Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Douglas County

For the period January 1, 2018 through December 31, 2018

Published July 22, 2019

Report No. 1024237

Office of the Washington State Auditor
Pat McCarthy

July 22, 2019

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Douglas County's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Public Utility District No. 1 of Douglas County
January 1, 2018 through December 31, 2018

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund of Public Utility District No. 1 of Douglas County, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 24, 2019. As discussed in Note 1 to the financial statements, the District has elected to change its method of accounting for revenues generated from power sales contracts during the year ended December 31, 2018. The prior year comparative information has been derived from the District's 2017 basic financial statements, on which we issued our report dated August 14, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

June 24, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Douglas County
January 1, 2018 through December 31, 2018

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund of Public Utility District No. 1 of Douglas County, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Public Utility District No. 1 of Douglas County, as of December 31, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, the District has elected to change its method of accounting for revenues generated from power sales contracts during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2017, from which such partial information was derived. We have previously audited the District's 2017 financial statements and we expressed unmodified opinions on the respective financial statements of each major fund in our report dated August 14, 2018. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

June 24, 2019

FINANCIAL SECTION

Public Utility District No. 1 of Douglas County
January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) presents an overview and analysis of the financial activities of Public Utility District No. 1 of Douglas County (the District) during the calendar years ended December 31, 2018 and 2017. This supplementary information should be read in conjunction with the accompanying audited financial statements and related notes.

OVERVIEW OF FINANCIAL STATEMENTS AND OPERATIONS

The District, a municipal corporation of the state, is organized in two primary operating systems: the Electric Distribution System (Distribution System) and the Wells Hydroelectric Project (Wells Project). The Distribution System provides retail electric and wholesale broadband service to customers in Douglas County, Washington. The Wells Project is a hydroelectric facility, owned and operated by the District and located on the Columbia River in the state of Washington. Generation from the Wells Project is sold at cost to three Pacific Northwest investor owned utilities pursuant to long term power sales contracts, to the District's Distribution System and to the Colville Confederated Tribes under the terms of a settlement agreement.

The financial report includes this MD&A, the financial statements and the notes to the financial statements. The financial statements of the District report information using enterprise accounting methods similar to those used by private utility companies. These statements offer short and long-term financial information about District activities.

- The balance sheet is a statement of position; it includes all of the District's investments in resources (assets), deferred outflows of resources (deferred outflows), obligations to creditors (liabilities), deferred inflows of resources (deferred inflows), and net position (equity).
- The statement of revenues, expenses, and changes in net position reflects the transactions and events that increase and decrease the economic resources of the District (operations). Revenues and expenses are summarized by major source and use. Revenues and expenses are further summarized as operating and non-operating based on the nature of the transaction.
- The statement of cash flows reflects the District's sources and uses of cash separated into operating, investing, and capital activities.
- The notes to the financial statements provide information that is essential for a full understanding of the information provided in the financial statements described above.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

In 2018, the overall financial position of the District improved. The District's total net position increased by $27 million to $350 million. The following analysis provides a three-year comparison of key financial information for the Distribution System and for the Wells Project.

DISTRIBUTION SYSTEM

The service area of the Distribution System includes Douglas County, with an area of 1,820 square miles. The assets (properties) of the Distribution System include 40 miles of 115-kV transmission lines, 27 miles of 34.5-kV transmission line and 13 miles 230-kV transmission line, 15 substations, 1,282 miles of overhead and underground distribution lines, 792 miles of fiber optic lines, and other buildings, equipment, inventories and related facilities.

Condensed Comparative Financial Information

Distribution System Balance Sheet
(Dollars in Thousands)

	12/31/2018	12/31/2017	Increase (Decrease) 2018-2017 $	Increase (Decrease) 2018-2017 %	12/31/2016
Current & Other Assets	$ 87,542	67,664	$ 19,878	29.4%	$ 58,209
Capital Assets	154,234	151,102	3,132	2.1%	153,473
Deferred Outflows	1,047	1,144	(97)	-8.5%	1,624
Total Assets/Deferred Outflows	242,823	219,910	22,913	10.4%	213,306
Current Liabilities	12,690	9,295	3,395	36.5%	7,224
Noncurrent Liabilities	35,965	38,695	(2,730)	-7.1%	41,584
Deferred Inflows	2,022	911	1,111	122.0%	52
Total Liabilities/Deferred Inflows	50,677	48,901	1,776	3.6%	48,860
Net Investment in Capital Assets	123,731	119,288	4,443	3.7%	120,320
Restricted	2,646	2,645	1	0.0%	2,645
Unrestricted	65,769	49,074	16,695	34.0%	41,480
Total Net Position	$ 192,146	$ 171,007	$ 21,139	12.4%	$ 164,445

Distribution System Statement of Revenue, Expenses and Changes in Net Position
(Dollars in Thousands)

	12/31/2018	12/31/2017	Increase (Decrease) 2018-2017 $	%	12/31/2016
Operating Revenues					
Retail Electric Sales	$ 29,439	$ 27,344	$ 2,095	7.7%	$ 22,885
Electric Sales For Resale	44,737	22,077	22,660	102.6%	25,499
Broadband	3,863	3,645	218	6.0%	3,293
Other	449	437	12	2.7%	572
Nonoperating Revenues	1,435	2,208	(773)	-35.0%	1,217
Total Revenues	79,923	55,711	24,212	43.5%	53,466
Operating Expenses					
Purchased Power	39,059	33,826	5,233	15.5%	36,242
Other	21,388	22,146	(758)	-3.4%	21,571
Nonoperating Expenses	1,303	1,352	(49)	-3.6%	1,387
Total Expenses	61,750	57,324	4,426	7.7%	59,200
Capital Contributions	2,966	8,175	(5,209)	-63.7%	1,699
Net Earnings	21,139	6,562	14,577	222.1%	(4,035)
Beginning Net Position as restated	171,007	164,445	6,562	4.0%	168,480
Ending Net Position	$ 192,146	$ 171,007	$ 21,139	12.4%	$ 164,445

Financial Analysis

During 2018, the Distribution System's overall financial position and results of operation improved. Fluctuations in the Distribution System balance sheets as of December 31, 2018 compared to 2017 were due to construction expenditures, amortization of deferred outflows and regulatory assets, and scheduled retirement of outstanding bonds. Other significant items are discussed in further detail below and in the notes to the financial statements.

Revenues

2017 to 2018:

Revenues from sales to retail customers (Retail Electric Sales), in 2018 increased $2.1 million (7.7%) from 2017. The demand for energy in the greater East Wenatchee area remained strong in 2018 and was the primary reason for the increase in revenue. Retail customer consumption for 2018 was 1,005,718 megawatts, compared to 926,104 megawatts in 2017 and 798,405 in 2016.

The District entered into a new power sales contract for the sale of Wells Project output beginning in September 1, 2018. Wholesale revenues from the new power sales contract are deposited in the accounts of the Distribution System which are the primary reason for the $22.7 million increase in Electric Sales for Resale in 2018 compared to 2017.

Revenues from Broadband services increased $218,000 (6%) compared to 2017 as the District continues to build Douglas County Community Network (DCCN) infrastructure into unserved areas in Douglas County.

Nonoperating Revenues decreased $773,000 (35%) compared to 2017 mainly resulting from less reimbursement activity related to the District's Rapids to Columbia 230 kV transmission joint line project.

2016 to 2017:
Revenues from sales to retail customers (Retail Electric Sales), which represents all retail energy customers within Douglas County, increased $4.4 million in 2017. Continued demand for energy in the county was the primary reason for the increase in revenue. Retail customer consumption for 2017 was 926,104 megawatts, compared to 798,405 for 2016.

Wholesale energy sales (Electric Sales for Resale) decreased $3.4 million in 2017 mainly resulting from changes in weather conditions, river flows, market conditions and electrical consumptions patterns.

The number of customer connections to the District's Douglas County Community Network (DCCN) has continued to steadily increase over the past two years, with 480 new connections in 2017 and 417 in 2016. Revenues from Broadband services increased $.3 million or 11% in 2017.

Nonoperating Revenues increased $.9 million (81%) compared to 2016. The increase was primarily due to reimbursements from three other agencies related to the District's Rapids to Columbia 230 kV transmission joint line project.

