,597	\$1,381,900
TDM	69,372	86,428
Wireless	312	364
Internet Transport Service	76,765	119,181
Fixed Wireless	75,282	89,610
Other Revenue	522,741	345,737
NoaNet Maintenance Revenue	-	1,441
<b>Total Operating Revenues</b>	<b>\$2,046,069</b>	<b>\$2,024,661</b>
<b>Operating Expenses</b>		
General Expenses	\$811,789	\$855,509
NoaNet Maintenance Expense	-	622
Other Maintenance	106,589	144,309
Network Operating Center Maint.	264	13,538
Wireless Maintenance	13,147	8,047
<i>Subtotal before depreciation</i>	931,789	1,022,025
Depreciation	990,049	1,019,060
<b>Total Operating Expenses</b>	<b>\$1,921,838</b>	<b>\$2,041,085</b>
Nonoperating Expenses	\$3,864	\$5,938
Capital Investment (Annual)	\$877,652	\$1,363,013
Capital Investment (Cumulative)	\$20,719,472	\$19,841,821

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

## NOTE 12 - Other Commitments and Contingent Liabilities

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

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

Current and former Members of NoaNet have entered into a Repayment Agreement to guarantee the debt of NoaNet. Under the Repayment Agreement, each guarantor acknowledges and agrees that it is a guarantor of the payment of the principal of and interest on the Bonds and is liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such principal and interest up to each Member's percentage interest. The District's guarantee was 14.06 percent of the outstanding Bonds, or \$392,274 as of December 31, 2015.

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

### Energy Northwest - Nine Canyon Wind Project

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

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

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

**Energy Independence Act (Initiative 937)**

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

In 2015, the Commission established the minimum Biennial Conservation Target for 2016–2017 of 1.97 aMW. The District is on track to meet or exceed the goal.

**Operating Leases**

The District leases electrical testing equipment on an annual basis. The annual rental cost was \$25,749 for both 2016 and 2015, respectively.

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

The annual rental cost for the land was \$56,838 and \$55,693 for 2016 and 2015, respectively.

The future minimum rental payments are:

Year	Minimum Rental Payment
2017	\$57,292
2018	57,292
2019	57,292
2020	57,292
2021	28,646
Total	\$257,814

## Required Supplementary Information

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

PERS Plan 1  
As of June 30, 2016  
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's proportion of the net pension liability (asset)	0.111198%	0.114841%	0.115142%
Employer's proportionate share of the net pension liability	\$5,971,856	\$6,007,252	\$5,800,332
Employer's covered employee payroll	\$106,938	\$100,338	\$188,586
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	5584%	5987%	3076%
Plan fiduciary net position as a percentage of the total pension liability	57%	59%	61%

**Notes to Schedule:**

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

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

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

PERS Plan 2/3  
As of June 30, 2016  
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's proportion of the net pension liability (asset)	0.139973%	0.145674%	0.143243%
Employer's proportionate share of the net pension liability	\$7,047,530	\$5,205,015	\$2,895,458
Employer's covered employee payroll	\$12,986,531	\$12,446,584	\$12,271,821
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	54%	42%	24%
Plan fiduciary net position as a percentage of the total pension liability	86%	89%	93%

**Notes to Schedule:**

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

### Schedule of Employer Contributions

PERS Plan 1  
As of December 31, 2016  
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily or contractually required contributions	\$636,516	\$571,651	\$514,217
Contributions in relation to the statutorily or contractually required contributions	<u>(636,516)</u>	<u>(571,651)</u>	<u>(514,217)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Covered employer payroll	\$108,487	\$105,271	\$139,599
Contributions as a percentage of covered employee payroll	587%	543%	368%

**Notes to Schedule:**

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

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

**Schedule of Employer Contributions**

PERS Plan 2/3  
As of December 31, 2016  
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily or contractually required contributions	\$815,729	\$720,845	\$612,316
Contributions in relation to the statutorily or contractually required contributions	<u>(815,729)</u>	<u>(720,845)</u>	<u>(612,316)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Covered employer payroll	\$13,096,369	\$12,790,442	\$12,335,880
Contributions as a percentage of covered employee payroll	6%	6%	5%

**Notes to Schedule:**

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

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



*Your trusted energy partner*



# STATISTICAL SECTION



# STATISTICAL SECTION

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

## FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

## REVENUE CAPACITY

These schedules contain information to help the reader assess the District's most significant revenue source, electric sales.

## DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the ability of the District to issue additional debt in the future.

## DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

## OPERATING INFORMATION

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

# STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31 (unaudited)

	2016	2015	2014 restated <sup>(3)</sup>	2013
<b>OPERATING REVENUES</b>				
Sales of Electric Energy - Retail	\$120,438,526	\$116,820,422	\$117,641,940	\$115,079,778
Energy Sales for Resale	14,808,281	17,678,932	23,325,872	18,232,140
Transmission of Power for Others	915,169	690,639	632,528	776,957
Broadband Revenue	2,046,068	2,024,661	2,191,287	1,980,605
Other Revenue	1,653,580	1,670,466	1,472,425	1,249,791
<i>Total Operating Revenues</i>	<u>139,861,624</u>	<u>138,885,120</u>	<u>145,264,052</u>	<u>137,319,271</u>
<b>OPERATING EXPENSES</b>				
Purchased Power	80,889,012	82,340,739	84,714,618	77,877,737
Purchased Transmission & Ancillary Services	12,997,169	12,816,306	12,925,752	11,677,803
Conservation Program	307,113	417,113	89,940	1,315,642
Generation	-	-	-	-
Transmission Operations & Maintenance	260,519	81,305	81,220	82,066
Distribution Operations & Maintenance	9,029,751	9,051,462	8,540,568	8,092,079
Broadband Expense	931,789	1,022,025	982,869	890,521
Customer Accounting, Collection & Information	3,411,338	3,794,832	3,788,799	4,026,839
Administrative & General	6,331,749	7,229,048	6,909,615	6,444,642
Taxes	12,630,500	12,263,706	12,394,110	12,144,846
Depreciation	12,630,490	13,207,539	12,894,915	12,671,992
<i>Total Operating Expenses</i>	<u>139,419,430</u>	<u>142,224,075</u>	<u>143,322,406</u>	<u>135,224,167</u>
<b>OPERATING INCOME/(LOSS)</b>	<b>442,194</b>	<b>(3,338,955)</b>	<b>1,941,646</b>	<b>2,095,104</b>
<b>NONOPERATING REVENUES &amp; EXPENSES</b>				
Interest & Other Nonoperating Income	647,361	748,220	525,553	612,901
Interest Expense & Other Nonoperating Expense	(2,664,442)	(2,756,755)	(2,844,753)	(2,913,078)
Debt Premium Amortization & Loss on Defeased Debt <sup>(1)</sup>	143,522	419,819	445,518	459,652
Unrealized Gain/(Loss) on Investments	(4,170)	24,568	173,722	(241,104)
Assessments to Joint Venture	-	-	-	-
<i>Total Nonoperating Revenues &amp; Expenses</i>	<u>(1,877,729)</u>	<u>(1,564,148)</u>	<u>(1,699,960)</u>	<u>(2,081,629)</u>
<b>INCOME/(LOSS) BEFORE CONTRIBUTIONS AND EXTRAORDINARY ITEM</b>	<b>(1,435,535)</b>	<b>(4,903,103)</b>	<b>241,686</b>	<b>13,475</b>
<b>CAPITAL CONTRIBUTIONS EXTRAORDINARY ITEM</b>	<b>1,164,819</b>	<b>2,471,250</b>	<b>3,834,420</b>	<b>2,706,411</b>
<b>CHANGE IN NET POSITION</b>	<b>(\$270,716)</b>	<b>(\$2,431,853)</b>	<b>\$4,076,106</b>	<b>\$2,719,886</b>

## NET POSITION

For the years ended December 31 (unaudited)

	2016	2015	2014 <sup>(3)</sup>	2013
Net Investment in Capital Assets	\$58,672,489	\$68,039,579	\$65,363,895	\$62,492,766
Restricted for Debt Service	1,107,865	1,083,997	140,017	140,017
Restricted Settlement Proceeds	-	-	-	-
Unrestricted <sup>(2)</sup>	56,255,498	47,182,992	53,234,509	64,247,248
<b>Total Net Position</b>	<b>\$116,035,852</b>	<b>\$116,306,568</b>	<b>\$118,738,421</b>	<b>\$126,880,031</b>

(1) Governmental Accounting Standards Board Statement No. 65 was implemented effective 2012 classifying debt issuance costs as expense when incurred. 2011 was restated for comparative purposes in the financial statements.

(2) Governmental Accounting Standards Board Statement No. 65 was implemented effective 2012 classifying debt issuance costs as expense when incurred. 2010 was restated for comparative purposes and the cumulative effect of \$(703,941) for prior years has been applied to the Unrestricted balance.

(3) Governmental Accounting Standards Board Statement No. 68 was implemented effective 2015 recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses relating to pension liabilities. The cumulative effect on net pension for 2014 was \$12,217,716.

<b>2012</b>	<b>2011 restated</b>	<b>2010 restated</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
\$110,799,843	\$105,228,051	\$94,137,792	\$91,942,100	\$86,236,604	\$92,388,210
14,048,971	25,773,429	30,122,467	38,885,352	53,188,137	42,922,151
797,837	397,063	230,978	229,429	225,908	279,687
1,620,054	1,617,919	1,181,892	927,041	858,566	787,589
1,879,829	1,424,566	1,403,220	1,348,716	1,449,381	1,745,868
<b>129,146,534</b>	<b>134,441,028</b>	<b>127,076,349</b>	<b>133,332,638</b>	<b>141,958,596</b>	<b>138,123,505</b>
68,652,534	75,475,402	78,768,878	75,055,153	91,764,877	83,330,863
11,260,088	10,276,334	9,315,582	10,074,812	10,295,990	9,385,236
405,589	808,494	1,795,846	679,406	130,064	-
-	-	-	-	-	169,339
12,684	17,575	26,909	30,026	20,449	24,376
8,191,232	7,499,422	7,163,781	7,092,143	6,998,119	6,254,249
696,415	674,581	712,433	577,958	662,267	692,390
3,954,421	3,388,582	3,773,740	4,011,243	3,850,215	3,854,630
6,276,795	5,384,210	5,396,629	5,557,985	5,420,309	5,405,180
11,814,545	10,890,913	9,513,213	9,956,874	9,197,531	9,884,911
11,642,052	10,769,424	9,751,161	9,367,272	9,369,594	10,084,084
<b>122,906,355</b>	<b>125,184,937</b>	<b>126,218,172</b>	<b>122,402,872</b>	<b>137,709,415</b>	<b>129,085,258</b>
<b>6,240,179</b>	<b>9,256,091</b>	<b>858,177</b>	<b>10,929,766</b>	<b>4,249,181</b>	<b>9,038,247</b>
668,774	602,075	488,924	358,811	1,198,244	1,762,210
(3,001,895)	(2,958,273)	(2,703,991)	(2,278,184)	(2,443,373)	(2,533,496)
459,198	(237,799)	(674,641)	(34,128)	(40,312)	(21,519)
19,862	-	-	-	-	-
-	(70,300)	(129,550)	(236,393)	(402,707)	(555,095)
<b>(1,854,061)</b>	<b>(2,664,297)</b>	<b>(3,019,258)</b>	<b>(2,189,894)</b>	<b>(1,688,148)</b>	<b>(1,347,900)</b>
<b>4,386,118</b>	<b>6,591,794</b>	<b>(2,161,081)</b>	<b>8,739,872</b>	<b>2,561,033</b>	<b>7,690,347</b>
2,368,597	1,394,438	1,271,831	3,072,025	1,885,387	6,099,714
-	-	-	-	-	(9,755,303)
<b>\$6,754,715</b>	<b>\$7,986,231</b>	<b>(\$889,250)</b>	<b>\$11,811,897</b>	<b>\$4,446,420</b>	<b>\$4,034,758</b>

<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
\$58,085,620	\$59,836,918	\$61,389,146	\$64,930,735	\$56,656,963	\$54,367,199
140,017	140,017	706,157	-	-	-
-	-	-	86,955	-	-
65,934,508	57,428,495	47,323,895	45,848,815	42,397,645	40,240,989
<b>\$124,160,145</b>	<b>\$117,405,430</b>	<b>\$109,419,198</b>	<b>\$110,866,505</b>	<b>\$99,054,608</b>	<b>\$94,608,188</b>

## REVENUES AND CONSUMPTION BY CUSTOMER CLASS

For the years ended December 31 (unaudited)

	2016	2015	2014	2013
<b>AVERAGE NUMBER OF CUSTOMERS</b>				
Residential	43,157	42,375	41,758	41,322
General Service	5,840	5,737	5,643	5,572
Industrial	5	3	3	3
Irrigation	790	794	788	772
Miscellaneous	1,850	1,853	1,861	1,852
<i>Total</i>	51,642	50,762	50,053	49,521
<b>RETAIL ELECTRIC SALES (IN THOUSANDS) <sup>(1)</sup></b>				
Residential	\$53,643	\$51,402	\$52,862	\$52,924
General Service	34,223	33,706	33,829	32,959
Industrial	3,214	3,051	3,250	3,176
Irrigation	22,348	22,283	22,794	19,630
Miscellaneous	656	616	616	622
<i>Total</i>	\$114,084	\$111,058	\$113,351	\$109,311
<b>RETAIL ELECTRIC SALES IN MWh</b>				
Residential	661,742	665,505	696,804	697,887
General Service	525,603	530,283	533,008	519,493
Industrial	64,612	66,942	71,869	69,803
Irrigation	435,186	468,202	472,643	402,619
Miscellaneous	6,935	7,090	6,998	6,972
<i>Total</i>	1,694,078	1,738,022	1,781,322	1,696,774
<b>AVERAGE REVENUE PER kWh (CENTS) <sup>(1)</sup></b>				
Residential	8.11	7.72	7.59	7.58
General Service	6.51	6.36	6.35	6.34
Industrial	4.97	4.56	4.52	4.55
Irrigation	5.14	4.76	4.82	4.88
Miscellaneous	9.46	8.69	8.81	8.92
<i>Average - All Classes</i>	6.73	6.39	6.36	6.44