Expenses

2017 to 2018:
The District entered into a new power sales contract for the sale of Wells Project output beginning in September 2018. A component of the new power sales contract established monthly transfers of Wells Project operating costs from the Distribution System to the Wells Project. This is the primary reason for the $5.2 million increase in 2018 compared to 2017. Other power resources include: Rocky Reach Dam, Nine Canyon Wind Project and a long-term exchange contract with Shell Energy.

Other operating expenses includes operations and maintenance, administrative and general, taxes and depreciation, the balance of which decreased $758,000 in 2018 to $21 million.

Nonoperating expenses decreased 3.6% which is primarily related to interest expense on long-term debt, which due to our level debt structuring, decreases year to year.

2016 to 2017:
Purchased power expense decreased $2.4 million to $33.8 million. The Distribution System purchases the bulk of its power from the Wells Project. Other power resources

include: Rocky Reach Dam, Nine Canyon Wind Project and a long-term exchange contract with Shell Energy. The majority of the decrease pertained to lower operating costs at the Wells Project and Rocky Reach Dam.

Other operating expenses includes operations and maintenance, administrative and general, taxes and depreciation, the balance of which increased slightly to $22.1 million.

Nonoperating expenses decreased 2.5% which is primarily related to interest expense on long-term debt, which due to our level debt structuring, decreases year to year.

Capital Asset and Long-Term Debt Activity

As of December 31, 2018, the Distribution System had approximately $154 million invested in capital assets, net of accumulated depreciation. Capital additions are associated with a growing customer base, normal replacements of long-term electrical distribution facilities and rebuilding District facilities to accommodate road expansion projects.

As of December 31, 2018, the Distribution System had long-term liabilities of $35.9 million. This includes $29.2 million of revenues bonds outstanding, net of the current portion of $1.3 million. Debt service payments for 2018 were $2.5 million. Debt service coverage ratios for 2018 and 2017 were 12.2 and 6.1, respectively. The Distribution System's current bond ratings from the firms of Standard & Poor's and Moody's Investors Service are "AA" and "Aa3," respectively.

Please see the notes to the financial statements for further information regarding capital assets and long-term debt activity of the Distribution System.

Capital Contributions

District customers pay capital contributions that help fund new construction projects. In 2018, the District received $2.9 million in capital contributions.

WELLS PROJECT

The Wells Project is located 516 river miles from the mouth of the Columbia River and 50 miles upstream from East Wenatchee. In November 2012, The Federal Energy Regulatory Commission (FERC) issued the District a 40-year license for the Wells Hydroelectric Project. Commercial operation began on September 16, 1967. The Wells Project is constructed in a hydrocombine design, which includes ten generating units, a switchyard, spillways, and fish passage facilities in a single integrated concrete structure.

Condensed Comparative Financial Information

Wells Project Balance Sheet
(Dollars in Thousands)

	12/31/2018	12/31/2017	Increase (Decrease) 2018-2017 $	%	12/31/2016
Current and Other Assets	$ 20,536	$ 31,176	$ (10,640)	-34.1%	$ 59,961
Capital Assets	311,471	297,224	14,247	4.8%	287,894
Deferred Outflows and Regulatory Assets	3,413	5,838	(2,425)	-41.5%	9,648
Total Assets/Deferred Outflows	335,420	334,238	1,182	0.4%	357,503
Current Liabilities	14,642	23,259	(8,617)	-37.0%	36,388
Long-Term Liabilities	160,554	157,160	3,394	2.2%	174,449
Deferred Inflows	2,388	1,747	641	36.7%	640
Total Liabilities/Deferred Inflows	177,584	182,166	(4,582)	-2.5%	211,477
Net Investment in Capital Assets	159,374	157,499	1,875	1.2%	162,478
Restricted for Debt Service	2,320	0	2,320	0%	1,433
Unrestricted	(3,859)	(5,427)	1,568	-28.9%	(17,885)
Total Net Position	$ 157,835	$ 152,072	$ 5,763	3.8%	$ 146,026

Wells Project Statements of Revenue, Expenses, and Changes in Net Position
(Dollars in Thousands)

	12/31/2018	12/31/2017	Increase (Decrease) 2018-2017 $	%	12/31/2016
Operating Revenues	$ 48,803	$ 48,171	$ 632	1.3%	$ 52,552
Nonoperating Revenues	930	1,146	(216)	-18.8%	1,257
Total Revenues	49,733	49,317	416	0.8%	53,809
Operating Expenses	34,839	32,338	2,501	7.7%	32,857
Nonoperating Expenses	9,549	10,933	(1,384)	-12.7%	11,296
Total Expenses	44,388	43,271	1,117	2.6%	44,153
Capital Contributions	418	-	418	100.0%	
Net Earnings	5,763	6,046	(283)	-4.7%	9,656
Beginning Net Position	152,072	146,026	6,046	4.1%	136,370
Ending Net Position	$ 157,835	$ 152,072	$ 5,763	3.8%	$ 146,026

Financial Analysis

Fluctuations in the Wells Project balance sheets as of December 31, 2018 compared to 2017 were due to construction expenditures, normal amortization of deferred outflows and regulatory assets, and scheduled repayments of outstanding bonds. Other significant items are discussed in further detail below and in the notes to the financial statements.

Revenues

Because the electricity generated by the Wells Project is sold at cost, which the terms of the power sales contract define as all operation, maintenance, taxes and debt service (principal, interest, reserves), revenues directly follow any fluctuations in these items. Income results primarily from the difference between billed principal and reserves (revenue definition) and depreciation expense. Non-operating revenues consist mainly of investment income and a federal interest rebate for a portion of the interest expense on the 2010 Build America Bonds (BABs). Our 2018 receipts were reduced due to the federal sequestration. See further information below regarding the BABs.

Expenses

2017 to 2018:
Total operating expenses increased $2.5 million to $34.8 million. The majority of the increase in operating expenses pertained to the dam safety costs which are mostly attributed to engineering and exploratory (diagnostic) activity.

Nonoperating expenses decreased due to lower interest costs. The Project's debt is structured to provide level debt service, so this is an expected outcome. The Project realized lower interest expense due to the call and refunding of the 2005 bonds at lower rates. Investment income decreased mainly due to a decrease of the Project's investment construction bond fund portfolio.

2016 to 2017:
Total operating expenses decreased $0.5 million to $32.3 million. The majority of the decrease in operating expenses pertained to lower fish mitigation costs. Since 2012, when our federal license was renewed, the District has accomplished many of these mitigation requirements and the related costs have recently tapered.

Nonoperating expenses and interest income decreased for similar reasons as described above (lower interest expense and smaller invested balances).

Capital Assets and Long-Term Debt Activity

As of December 31, 2018 the Wells Project had approximately $311 million invested in capital assets, net of accumulated depreciation, including its hydraulic generation and transmission plant, fish rearing facilities, and related land, office buildings and equipment.

As of December 31, 2018 the Wells Project had long-term liabilities of $161 million. This included $132 million of revenue bonds outstanding, net of the current portion of $5 million. In August 2010 the District issued $113 million of Wells Project revenue bonds (2010 Bonds) in order to finance the continuation of the rebuild of the generating units and other capital projects, and to refinance the remaining 1999 and 2000 Wells Project bonds. The 2010 Bonds included $46 million of taxable Build America Bonds (BABs). The District receives a semi-annual interest rebate from the federal government equal to

35% of the corresponding semi-annual interest payment on the BABs. In August 2012 the District issued $43 million of Wells Project revenue and refunding bonds (2012 Bonds) in order to refinance most of the outstanding 2003 Wells Project bonds. This resulted in a total debt service savings of $3 million over the succeeding seven years. In June 2015 the District issued $58 million of Wells Project revenue bonds (2015 Bonds) in order to refinance and legally defease $67 million of the outstanding 2005 Wells Project bonds. The net present value savings of the 2005 refunding transaction were $5,968,000. See the notes to the financial statements for further information regarding the Wells Project bonds.

In 2018, Moody's affirmed its "Aa3" rating with a stable outlook. During 2018, Standard & Poor's also affirmed its "AA"/stable bond rating.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the finances of the District. If you have questions about this report or need additional financial information, please contact Public Utility District No. 1 of Douglas County, 1151 Valley Mall Parkway, East Wenatchee, WA 98802.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2018

ASSETS	Wells Hydroelectric Project	Distribution System	TOTAL 2018	TOTAL 2017
Current Assets				
Restricted:				
Debt Repayment Funds-Cash	$ 215,929	$ 2,645,722	$ 2,861,651	2,867,136
Debt Repayment Funds-Investments	6,168,344	-	6,168,344	6,257,684
Reserve & Contingency Fund-Cash	4,650,215	-	4,650,215	1,585,002
Reserve & Contingency Fund-Investments	-	-	-	4,012,924
Wells Hydroelectric Project Licensing Fund-Cash	-	434,696	434,696	2,794,846
Wells Hydroelectric Project Licensing Fund-Investments	-	2,500,000	2,500,000	-
Wells Hydroelectric Project - Plan Species Cash	514,984	-	514,984	-
Wells Hydroelectric Project - Plan Species Investment	1,247,783	-	1,247,783	1,571,582
Capital Project Revolving Loan Fund - Cash	-	77,382	77,382	-
Total Restricted	12,797,255	5,657,800	18,455,055	19,089,174
Unrestricted:				
Cash	5,421,956	13,106,792	18,528,748	14,702,470
Investments	-	26,600	26,600	8,947,704
Rate Stabilization Fund-Cash	-	2,133,071	2,133,071	-
Rate Stabilization Fund-Investments	-	21,866,929	21,866,929	24,000,000
Receivables - Net	1,314,089	13,847,894	15,161,983	5,276,731
Receivables - Intercompany	-	6,408	6,408	1,275,055
Current Portion of Intradistrict Note Recievable	-	310,000	310,000	130,000
Materials and Supplies	-	5,341,069	5,341,069	4,821,369
Other Current & Accrued Assets	1,003,068	1,109,030	2,112,098	1,679,419
Total Unrestricted	7,739,113	57,747,793	65,486,906	60,832,748
Total Current Assets	20,536,368	63,405,593	83,941,961	79,921,922
Non-Current Assets				
Restricted:				
Construction Funds-Cash	-	-	-	3,142,281
Construction Funds-Investments	-	-	-	1,558,956
Total Restricted	-	-	-	4,701,237
Electric Plant:				
Plant In Service	404,282,134	264,570,656	668,852,790	654,379,068
Construction Work in Progress	36,899,638	17,864,469	54,764,107	37,040,355
Electric Plant - Gross	441,181,772	282,435,125	723,616,897	691,419,423
Less: Accumulated Depreciation & Amortization	129,710,649	128,200,951	257,911,600	243,093,063
Net Electric Plant	311,471,123	154,234,174	465,705,297	448,326,360
Regulatory Assets	2,383,146	5,346,160	7,729,306	9,657,562
Intradistrict Note Receivable, excluding current portion	-	18,790,000	18,790,000	9,100,000
Total Non-Current Assets	313,854,269	178,370,334	492,224,603	471,785,159
Deferred Outflows				
Pension related outflows	878,310	878,310	1,756,620	1,909,326
Unamortized Loss on Reacquired Debt	151,414	168,360	319,774	530,868
Total Deferred Outflows	1,029,724	1,046,670	2,076,394	2,440,194
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 335,420,361	$ 242,822,597	$ 578,242,958	$ 554,147,275

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2018

LIABILITIES & NET POSITION	Wells Hydroelectric Project	Distribution System	TOTAL 2018	TOTAL 2017
Current Liabilities				
Accounts Payable	$ 5,690,833	$ 2,717,438	$ 8,408,271	$ 8,203,593
Accounts Payable-Intercompany	-	533,256	533,256	221,560
Other Accrued Liabilities	1,247,338	8,030,008	9,277,346	7,042,310
Payable from Restricted Assets:				
Accrued Interest Payable	2,423,558	104,338	2,527,896	2,630,548
Current Portion Long-Term Debt	5,280,000	1,305,000	6,585,000	14,455,736
Total Current Liabilities	14,641,729	12,690,040	27,331,769	32,553,747
Non-current Liabilities				
Bonds Payable, excluding current portion	132,385,000	25,945,000	158,330,000	164,605,000
Unamortized Bond Premiums (Discounts)	3,688,125	3,344,157	7,032,282	7,437,894
Bonds Payable, Net	136,073,125	29,289,157	165,362,282	172,042,894
Deposits and Contract Retainage	506,373	1,490,611	1,996,984	1,403,416
Intradistrict Note Payable, excluding current portion	18,790,000	-	18,790,000	9,100,000
Net Pension Liability	4,474,108	4,474,108	8,948,216	11,886,053
Compensated Absences	711,066	711,066	1,422,132	1,423,797
Total Non-current Liabilities	160,554,672	35,964,942	196,519,614	195,856,160
Deferred Inflows				
Pension related inflows	2,021,932	2,021,932	4,043,864	2,269,223
Unamortized Gain on Redeemed Debt	366,200	-	366,200	388,172
Total Deferred Inflows	2,388,132	2,021,932	4,410,064	2,657,395
Total Liabilities and Deferred Inflows	177,584,533	50,676,914	228,261,447	231,067,302
Net Position				
Net Investment in Capital Assets	159,374,259	123,730,995	283,105,254	276,786,831
Restricted For Debt Service	2,320,753	2,645,722	4,966,475	2,645,390
Unrestricted	(3,859,184)	65,768,966	61,909,782	43,647,752
Total Net Position	157,835,828	192,145,683	349,981,511	323,079,973
TOTAL LIABILITIES AND NET POSITION	$ 335,420,361	$ 242,822,597	$ 578,242,958	$ 554,147,275

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For The Fiscal Year Ended December 31, 2018

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2018	TOTAL 2017
Operating Revenues					
Retail Sales of Electric Energy	$ -	$ 29,438,578	$ -	$ 29,438,578	$ 27,344,440
Energy Sales for Resale	48,802,692	44,737,007	(28,786,439)	64,753,260	52,978,189
Broadband	-	3,863,034	-	3,863,034	3,645,788
Other	-	448,875	-	448,875	437,359
Total Operating Revenues	48,802,692	78,487,494	(28,786,439)	98,503,747	84,405,776
Operating Expenses					
Operations	17,814,322	45,097,495	(28,786,439)	34,125,378	41,218,834
Maintenance	9,277,999	4,730,597	-	14,008,596	12,102,891
Depreciation	6,937,424	8,266,749	-	15,204,173	14,375,409
Taxes	808,812	2,352,238	-	3,161,050	3,342,834
Total Operating Expenses	34,838,557	60,447,079	(28,786,439)	66,499,197	71,039,968
Operating Income	13,964,135	18,040,415	-	32,004,550	13,365,808
Non-operating Revenues (Expenses)					
Interest Income	693,550	828,852	(352,435)	1,169,967	1,385,582
Interest Expense	(7,462,647)	(1,303,406)	352,435	(8,413,618)	(9,174,273)
Amortization of Other Charges, Debt Discounts, Premiums and Costs	(2,086,147)	143,244	-	(1,942,903)	(2,967,781)
Other	236,390	463,114	-	699,504	1,826,083
Total Non-operating Revenues (Expenses)	(8,618,854)	131,804	-	(8,487,050)	(8,930,389)
Income Before Contributions	5,345,281	18,172,219	-	23,517,500	4,435,419
Capital Contributions	418,232	2,965,806	-	3,384,038	8,174,927
Change In Net Position	5,763,513	21,138,025	-	26,901,538	12,610,346
Net Position, Beginning of Year as restated	152,072,315	171,007,658	-	323,079,973	310,469,627
Net Position, End of Year	$ 157,835,828	$ 192,145,683	$ -	$ 349,981,511	$ 323,079,973