(1) Includes total retail revenue (per kWh charge and base charge); excludes city utility occupation tax, bad debt expense, and accrued unbilled revenue.

<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
40,645	40,201	39,687	39,220	38,855	37,969
5,499	5,421	5,356	5,289	5,192	5,077
3	3	3	3	3	3
721	722	736	746	736	717
1,842	1,850	1,834	1,816	1,814	1,804
48,710	48,197	47,616	47,074	46,600	45,570
\$50,678	\$49,258	\$43,707	\$43,704	\$41,116	\$42,765
32,416	29,864	27,575	25,605	24,750	27,282
3,223	2,780	2,167	1,483	1,662	1,790
18,817	17,602	15,642	16,290	13,936	15,764
821	790	762	733	690	744
\$105,955	\$100,294	\$89,853	\$87,815	\$82,154	\$88,345
668,018	687,953	654,775	721,720	666,418	644,392
512,797	503,471	503,037	530,255	510,144	503,551
70,575	65,411	55,365	38,909	47,760	49,045
385,738	381,999	371,321	427,269	407,432	402,251
8,148	9,528	8,304	8,188	8,102	8,026
1,645,276	1,648,362	1,592,802	1,726,341	1,639,856	1,607,265
7.59	7.16	6.68	6.06	6.17	6.64
6.32	5.93	5.48	4.83	4.85	5.42
4.57	4.25	3.91	3.81	3.48	3.65
4.88	4.61	4.21	3.81	3.42	3.92
10.08	8.29	9.17	8.95	8.51	9.27
6.44	6.08	5.64	5.09	5.01	5.50

## RETAIL RATES <sup>(1)</sup>

For the years ended December 31 (unaudited)

	2016	2015	2014	2013
<b>Residential</b>				
Daily System Charge <sup>(2)</sup>	\$0.55	\$0.52	-	-
Monthly Base Charge (single phase)	-	-	\$11.05	\$11.05
Energy Charge (cents/kWh)	7.18	6.84	6.84	6.84
<b>Small General Service</b>				
Daily System Charge <sup>(2)</sup> (Single-Phase)	\$0.46	\$0.44	-	-
Daily System Charge <sup>(2)</sup> (Multi-Phase)	\$0.68	\$0.65	-	-
Monthly Base Charge (single phase)	-	-	\$11.95	\$11.95
Energy Charge Effective 2010 (cents/kwh)	6.44	6.14	6.14	6.14
<b>Prior to 2010</b>				
First 20,000 kwh	-	-	-	-
Over 20,000 kwh	-	-	-	-
<b>Medium General Service</b>				
Daily System Charge <sup>(2)</sup> (Single-Phase)	\$0.92	\$0.88	-	-
Daily System Charge <sup>(2)</sup> (Multi-Phase)	\$1.38	\$1.32	-	-
Monthly Base Charge (single phase)	-	-	\$17.55	\$17.55
Energy Charge (cents/kwh)				
Summer (Effective 2011)	5.09	4.85	4.85	4.85
Winter (Effective 2011)	5.97	5.69	5.69	5.69
<b>Summer (Prior to 2011)</b>				
First 20,000 kwh	-	-	-	-
Over 20,000 kwh	-	-	-	-
<b>Winter (Prior to 2011)</b>				
First 20,000 kwh	-	-	-	-
Over 20,000 kwh	-	-	-	-
Demand Charge	\$8.77	\$8.36	\$8.36	\$8.36
<b>Large General Service</b>				
Daily System Charge <sup>(2)</sup> (Multi-Phase)	\$1.38	\$1.32	-	-
Monthly Base Charge (multi phase)	-	-	\$26.10	\$26.10
Energy Charge - Non Time of Use (cents/kwh)				
Summer (Effective 2010)	4.11	3.92	3.89	3.89
Winter (Effective 2010)	4.92	4.69	4.65	4.65
<b>Summer (Prior to 2010)</b>				
First 20,000 kwh	-	-	-	-
Over 20,000 kwh	-	-	-	-
<b>Winter (Prior to 2010)</b>				
First 20,000 kwh	-	-	-	-
Over 20,000 kwh	-	-	-	-
Demand Charge	\$7.45	\$7.10	\$7.00	\$7.00

(1) These rates represent the typical customer. Other monthly charges may apply. Other rate schedules also in effect are small irrigation, large irrigation, industrial, and miscellaneous.

(2) The Daily System Charge was effective 9/1/2015 and replaced the Monthly Base Charge. The rate is per day and applied to the number of days in the billing period.

<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
-	-	-	-	-	-
\$11.05	\$10.50	\$9.20	\$8.80	\$8.80	\$8.80
6.84	6.49	6.05	5.78	5.78	6.02
-	-	-	-	-	-
-	-	-	-	-	-
\$11.95	\$11.45	\$11.45	\$10.70	\$10.70	\$11.25
6.14	5.88	5.47	-	-	-
-	-	-	5.13	5.13	5.39
-	-	-	3.35	3.35	3.46
-	-	-	-	-	-
-	-	-	-	-	-
\$17.55	\$16.30	\$14.25	\$13.20	\$13.20	\$13.90
4.85	4.51	-	-	-	-
5.69	5.29	-	-	-	-
-	-	4.45	4.46	4.46	4.69
-	-	3.55	2.74	2.74	2.88
-	-	5.29	5.24	5.24	5.52
-	-	4.19	3.33	3.33	3.49
\$8.36	\$7.77	\$7.13	\$6.60	\$6.60	\$7.20
-	-	-	-	-	-
\$26.10	\$24.15	\$18.60	\$17.40	\$17.40	\$18.45
3.89	3.59	3.31	-	-	-
4.65	4.30	3.97	-	-	-
-	-	-	4.33	4.33	4.62
-	-	-	2.89	2.89	3.07
-	-	-	4.72	4.72	5.03
-	-	-	3.56	3.56	3.77
\$7.00	\$6.48	\$5.99	\$5.60	\$5.60	\$5.92

## PRINCIPAL RATEPAYERS

For the years ended December 31 (unaudited)

2016

Ratepayer's Rate Class <sup>(1)</sup>	kWh	Rank	Percentage of Total kWh	Retail Sales <sup>(2)</sup>	Percentage of Total Retail Electric Sales
Large Irrigation Customer 1	185,727,226	1	11.0%	\$9,091,838	8.0%
Large Irrigation Customer 2	73,520,821	2	4.3%	3,618,578	3.2%
Large Industrial Customer 1	64,745,636	3	3.8%	3,222,077	2.8%
Large Irrigation Customer 3	44,732,801	4	2.6%	2,187,966	1.9%
Large Irrigation Customer 4	33,768,798	5	2.0%	1,614,932	1.4%
Large Irrigation Customer 5	31,732,175	6	1.9%	1,577,874	1.4%
Large Irrigation Customer 6	26,926,648	7	1.6%	1,304,947	1.1%
Large General Customer 1	24,760,643	8	1.5%	1,667,615	1.5%
Large General Customer 2	23,474,636	9	1.4%	1,502,444	1.3%
Large General Customer 3	18,496,741	10	1.1%	1,091,867	1.0%
Large General Customer 4	-	-	-	-	-
	527,886,125		31.2%	\$26,880,138	23.6%
<b>Total All Ratepayers</b>	<b>1,694,077,877</b>			<b>\$114,083,919</b>	

(1) To preserve confidentiality, individual ratepayer names are not disclosed.

(2) Retail sales are before taxes, bad debt expense, and unbilled revenue.

**2007**

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kWh	Rank	Percentage of Total kWh	Retail Sales <sup>(2)</sup>	Percentage of Total Retail Electric Sales
177,254,300	1	11.0%	\$6,603,596	7.1%
64,717,089	2	4.0%	2,452,815	2.7%
49,177,986	3	3.1%	1,793,005	1.9%
37,022,051	4	2.3%	1,317,208	1.4%
32,165,136	5	2.0%	1,172,521	1.3%
21,869,736	9	1.4%	831,075	0.9%
22,860,000	7	1.4%	829,165	0.9%
21,562,738	10	1.3%	1,371,864	1.5%
21,990,805	8	1.4%	1,595,616	1.7%
-	-	-	-	-
29,614,404	6	1.8%	1,553,493	1.7%
478,234,245		29.7%	\$19,520,358	21.1%
<b>1,607,264,815</b>			<b>\$92,388,210</b>	

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## RATIOS OF OUTSTANDING DEBT

For the years ended December 31 (unaudited)