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2018

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2018	TOTAL 2017
Cash Flow from Operating Activities					
Receipts from Customers	$ 49,240,258	$ 70,832,960	$ (28,348,873)	$ 91,724,345	$ 85,034,115
Receipts for Other Agencies	-	8,607,435		8,607,435	7,638,393
Payments to Employees & Payroll Related	(14,769,647)	(12,853,697)	-	(27,623,344)	(25,651,414)
Payments to Suppliers & Other Agencies	(16,388,265)	(47,758,733)	28,348,873	(35,798,125)	(42,092,227)
Net Cash Provided by Operating Activities	18,082,346	18,827,965	-	36,910,311	24,928,867
Cash Flows from Investing Activities					
Purchase of Investments	(3,167,243)	(17,969,862)	-	(21,137,105)	(24,166,091)
Proceeds from Sales and Maturities of Investments	12,621,873	19,610,643	(2,135,736)	30,096,780	43,126,455
Interest on Investments	398,586	988,428	(354,104)	1,032,910	1,686,304
Net Cash Provided by Investing Activities	9,853,216	2,629,209	(2,489,840)	9,992,585	20,646,668
Cash Flows from Capital and Related Financing Activities					
Additions to Electric Plant in Service	(319,754)	(667,557)	-	(987,311)	(873,872)
Net Additions to Construction Work in Progress	(20,020,011)	(6,182,463)	-	(26,202,474)	(25,145,245)
Intradistrict Note Payable-Principal Payments	(130,000)	130,000	-	-	-
Proceeds from Capital Contributions	418,232	2,443,747	-	2,861,979	8,174,927
Intradistrict Note - CPRLF	10,000,000	(10,000,000)	-	-	-
Principal Payments on Long-Term Debt: Scheduled Maturities	(13,080,736)	(1,245,000)	2,135,736	(12,190,000)	(16,940,857)
Interest Payments on Long-term Debt	(7,560,196)	(1,308,075)	354,104	(8,514,167)	(9,307,734)
Build America Bonds Interest Rebates	666,528	-	-	666,528	677,540
Net Cash Used in Capital and Related Financing Activities	(30,025,937)	(16,829,348)	2,489,840	(44,365,445)	(43,415,241)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,090,375)	4,627,826	-	2,537,451	2,160,294
Cash & Cash Equivalents, Beginning of Year	12,893,460	13,769,857	-	26,663,317	24,503,023
Cash & Cash Equivalents, End of Year	$ 10,803,085	$ 18,397,683	$ -	$ 29,200,768	$ 26,663,317

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2018

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2018	TOTAL 2017
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities					
Operating Income	$ 13,964,135	$ 18,040,415	$ -	$ 32,004,550	$ 13,365,808
Adjustments to Reconcile Operating Income to Net Cash					
Provided by Operating Activities:					
Depreciation	6,937,424	8,266,749	-	15,204,173	14,375,409
Cash Provided by changes in Operating Assets and Liabilities:					
Accounts Receivable - Excluding Construction	(3,903,332)	(7,654,534)	-	(11,557,866)	2,525,550
Prepaid Expenses - Other Current and Accrued Assets	3,373	8,015	-	11,388	(240,797)
Materials and Supplies	-	(481,960)	-	(481,960)	283,854
Other Accrued Liabilities	56,625	531,199	-	587,824	(829,218)
Accounts Payable	1,020,808	967,746	-	1,988,554	(3,200,946)
Other Miscellaneous Assets	-	(252,542)	-	(252,542)	(688,179)
Retainage - Operating Only	3,313	(597,123)	-	(593,810)	(662,614)
Net Cash Provided by Operating Activities	$ 18,082,346	$ 18,827,965	$ -	$ 36,910,311	$ 24,928,867

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

These notes are an integral part of the accompanying financial statements:

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Douglas County, Washington (the District) is a municipal corporation of the State of Washington established in 1936. The District is administered by a three person Board of Commissioners, elected by the voters of Douglas County. The District is organized in two primary operating systems: the Electric Distribution System and the Wells Hydroelectric Project. The Electric Distribution System provides retail electricity and broadband communication to customers in Douglas County, Washington. The Wells Hydroelectric Project generates electricity from a hydroelectric dam located on the Columbia River.

Accounting Policies:

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) applicable to municipal utilities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accounting records are maintained in accordance with the Uniform System of Accounts of the Federal Power Act, prescribed by the Federal Energy Regulatory Commission (FERC). The District's accounting records are further maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 RCW. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses. Revenues and expenses related to financing and investing activities, and any other revenues and expenses not related to the District's principal operations, are considered to be non-operating revenues and expenses.

In January 2016 GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-an amendment to GASB Statement No.14*. This statement provides guidance to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The District evaluated this statement and determined they do not have any component units and therefore there is no impact to its financial statements.

In March 2016 GASB issued Statement No. 81, *Irrevocable Split Interest Agreements*. This statement provides guidance to improve financial reporting for irrevocable split-interest agreements. The District evaluated this statement and determined they do not have any irrevocable split interest agreements and therefore there is no impact to its financial statements.

In March 2016 GASB issued Statement No. 82, *Pension Issues-an amendment of GASB Statements No.67, No.68 and No.73*. This statement addresses issues regarding the presentation of payroll related measures in RSI (Required Supplementary Information), the selection of assumptions and the treatment of deviations from the guidance in an actuarial standard practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. The District evaluated this statement and implemented its objective for calendar year 2018.

In November 2016 GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This statement provides guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to retirement obligations. The District evaluated this statement and does not have any assets that require a retirement obligation therefore there is no impact to its financial statements.

In January 2017 GASB issued Statement No. 84, *Fiduciary Activities.* This statement provides guidance for determining criteria for identifying fiduciary activities of all state and local governments. The District evaluated this statement and determined they do not have any fiduciary related activities and therefore there is no impact to its financial statements.

In March 2017 GASB issued Statement No. 85, *OMNIBUS 2017*. This statement addresses practice issues regarding blending component units, goodwill, fair value measurement and application, and postemployment benefits. The District evaluated this statement and implemented its objective for calendar year 2018.

In May 2017 GASB issued Statement No. 86, *Certain Debt Extinguishments issues*. This statement addresses the improvement of consistency in accounting and financial reporting for in-substance defeasance of debt. The District evaluated this statement and determined they do not have any debt extinguishments related activities and therefore there is no impact to its financial statements.

In June 2017 GASB issued Statement No. 87, *Leases*. This statement addresses the improvement of accounting and financial reporting of leases by governments. The District evaluated this statement and determined they do not have any lease related activities and therefore there is no impact to its financial statements.

In June 2018 GASB issued Statement No. 88, *Certain Disclosures Related to Debt*. This statement addresses the improvement of accounting and financial reporting of Debt by governments. The District evaluated this statement and implemented its objective for calendar year 2018.

Revenue Recognition:

The Distribution System recognizes revenue as billed on a monthly basis. Unbilled delivered electrical services at fiscal period end are considered to be the revenue of the following month and are not accrued, which is a departure from GAAP. Service rates are established by the District's publicly elected Board of Commissioners. Wells Project revenues are derived through the sale of power to four major Pacific Northwest electric utilities (the "Power Purchasers") and the Colville Confederated Tribes, under the terms of long term power sales contracts, and to the District's Electric Distribution System. The contracts stipulate that the Power Purchasers will pay annual power costs, which are defined as "all costs and expenses in connection with the Wells Project (excluding depreciation and items properly chargeable to cost of acquisition and construction), whether or not the Wells Project is inoperable or the operation thereof is interrupted, suspended, or interfered with, in whole or in part, during the term of this contract or any portion of said term."

The District entered into a new power sales contract for the sale of Wells Project output beginning in September 1, 2018. Wholesale revenues from the new power sales contract are deposited in the accounts of the Distribution System which are the primary reason for the $22.7 million increase in Electric Sales for Resale in 2018 compared to 2017.

Utility Plant and Depreciation:

Distribution System plant assets are stated at cost. New construction, betterments and major renewals are capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of the asset, ranging from 12.5 to 35 years and on the double-declining balance method which is applied for 5 years on vehicles. Composite rates are used for depreciation of asset groups and accordingly, no gain or loss is recorded on the disposition of an asset. When operating plant assets are retired, their original cost together with removal costs, less salvage, are charged to accumulated depreciation.

Wells Project plant, including land and all related facilities, is recorded at cost. Cost is comprised of the following: (a) all direct construction and acquisition costs; (b) all indirect costs up to the commencement of initial power generated on September 7, 1967, and only those indirect costs related to the construction and acquisition since that date; and (c) interest costs capitalized up to certain dates, which were subsequent to the date generating units were placed in service. Under FERC accounting, interest costs would cease to be capitalized after units are placed in service. Management of the District elected to capitalize interest costs through January 1, 1969, as to the 1963 series bonds, and to September 1, 1972, as to the 1965 series bonds, because it believed this was the accounting treatment specifically prescribed in the bond resolutions and power sales contracts. Depreciation of generation and transmission plant is provided over estimated useful lives ranging from 15 to 95 years, using the sinking fund method (6% rate). The sinking fund method is a method selected by the Board at the inception of the Wells Project and continues to be applied as its use corresponds more closely to the Project's related revenue stream (determined from debt service), than would an alternative cost allocation method. Depreciation of general plant assets are recorded using the straight-line method. As noted above and prescribed by FERC accounting rules, gains and losses on disposition of depreciable assets are an adjustment to accumulated depreciation, which has a self-correcting effect on the depreciation base. Land and other non-depreciable assets are excluded from this treatment (gains and losses are recognized).