	2016	2015	2014 restated	2013
Revenue Bonds	\$59,950,000	\$49,735,000	\$53,600,000	\$56,635,000
Unamortized Premium & Discount	4,845,315	3,099,629	3,572,728	4,072,098
Total Outstanding Revenue Debt	\$64,795,315	\$52,834,629	\$57,172,728	\$60,707,098
Total Revenue Debt to Operating Revenues	46%	38%	39%	44%
Total Revenue Debt to Total Assets	30%	26%	27%	29%
Total Revenue Debt per Ratepayer	\$1,255	\$1,041	\$1,142	\$1,226

## DEBT MARGIN INFORMATION <sup>(1)</sup>

For the year ended December 31, 2016 (unaudited)

Net Revenues September 2015 - August 2016 <sup>(2)</sup>	\$16,355,233
Maximum Future Annual Debt Service (2020)	\$6,523,987
Maximum Allowable Annual Debt Service per Bond Covenants <sup>(2)</sup>	\$13,084,186
Allowable Additional Annual Debt Service	\$6,560,200

(1) As a proprietary fund, the District does not have a legal debt limitation. However, the District's bond resolutions establish restrictions on the issuance of additional debt based on a defined formula.

(2) The bond covenants state that new parity bonds may be issued if the amount of net revenue for any twelve consecutive months in the prior 24 month period divided by the maximum annual debt service in any future year is not less than 125%.

(3) With implementation of GASB 65 in 2012, bond issuance costs are expensed in the year incurred. The District restated 2011 for comparative purposes to match the financial statements. In addition, prior to 2011, the unamortized loss on defeasance is included in Total Outstanding Revenue Debt.

<b>2012</b>	<b>2011<sup>(3)</sup></b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
\$59,575,000	\$62,330,000	\$59,165,000	\$50,865,000	\$53,395,000	\$55,810,000
4,597,935	5,134,338	452,684	597,829	663,277	727,593
\$64,172,935	\$67,464,338	\$59,617,684	\$51,462,829	\$54,058,277	\$56,537,593
50%	50%	47%	39%	38%	41%
31%	34%	32%	29%	29%	33%
\$1,317	\$1,400	\$1,252	\$1,093	\$1,160	\$1,241

## DEBT SERVICE COVERAGE

For the years ended December 31 (unaudited)

	2016	2015	2014 restated	2013
<b>DEBT SERVICE CALCULATION</b>				
Change in Net Position	(\$270,716)	(\$2,431,853)	\$4,076,106	\$2,719,886
<b>Adjustments to (from) Change in Net Position</b>				
Depreciation	12,630,490	13,207,539	12,894,915	12,671,992
Prepaid Power <sup>(1)</sup>	1,017,144	1,017,144	1,017,144	907,457
Interest Expense	2,664,442	2,756,755	2,844,753	2,913,078
Debt Discount/Premium Amortization & Bond Issue Costs	(143,522)	(419,819)	(445,518)	(459,652)
GASB 68 Pension noncash entry	(308,366)	(157,447)	(245,062)	-
Extraordinary Item	-	-	-	-
Transfer (to) from Rate Stabilization	-	-	-	-
<b>REVENUE AVAILABLE FOR DEBT SERVICE</b>	<b>\$15,589,472</b>	<b>\$13,972,319</b>	<b>\$20,142,338</b>	<b>\$18,752,761</b>
<b>DEBT SERVICE <sup>(2)</sup></b>	<b>\$5,351,412</b>	<b>\$4,767,944</b>	<b>\$5,966,784</b>	<b>\$5,965,509</b>
<b>DEBT SERVICE COVERAGE RATIO</b>	<b>2.91</b>	<b>2.93</b>	<b>3.38</b>	<b>3.14</b>

(1) White Creek Wind Project amortization and Bonneville Power Administration prepaid power.

(2) Reduced by capitalized interest.

<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
\$6,754,715	\$7,986,232	(\$889,251)	\$11,811,897	\$4,446,420	\$4,034,758
11,642,052	10,769,424	9,751,161	9,367,272	9,369,594	10,084,084
578,400	578,400	578,400	578,400	144,600	-
3,001,895	2,958,273	2,683,991	2,259,809	2,442,913	2,533,496
(459,198)	237,799	674,641	34,128	40,312	21,519
-	-	-	-	-	9,755,303
-	(2,369,920)	-	-	-	2,244,474
<b>\$21,517,864</b>	<b>\$20,160,208</b>	<b>\$12,798,942</b>	<b>\$24,051,506</b>	<b>\$16,443,839</b>	<b>\$28,673,634</b>
<b>\$5,969,064</b>	<b>\$5,002,221</b>	<b>\$5,445,961</b>	<b>\$5,131,680</b>	<b>\$5,130,080</b>	<b>\$6,957,703</b>
<b>3.60</b>	<b>4.03</b>	<b>2.35</b>	<b>4.69</b>	<b>3.21</b>	<b>4.12</b>