Deferred Repair and Maintenance Costs – Wells Project:

Deferred repair and maintenance costs, substantially representing costs associated with restoring the turbine runners to their expected production capacity and repairing the east embankment, are amortized using the sinking fund method (6% rate) over the remaining original term of the Wells Project's series of 1986 and 1990 bonds, respectively. Those bonds were subsequently refunded with later bond series; however no change was made to the amortization method for the deferred repair and maintenance costs.

Deferred Improvements to Recreational Facilities – Wells Project:

Deferred improvements to recreational facilities represent costs incurred to complete certain recreational projects and improvements on city owned land surrounding the reservoir. These costs are amortized using the sinking fund method (6% rate). The treatment of these costs is a method selected under the provisions of ASC 980.

Restricted Assets:

In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. These accounts are restricted for specific uses including debt service, bond reserves and capital additions.

Receivables:

Distribution System uncollectible accounts are estimated based on an experience percentage of sales to electric residential consumers. The District's Commissioners approve all write-offs.

The Wells Project does not have an allowance for uncollectable accounts.

Inventories:

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

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the District considers all short-term investments with an initial maturity of three months or less when purchased to be cash equivalents. This definition of cash equivalents excludes investments with a maturity of less than three months which are pooled with investments with longer maturity periods.

Compensated Absences:

Employees accrue personal leave to be used for vacation, sick, and family leave purposes. Personal leave granted each employee varies in accordance with years of service and may be carried forward from year-to-year, capped at a maximum bank of 1,200 hours for employees hired before April 1, 2011 and 700 hours for employees hired on or after April 1, 2011. The District records personal leave as an expense and liability when earned.

Accounting Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Insurance:

The District holds insurance policies for general liability, employee benefits liability, directors' and officers' liability, excess liability, and property insurance. Among other things, the property insurance policies cover flood, earth movement, terrorism and mobile equipment. Other types of insurance carried by the District include business automobile liability and physical damage, aircraft non-ownership liability, comprehensive crime coverage, information security and privacy liability coverage, and blackout/brownout coverage.

For purposes of certain employee benefits insurance the District is a member of the Central Washington Public Utilities Unified Insurance Program Trust (Trust). The Trust was organized pursuant to the provisions of RCW Title 54 and interlocal governmental agreements. Its general objectives include provision for the central 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 comprised of an appointed Trustee from each of the seven member public utility districts. The Trustees are authorized to negotiate, obtain, and maintain insurance policies, and authorize disbursements made from the Trust to third party administrators or other entities. Effective August 1, 2002 and January 1, 2009 the Trust established a self-insured medical plan and self-insured dental plan, respectively, approved by the Washington State Office of Risk Management. The audit report for the Trust is available on the Washington State Auditor's Office website; www.sao.wa.gov. Claims settlements have not exceeded insurance coverage during any of the past three years.

Intersystem Note:

In 2004 the Board authorized an intersystem loan, in the form of a revolving note (Note) for the purpose of funding the cost of relicensing the Wells Project. Under the terms of the Note the Wells Project was allowed to take semi-annual draws from the Electric Distribution System's Wells Relicensing Fund. The interest rate for each draw was established at the time of the draw and was equal to the yield on US Treasury bonds maturing in May, 2018, plus 100 basis points. Amounts borrowed under the Note were to be due upon the expiration of the current Wells Project license and any subsequent annual FERC licenses issued to the District. On May 31, 2012, the original Wells Project license expired and FERC issued an annual license that allowed the District to continue operating the Wells Project until a new long-term license could be issued. Under the terms of the Note the District had the option, by election prior to maturity, to extend the maturity date such that principal would be amortized over the life of the new FERC license, with interest payable semi-annually. In May 2012, the District Commission, in anticipation of receiving a new long-term license, chose to utilize this option. On November 9, 2012, FERC issued to the District a new 40 year license to operate and maintain the Wells Project. Repayment of the Note will be amortized over the new license period at an interest rate equal to the 30 year US Treasury bond yield at November 1, 2012, the effective date of the new license, plus 100 basis points. In 2013, the note was reclassified to a long-term loan, see Note 4.

Pensions:

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

NOTE 2 – DEPOSITS AND INVESTMENTS

The District's deposits are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission. Cash held in the Local Government Investment Pool (LGIP) is managed by the Washington State Treasurer's Office. The LGIP is a 2a7-like pool and represents an interest in a group of securities with no specific securities subject to custodial risk.

The District's investments consist of direct obligations of the U.S. Government, municipal bonds of state and local governments, and U.S. government sponsored enterprises (agencies), which are all eligible investments for public funds in the state of Washington (RCW 43.84.080). To minimize custodial risk, the District's investments are held by a 3rd party safekeeping account which uses deliver vs. payment protocol. The District's practice is to, generally, hold investments to maturity.

Fair Value: The District categorizes its fair value measurement within the hierarchy established by GAAP. The hierarchy is based on the valuation inputs to measure the fair value of the asset. Level 1inputs are quoted prices in the active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The valuation method for fair value measurements as of December 31, 2018 and 2017 are as followed:

Distribution Investments	Balance as of December 31, 2018			2018	2017
	Level 1	Level 2	Level 3	Total	Level 2
Federal Agency Securities	$ —	$ 13,801,359	$ —	$ 13,801,359	10,392,863
Municipal Bond Securities	—	10,238,830	—	10,238,830	13,465,090
Total	$ —	$ 24,040,189	$ —	$ 24,040,189	23,857,953

Wells Project Investments	Balance as of December 31, 2018			2018	2017
	Level 1	Level 2	Level 3	Total	Level 2
Federal Agency Securities	$ —	$ 2,997,840	$ —	$ 2,997,840	9,984,191
Municipal Bond Securities	—	4,418,287	—	4,418,287	5,991,061
Total	$ —	$ 7,416,127	$ —	$ 7,416,127	15,975,252

Interest Rate Risk: The risk the value of investments will decrease as a result of a rise in interest rates.

As of December 31, 2018 the average maturity of the investments are as follows:

Distribution Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	13,801,359	$ 6,437,652	7,363,707
Municipal Bond Securities	10,238,830	5,739,150	4,499,680
Total	$ 24,040,189	$ 12,176,802	$ 11,863,387

Wells Project Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	2,997,840	$ 2,997,840	—
Municipal Bond Securities	4,418,287	3,675,630	742,657
Total	$ 7,416,127	$ 6,673,470	$ 742,657

As of December 31, 2017 the average maturity of the investments are as follows:

Distribution Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	10,392,863	$ 3,988,372	6,404,491
Municipal Bond Securities	13,465,090	3,284,210	10,180,880
Total	$ 23,857,953	$ 7,272,582	$ 16,585,371

Wells Project Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	9,984,191	$ 7,002,605	2,981,586
Municipal Bond Securities	5,991,061	—	5,991,061
Total	$ 15,975,252	$ 7,002,605	$ 8,972,647

Credit Risk: State law limits investment authority to local governments. The District's investments are made in investment types authorized by state law.

As of December 31, 2018 the credit quality ratings of debt securities are as follows:

Distribution Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ 13,801,359	AAA	S&P
Municipal Bond Securities	10,238,830	A1/Aa/AAA	S&P

Wells Project Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ 2,997,840	AAA	S&P
Municipal Bond Securities	4,418,287	A1/Aa/AAA	S&P

As of December 31, 2017 the credit quality ratings of debt securities are as follows:

Distribution Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ 10,392,863	AAA	S&P
Municipal Bond Securities	13,465,090	A1/Aa/AAA	S&P

Wells Project Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ 9,984,191	AAA	S&P
Municipal Bond Securities	5,991,061	A1/Aa/AAA	S&P

Concentration of Credit Risk: As of December 31, 2018 Distribution had municipal bond investments in the amount of $10,238,830 (approximately 42%) of the investment portfolio. As of December 31, 2017 Distribution had municipal bond investments in the amount of $13,465,090 (approximately 56%) of the investment portfolio. As of December 31, 2018 the Wells Project had municipal bond investments in the amount of $4,418,287 (approximately 59%) of the investment portfolio. As of December 31, 2017 the Wells Project had municipal bond investments in the amount of $5,991,061 (approximately 37%) of the investment portfolio. These municipal bonds are not guaranteed by the U.S. Government.

NOTE 3 – UTILITY PLANT

As stated in Note 1, utility plant is recorded at cost. Cost includes both direct costs of construction or acquisition and indirect costs. The District's capitalization threshold is $5,000 and an expected useful life of three years or more. The cost of maintenance and repairs is charged to expense as incurred, while the cost of additions, replacements and improvements is capitalized. Construction Work in Progress may contain amounts that will be transferred to a deferred charge account. As prescribed by FERC, the book cost of operating property retired or otherwise disposed of, less salvage, is charged to accumulated depreciation. The following changes occurred in the District's utility plant:

Electric Plant Assets Distribution System	**Balance December 31, 2017**	**Increase**	**Decrease**	**Balance December 31, 2018**
Utility plant not being depreciated:				
Land and land rights	$ 3,840,951	$ 10,373	$ -	$ 3,851,324
Construction work in progress	14,622,755	23,501,579	(20,259,865)	17,864,469
Subtotal	18,463,706	23,511,952	(20,259,865)	21,715,793
Utility plant being depreciated:				
Transmisssion	26,744,141	-	-	26,744,141
Distribution	164,728,509	5,794,646	(715,942)	169,807,213
General	60,186,862	3,562,277	(962,678)	62,786,461
Intangible plant	440,635	105,280	(26,583)	519,332
Miscellaneous	862,185	-	-	862,185
Subtotal	252,962,332	9,462,203	(1,705,203)	260,719,332
Accumulated depreciation	(120,324,079)	1,406,724	(9,283,596)	(128,200,951)
Net plant being depreciated	132,638,253	10,868,927	(10,988,799)	132,518,381
Net Utility Plant - Distribution	$ 151,101,959	$ 34,380,879	$ (31,248,664)	$ 154,234,174

Electric Plant Assets Wells Hydroelectric Project	**December 31, 2017**	**Increase**	**Decrease**	**December 31, 2018**
Utility plant not being depreciated:				
Land and land rights	$ 52,177,903	$ -	$ -	$ 52,177,903
Construction work in progress	22,417,602	24,842,305	(10,360,268)	36,899,639
Subtotal	74,595,505	24,842,305	(10,360,268)	89,077,542
Utility plant being depreciated:				
Hydraulic generation	303,833,291	6,175,313	(54,425)	309,954,179
Transmisssion	18,953,002	-	-	18,953,002
General	12,032,577	355,840	(235,475)	12,152,942
Intangible plant	10,579,009	465,099	-	11,044,108
Subtotal	345,397,879	6,996,252	(289,900)	352,104,231
Accumulated depreciation	(122,768,983)	(7,182,600)	240,933	(129,710,650)
Net plant being depreciated	222,628,896	(186,348)	(48,967)	222,393,581
Net utility plant - Wells Project	$ 297,224,401	$ 24,655,957	$ (10,409,235)	$ 311,471,123

NOTE 4 – LONG-TERM DEBT

Wells Hydroelectric Project

	Purpose	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018	Due Within One Year
Revenue Bonds:						
Series of 2010A, serial bonds maturing annually to September 1, 2022 and term bonds maturing September 1, 2030 and 2040, interest at 1.484% - 5.450%	Capital Improvements	46,750,000	-	1,135,000	45,615,000	1,180,000
Series of 2010B, serial bonds maturing annually to September 1, 2020 and term bonds maturing September 1, 2030 and 2040, interest at 1.484% - 5.495%	Capital Improvements	38,660,000	-	1,155,000	37,505,000	1,185,000
Series of 2010C, serial bonds maturing annually to September 1, 2029, interest at 3.00% - 5.00%	Refunding	6,480,000	-	1,070,000	5,410,000	395,000
Series of 2012, serial bonds maturing annually to September 1, 2018, interest at 0.40% - 1.75%	Refunding	5,295,000	-	5,295,000	-	-
Series of 2015A, serial bonds maturing annually to September 1, 2025, and term bonds maturing September 1, 2030 and 2035, interest at 3.70% - 5.00%	Refunding	29,435,000	-	1,180,000	28,255,000	1,230,000
Series of 2015B, serial bonds maturing annually to September 1, 2026, and term bonds maturing September 1, 2022, 2030, and 2035, interest at 3.60% - 5.25%	Refunding	21,810,000	-	1,240,000	20,570,000	980,000
Series of 2015C, serial bonds maturing annually to September 1, 2016, and term bonds maturing September 1, 2018, interest at 4.654% - 5.112%	Refunding	815,736	-	815,736	-	-
Revenue bonds payable		149,245,736	-	11,890,736	137,355,000	4,970,000

Following is a summary of future debt service requirements for Wells Project revenue bonds outstanding at December 31, 2018:

		Principal		Interest		Total
2019	$	4,970,000		6,857,580	$	11,827,580
2020		5,060,000		6,652,086		11,712,086
2021		5,265,000		6,425,702		11,690,702
2022		5,475,000		6,189,535		11,664,535
2023		5,690,000		5,954,463		11,644,463
2024-2028		32,290,000		25,515,767		57,805,767
2029-2033		35,765,000		17,171,874		52,936,874
2034-2038		31,505,000		7,743,524		39,248,524
2039-2040		11,335,000		936,775		12,271,775
Total	$	137,355,000	$	83,447,306	$	220,802,306

Interest on all bonds for the Wells Hydroelectric Project is payable on March 1 and September 1. All bond covenants were complied with for fiscal years 2018 and 2017.

Following is a summary of the debt service requirements for the intra-district loan payable at December 31, 2018:

	Principal	Interest	Total
2019	$ 135,000	349,050	$ 484,050
2020	140,000	343,805	483,805
2021	145,000	338,367	483,367
2022	150,000	332,736	482,736
2023	155,000	326,913	481,913
2024-2028	875,000	1,539,086	2,414,086
2029-2033	1,060,000	1,355,200	2,415,200
2034-2038	1,275,000	1,133,103	2,408,103
2039-2043	1,540,000	865,287	2,405,287
2044-2048	1,860,000	541,887	2,401,887
2049-2052	1,765,000	156,454	1,921,454
Total	$ 9,100,000	$ 7,281,888	$ 16,381,888

Following is a summary of the debt service requirements for the intra-district Capital Projects Revolving Loan Fund payable at December 31, 2018:

	Principal	Interest	Total
2019	$ 175,000	268,000	$ 443,000
2020	185,000	394,965	579,965
2021	190,000	387,528	577,528
2022	200,000	379,890	579,890
2023	205,000	371,850	576,850
2024-2028	1,160,000	1,728,198	2,888,198
2029-2033	1,420,000	1,475,736	2,895,736
2034-2038	1,735,000	1,165,398	2,900,398
2039-2043	2,125,000	786,714	2,911,714
2044-2048	2,605,000	322,605	2,927,605
	-	-	-
Total	$ 10,000,000	$ 7,280,884	$ 17,280,884

Advance Debt Refunding

In August 2012, the Wells Project issued its Wells Hydroelectric Revenue and Refunding Bonds, Series 2012 (Taxable) (the 2012 Bonds), in the total par amount of $43,360,000. The 2012 Bonds were issued at par. A portion of the 2012 Bonds refinanced and legally defeased $6,560,000 of the outstanding 2003A Bonds, $1,790,000 of the outstanding 2003B Bonds, and $31,905,000 of the outstanding 2003C Bonds. This refinancing resulted in a reduction of $2,998,000 in total Wells Project debt service over the succeeding seven years and an economic gain (difference between the present values of the old and new debt service requirements) of $3,176,000.

In June 2015, the Wells Project issued its Wells Hydroelectric Revenue and Refunding Bonds, Series 2015A, 2015B, and 2015C (the 2015 Bonds), in the total combined par amount of $58,249,581. The 2015 Bonds were issued at par. A portion of the 2015 Bonds refinanced and legally defeased $67,075,000 of the outstanding 2005 Series Bonds. The refinancing resulted in a reduction of $1,058,000 in total Wells Project debt service over the succeeding 24 years and an economic gain (difference between the present values of the old and new debt service requirements) of $43,469.