# PRINCIPAL EMPLOYERS - TRI-CITIES METROPOLITAN STATISTICAL AREA

For the years ended December 31 (unaudited)

2016

Employer	Product/Service	Employees	Rank	Percentage of Total MSA Nonfarm Employment
Battelle Pacific NW National Laboratory	Research/National Laboratory	4,365	1	4.0%
Kadlec Medical Center	Health Care	3,304	2	3.0%
Bechtel National, Inc.	Engineering & Construction	2,898	3	2.7%
ConAgra/Lamb Weston Inc.	Food Processing	2,727	4	2.5%
Kennewick School District	Education	2,130	5	2.0%
Washington River Protection Solutions	Environmental Remediation	2,077	6	1.9%
Pasco School District	Education	2,015	7	1.8%
Mission Support Alliance, LLC	Support Services Hanford	1,928	8	1.8%
Richland School District	Education	1,500	9	1.4%
CH2MHill Hanford Group Inc./CHG	Environmental Engineering	1,400	10	1.3%
Fluor Hanford Inc./URS	Environmental Engineering	-	-	-
Tyson Fresh Meats/Iowa Beef	Meat Packing	-	-	-
Total		24,344		22.4%

Source: Tri-City Development Council

**2007**

<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total MSA Nonfarm Employment</b>
4,033	1	4.4%
1,436	8	1.6%
2,129	3	2.3%
2,129	3	2.3%
1,700	6	1.9%
-	-	-
1,538	7	1.7%
-	-	-
1,350	9	1.5%
1,170	10	1.3%
3,630	2	4.0%
1,800	5	2.0%
20,915		23.0%

## DEMOGRAPHIC STATISTICS

For the years ended December 31 (unaudited)

	2016	2015	2014	2013
<b>Population <sup>(1)</sup></b>				
Tri-Cities Metropolitan Statistical Area	279,170	275,740	273,100	268,200
Benton County	190,500	188,590	186,500	183,400
City of Kennewick	79,120	78,290	77,700	76,410
Prosser	5,940	5,845	5,815	5,810
Benton City	3,325	3,285	3,255	3,240
<b>Total Personal Income - Benton County <sup>(2)</sup></b>	N/A	\$8,279,696	\$7,641,074	\$7,430,711
<b>Per Capita Income - Benton County <sup>(2)</sup></b>	N/A	\$43,507	\$40,939	\$40,257
<b>Unemployment Rate - Benton County <sup>(3)</sup></b>	7.0%	7.1%	7.7%	7.9%
<b>Building Permits Issued <sup>(4)</sup></b>				
Kennewick	2,211	2,005	2,054	1,989
Benton County (Unincorporated)	919	784	713	728
<b>Taxable Retail Sales - All of Benton County <sup>(5)</sup></b>	N/A	\$3,612,773,217	\$3,284,581,847	\$3,189,855,069

(1) Source: Washington State Office of Financial Management. 2010 was restated with census numbers.

(2) Source: U.S. Bureau of Economic Analysis. 2007-2014 revised estimates from BEA in 2016.

(3) Source: December 2016 Unemployment Rates, Washington Employment Security Department

(4) Source: City of Kennewick and Benton County Building Departments

(5) Source: Washington State Department of Revenue

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	262,500	258,400	253,340	242,000	235,700	230,300
	180,000	177,900	175,177	169,300	165,500	162,900
	75,160	74,665	73,917	67,180	65,860	62,520
	5,785	5,780	5,714	5,110	5,075	5,075
	3,295	3,145	3,038	2,955	2,855	2,860
	\$7,529,470	\$7,577,726	\$7,166,114	\$6,590,197	\$6,290,231	\$5,728,488
	\$41,250	\$41,963	\$40,598	\$38,512	\$37,763	\$35,433
	9.0%	9.2%	7.1%	7.4%	6.5%	5.1%
	1,918	2,123	2,161	1,868	1,649	1,963
	588	711	753	674	562	662
	\$2,937,655,298	\$2,959,959,724	\$2,731,890,939	\$2,623,845,560	\$2,601,911,391	\$2,574,398,245

## OPERATING INDICATORS

For the years ended December 31 (unaudited)