Debt service on all outstanding Wells Project bonds, which have been refinanced and legally defeased is met by cash and investments held in irrevocable trust with escrow agents. As of December 31, 2018, all outstanding Wells Project legally defeased bonds were fully funded. Trust accounts assets and the liabilities for legally defeased bond issues are not included in the District's financial statements.

Distribution System

Long-term liability activity for the year ended December 31, 2018 was as follows:

	Balance 12/31/2017	Decrease	Increase	Balance 12/31/2018	Due Within One Year
Revenue bonds payable	$ 28,495,000	$ 1,245,000	$ -	$ 27,250,000	$ 1,305,000
Unamortized bond premiums (discounts)	3,494,721	150,564	-	3,344,157	
Total bonds payable	31,989,721	1,395,564	-	30,594,157	1,305,000
Deposits and Contract Retainage	893,488	155,663	752,787	1,490,612	
Net Pension Liability	6,385,493	1,911,385	-	4,474,108	
Compensated absences	2,210,997	2,224,922	2,249,438	2,235,513	1,524,448
Non-current liabilities	$ 41,479,699	$ 5,687,534	$ 3,002,225	$ 38,794,390	$ 2,829,448

In August 2012, the Distribution System issued its Electric Distribution System Revenue and Refunding Bonds, Series 2012, in the total amount of $32,650,000. A portion of the 2012 Bonds refinanced $7,075,000 of the outstanding 2004 Bonds. The remaining portion of the 2012 Bonds were issued for construction of a new transmission line and capital improvements to electrical facilities. The following is a summary of future debt service requirements for Distribution System revenue bonds outstanding at December 31, 2018:

	Principal	Interest	Total
2019	$ 1,305,000	1,252,050	2,557,050
2020	1,360,000	1,193,325	2,553,325
2021	1,415,000	1,132,125	2,547,125
2022	1,470,000	1,068,450	2,538,450
2023	1,535,000	1,024,350	2,559,350
2024-2028	3,955,000	4,362,000	8,317,000
2029-2033	5,070,000	3,268,000	8,338,000
2034-2038	6,505,000	1,863,250	8,368,250
2039-2041	4,635,000	375,600	5,010,600
Total	$ 27,250,000	$ 15,539,150	$ 42,789,150

The 2012 Distribution bonds are serial bonds through 2023 and term bonds maturing in 2041. Interest rates range from 2.0% to 5.0% and interest is payable on June 1 and December 1. The bondholders' resolution requires the District to maintain at least 125% coverage for debit service. The required coverage was maintained in 2018 and 2017.

NOTE 5 – OTHER COMMITMENTS AND CONTINGENCIES

a) Power Purchasers Settlement Agreement

Under this agreement the District must offer certain temporary, non-firm energy to the Wells Project Power Purchasers under two pricing strategies which are subject to annual adjustments. Annual adjustments are made when the Wells Annual Power Cost has been determined, after the end of each Wells fiscal year. The adjustments result in a portion of the excess power being priced at Wells Power Cost, another portion priced at the District's general service rate and the balance remaining at the original purchase price. Each month the District estimates the adjustment to revenue required by this agreement. This agreement terminated August 31, 2018. Beginning September 1, 2018 the District is able to more effectively market wholesale power in excess of our local load.

b) Power Sales Contracts

The Wells Project's legacy Power Sales Contracts with four Pacific Northwest investor-owned utilities expired on August 31, 2018. The District negotiated new 10-year contracts with Puget Sound Energy, Portland General Electric, and Avista Corporation effective September 1, 2018. Under the new agreements, the Wells' output is sold at cost to the District's Distribution System; however, previous obligations (share of output) to the Colville Tribes (5.5%) and Okanogan County PUD (currently 9.9%) remain in place. Okanogan County PUD is able to ramp up their percentage, over time, based upon load growth (up to 30%, conditionally in 2028).

c) Endangered Species

Several species of fish in the vicinity of the Wells Project are listed as threatened or endangered under the Endangered Species Act (ESA). Upper Columbia River (UCR) Steelhead and UCR spring Chinook were listed as endangered species on August 18, 1997 and March 24, 1999, respectively. Subsequently the endangered status of UCR spring Chinook was reaffirmed and the status of UCR steelhead was upgraded to threatened.

The District has negotiated with state and federal fisheries resource agencies and Indian tribes, a multispecies Anadromous Fish Agreement and Habitat Conservation Plan (HCP). The Plan Species are spring Chinook, summer/fall Chinook, steelhead, sockeye, and Coho salmon. The purpose of the HCP is to have legally enforceable measures in place to either avoid a listing under the ESA or, in the event of a listing, allow continued operation of the Wells Project under an incidental take permit. The HCP satisfies all FERC relicensing and ESA requirements for the Plan Species. FERC approved the HCP in June of 2004 and amended the Wells Project license accordingly. At the District's request, FERC also issued an Order on Rehearing in November 2004, clarifying several technical items.

Bull trout were listed as a threatened species on June 10, 1998. On September 30, 2010 the United States Fish and Wildlife Service (FWS) designated critical habitat for ESA listed Columbia River bull trout. This designation included most of the waters found within the Wells Project. ESA listed bull trout have been observed at the Wells Project but are not covered in the HCP. In May 2004 FWS issued a biological opinion and incidental take permit that covered the operations of the Wells Project and the implementation of the HCP.

There is extensive litigation in the federal court system under the ESA, challenging actions taken by the responsible federal agencies in regard to anadromous fish. Future legal actions to protect fish may have a significant impact on the amount and/or cost of power generated at the Wells Project. As the ultimate outcome of this matter is not determinable, no accruals have been made to the financial statements.

d) Plan Species Account

In accordance with the Tributary Conservation Plan, formed under the HCP, a Plan Species Account was established to fund projects for the protection and restoration of Plan Species habitat. The HCP requires a Tributary Committee, composed of one representative of each party to the HCP, to select the projects and approve the project budgets from the Plan Species Account for purposes of implementing the Tributary Conservation Plan. All budget and spending decisions must be made by unanimous vote of the Tributary Committee members. The HCP requires the District to make monetary contributions to the Plan Species Account. In 2004 a required initial contribution of $2,272,740 was made to the Plan Species Account. In January 2010 the District began making required annual payments to the Plan Species Account. The amounts transferred in 2018 and 2017 were $275,968 and $267,772, respectively. Outflows for Plan Species projects from the account are expensed to the Wells Project as incurred.

e) <u>Energy Northwest – Nine Canyon Wind Project</u>

The Nine Canyon Wind Project is a wind energy generation project located eight miles southwest of Kennewick, Washington in the Horse Heaven Hills. The project was developed in three phases. Energy Northwest issued bonds to finance each phase of the Wind Project System, some of which have been refunded, and currently has $29,390,000 of Phase I bonds outstanding, $9,005,000 of Phase II bonds outstanding and $48,125,000 of Phase III bonds outstanding. The District is obligated to pay 6.251%, 43.59% and 0% of the debt service for Phase I, II, and III bonds, respectively, and is entitled to 10.23% of the aggregate output of the project (9.8 MW of generating capacity) until July 1, 2030.

f) <u>Douglas PUD – Chelan PUD Power Sales Contract</u>

The District has a long term power sales contract with Chelan PUD to purchase 5.54% of the output of Chelan PUD's Rocky Reach Project. The contract is a take-or-pay contract requiring the District to pay costs associated with operation, maintenance, renewals and replacements to Rocky Reach, whether or not the project is operable or operating. The current term of the power sales contract expires on October, 31, 2021. The District has the option to extend the term of the contract for up to four successive 10-year periods thereafter.

g) <u>Relicensing</u>

On November 9, 2012 FERC issued to the District a new long-term license for the Wells Project. The new license was issued for a period of 40 years, effective November 1, 2012. Accumulated costs of $9.8 million were capitalized to intangible plant and are being amortized over a corresponding 40 year period.

h) <u>Generator and Turbine Refurbishment</u>

A generator and turbine refurbishment project is in progress at Wells and will continue for several years until all 10 units are refurbished. Costs are financed by the issuance of revenue bonds. Toshiba America Energy Systems has completed the first unit successfully and the second unit is nearing the final stages of completion. Preliminary work on the third unit has commenced. The generator rebuild and refurbishment is expected to extend service lives 30 to 40 years. The first unit was completed behind schedule and the contract provides liquidated damages, of which $4.2 million have been withheld from payments.