	2016	2015	2014 restated	2013
Operating Expenses / Revenues	99.7%	102.4%	98.7%	98.5%
Total Electric Sales in MWh				
Retail Sales	1,694,078	1,738,022	1,781,322	1,696,774
Sales for Resale	576,289	662,886	717,847	580,417
Total MWh Sales	2,270,367	2,400,908	2,499,169	2,277,191
Average Annual kWh per Customer				
Residential	15,333	15,692	16,687	16,889
General Service	90,004	92,432	94,455	93,233
Industrial	12,922,400	22,313,962	23,956,495	23,267,593
Irrigation	550,578	589,675	599,801	521,528
Miscellaneous	3,749	3,826	3,760	3,764
Average Annual kWh per Customer - All Classes	32,804	34,239	35,589	34,264
Average Revenue per Customer				
Residential	\$1,243	\$1,213	\$1,266	\$1,281
General Service	5,860	5,875	5,995	5,915
Industrial	642,800	1,016,944	1,083,292	1,058,609
Irrigation	28,274	28,065	28,926	25,428
Miscellaneous	355	332	331	336
Average Revenue per Customer - All Classes	\$2,209	\$2,188	\$2,265	\$2,207
Additions to Electric Plant, excluding work-in-progress	\$12,707,389	\$10,795,807	\$14,325,929	\$14,261,262
Net Electric Utility Plant	\$123,470,148	\$120,791,227	\$122,400,363	\$123,009,752
Capitalized Payroll	\$3,213,042	\$2,201,618	\$2,289,991	\$2,344,440
Total Payroll Expense	\$13,630,457	\$12,967,615	\$12,674,072	\$12,573,298
Full Time Equivalent Employees <sup>(1)</sup>	154	154	148	151
Cooling Degree Days <sup>(2)</sup>	1,099	1,534	1,426	1,318
Heating Degree Days <sup>(2)</sup>	4,392	4,228	4,611	5,320
Annual Precipitation (inches) <sup>(2)</sup>	7.66	6.48	6.53	5.38
Peak Load (MW's) <sup>(3)</sup>	425	429	431	415

(1) Includes regular and temporary employees. Full time equivalents reported beginning in 2006. Average number of employees reported prior to 2006.

(2) Source: Hanford Meteorological Station

Heating degree days are indicators of household energy consumption for space heating. When the average outdoor temperature is less than 65 degrees Fahrenheit, most buildings require heat to maintain a temperature of 70 degrees inside. Similarly, when the average outdoor temperature is 65 degrees or more, most buildings require air-conditioning to maintain a temperature of 70 degrees inside.

(3) Source: The Energy Authority, Inc.

<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
95.2%	93.1%	99.3%	91.8%	97.0%	93.5%
1,645,277	1,648,362	1,592,802	1,726,341	1,639,856	1,607,265
687,098	929,688	693,299	667,758	818,485	771,347
<b>2,332,375</b>	<b>2,578,050</b>	<b>2,286,101</b>	<b>2,394,099</b>	<b>2,458,341</b>	<b>2,378,612</b>
16,435	17,113	16,498	18,402	17,151	16,972
93,253	92,874	93,920	100,256	98,256	99,183
23,525,055	21,803,603	18,454,887	12,969,692	15,920,098	16,348,383
535,005	529,085	504,513	572,747	553,576	561,019
4,423	5,150	4,528	4,509	4,466	4,449
<b>33,777</b>	<b>34,201</b>	<b>33,451</b>	<b>36,673</b>	<b>35,190</b>	<b>35,270</b>
\$1,247	\$1,225	\$1,101	\$1,114	\$1,058	\$1,126
5,895	5,509	5,148	4,841	4,767	5,374
1,074,442	926,683	722,372	494,424	554,015	596,832
26,098	24,380	21,253	21,836	18,934	21,986
446	427	415	403	380	412
<b>\$2,175</b>	<b>\$2,081</b>	<b>\$1,887</b>	<b>\$1,865</b>	<b>\$1,763</b>	<b>\$1,939</b>
\$11,658,180	\$16,575,853	\$17,203,386	\$10,736,615	\$10,358,753	\$15,578,938
\$122,002,258	\$121,789,048	\$120,302,889	\$115,807,257	\$110,029,356	\$109,916,268
\$2,550,126	\$2,858,449	\$2,677,911	\$2,363,236	\$2,008,050	\$1,998,843
\$12,401,390	\$11,637,285	\$11,672,710	\$11,585,291	\$11,041,774	\$10,583,678
151	152	155	159	156	156
1,057	884	870	1,235	991	1,070
4,940	5,466	4,896	5,679	5,581	5,223
8.18	4.45	10.19	5.47	5.49	5.48
394	380	392	402	397	384





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## **COMPREHENSIVE ANNUAL FINANCIAL REPORT • 2016**



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