NOTE 6 – PENSION PLANS, DEFERRED COMPENSATION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68 for the year 2018:

Aggregate Pension Amounts – PERS Plans 1/2/3		
Net pension liabilities*	$	(8,948,216)
Pension assets		—
Deferred outflows of resources		1,756,620
Deferred inflows of resources		(4,043,865)
Pension expense		(2,145,838)

Substantially, all District 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 Web site at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

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

PERS Plan 2 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.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 percent to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2018 and 2017, are as follows:

2018:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	12.83%	12.83%	12.70%
Employee	6.00	7.41	*

2017:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	12.70%	12.70%	12.70%
Employee	6.00	7.38	*

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 19.16% for Plan 1 and 12.83% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 7.41% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

The District and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

		PERS Plan 1	PERS Plan 2	PERS Plan 3
2018	$	-	2,087,993	236,762
2017		-	1,899,908	206,419
2016		10,519	1,752,530	171,877

Deferred Compensation Plans

The District also 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 provides a 50% match of employee contributions capped at 2% of regular straight-time wages. 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.

Actuarial Assumptions

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

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

- **Inflation:** 3% total economic inflation; 2.75% salary inflation
- **Salary increases**: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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

Discount Rate

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

Consistent with current law, the asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% 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). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on DRS pension plan investments of 7.4% 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.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset class	Target allocation	Percentage long-term expected real rate of return arithmetic
Fixed income	20%	1.70%
Tangible assets	7	4.90
Real estate	18	5.80
Global equity	32	6.30
Private equity	23	9.30
	100%	

Sensitivity of NPL

The table below presents the District's proportionate share* of the net pension liability as of June 30, 2018 calculated using the discount rate of 7.5%, 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%) or 1-percentage point higher (8.5%) than the current rate.

		1% Decrease (6.4%)	Current discount rate (7.4%)	1% Increase (8.4%)
PERS 1	$	7,376,787	6,002,573	4,812,226
PERS 2/3		13,473,438	2,945,643	(5,685,975)

Pension Plan Fiduciary Net Position

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

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

At December 31, 2018, the *District* reported a total pension liability of $8,948,216 for its proportionate share of the net pension liabilities as follows:

		Net pension liability
PERS 1	$	6,002,573
PERS 2/3		2,945,643

The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. At June 30, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate share June 30, 2017	Proportionate share June 30, 2018	Change in proportion
PERS 1	0.138455%	0.134405%	0.004050%
PERS 2/3	0.178088	0.172521	0.005567

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

Deferred Outflows and Inflows

For the year ended December 31, 2018, the District's recognized deferred inflows/outflows are as follows:

Differences between expected and actual experience	$	—	—
Net difference between projected and actual investment earnings on pension plan investments		—	(238,539)
Changes of assumptions		—	—
Changes in proportion and differences between contributions and proportionate share of contributions		—	—
Contributions subsequent to the measurement date		473,346	—
Total	$	473,346	(238,539)

PERS Plan 2/3		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	361,059	(515,728)
Net difference between projected and actual investment earnings on pension plan investments			(1,807,583)
Changes of assumptions		34,459	(838,306)
Changes in proportion and differences between contributions and proportionate share of contributions		—	(135,329)
Contributions subsequent to the measurement date		714,340	—
Total	$	1,109,858	(3,296,946)

For the year ended December 31, 2017, the District's recognized deferred inflows/outflows are as follows:

PERS Plan 1		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	—	—
Net difference between projected and actual investment earnings on pension plan investments		—	(245,166)
Changes of assumptions		—	—
Changes in proportion and differences between contributions and proportionate share of contributions		—	—
Contributions subsequent to the measurement date		444,809	—
Total	$	444,809	(245,166)

PERS Plan 2/3		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	626,961	(203,503)
Net difference between projected and actual investment earnings on pension plan investments			(1,649,494)
Changes of assumptions		65,725	—
Changes in proportion and differences between contributions and proportionate share of contributions		—	(381,695)
Contributions subsequent to the measurement date		671,840	—
Total	$	1,364,526	(2,234,692)

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

		PERS Plan 1
Year ended December 31:		
2019	$	10,437
2020		(52,146)
2021		(156,476)
2022		(40,354)
Thereafter		—
Total	$	(238,539)

		PERS Plan 2
Year ended December 31:		
2019	$	(310,884)
2020		(619,856)
2021		(1,123,631)
2022		(426,934)
2023		(168,873)
Thereafter		(251,250)
Total	$	(2,901,428)

NOTE 7 – DEFERRED OUTFLOW OF RESOURCES AND REGULATORY ASSETS

Distribution System

The Distribution System had deferred outflows of $1,046,670 and $1,144,150 respectively at December 31, 2018 and 2017. The deferred outflows consist of pension related outflows and unamortized losses on reacquired debt.

The Distribution System had regulatory assets of $5,346,160 and $5,115,022 respectively, at December 31, 2018 and 2017. Regulatory assets consist of preliminary survey and investigation, such as wind development costs, undistributed balances in clearing accounts and miscellaneous work in progress.

Wells Hydroelectric Project

The Wells Hydroelectric Project had deferred outflows of $1,029,724 and $1,296,044 respectively at December 31, 2018 and 2017. Deferred outflows consist of unamortized losses on reacquired debt.

The Wells Project had regulatory assets of $2,383,146 and $4,542,539 respectively, at December 31, 2018 and 2017. Regulatory assets amortized by the Wells Project consist of the following: improvements to recreational facilities, repair and maintenance costs, miscellaneous fish improvements, preliminary survey and investigation, legal settlement charges, and miscellaneous clearing accounts. Regulatory assets are amortized using the sinking fund method.

NOTE 8 – BROADBAND SERVICES

Douglas County Community Network (DCCN):

Since the 1960's the District has owned and operated data communication facilities that provide communication for District electrical equipment, employees and office equipment. The communication system has grown to become an integral part of the District's electrical system, providing remote monitoring, switching, metering, internal communication, and security to District assets. In 2000 the Washington State Legislature gave Public Utility Districts the authority to offer wholesale telecommunication services. The District named its broadband network the Douglas County Community Network (DCCN). DCCN provides wholesale broadband data communication services to customers of the District. As of December 31, 2018 the District has capitalized $35.9 million dollars of community network equipment.

Douglas County Community Network	2018
Operating Revenue:	
Wholesale Broadband Residential & Business	$ 2,736,353
Broadband Governmental	693,867
Colocation & Bandwidth	244,623
Television	188,192
	$ 3,863,035
Operating Expenses:	
Operation & Maintenance	$ 1,489,686
Administration & General	339,256
	$ 1,828,942

Northwest Open Access Network (NoaNet):

NoaNet was incorporated in February 2000 to provide a broadband communications backbone for assisting its members in the efficient management of load, conservation and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001. In July 2012 the District withdrew from membership in NoaNet. The District remains obligated to a 5.21% (maximum) share of the 2011 revenue bonds. As of December 31, 2017 there were no revenue bonds outstanding. The final principal and interest payment was December 1, 2016.

The management of NoaNet anticipates meeting debt serve and operating costs through profitable operations; however members have contributed to help meet debt service obligations. During 2017 and 2016 the District contributed (expensed) $0 toward NoaNet's debt service. An audited annual report for NoaNet may be obtained by writing to: Northwest Open Access Network, 5802 Overlook Ave NE, Tacoma, WA 98422. NoaNet's web site is www.noanet.net

NOTE 9 – CONTINGENT LIABILITIES

Pole Attachment Lawsuit

Two telecom companies that have attachments to District owned poles are paying the annual pole attachment fee under protest until the Court of Appeals makes it final ruling on a lawsuit filed by Pacific County PUD regarding pole attachment rates.

The District does not believe that the ultimate outcome of this matter will have a material impact on its financial position, results of operations or cash flow.

Public Utility District No. 1 of Douglas County
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 1
As of June 30, 2018
Last 10 Fiscal Years

		2015	2016	2017	2018
Employer's proportion of the net pension liability (asset)	%	0.162184%	0.154055%	0.138455%	0.134405%
Employer's proportionate share of the net pension liability	$	8,483,732	8,058,509	6,569,798	6,002,573
TOTAL	$	8,483,732	8,058,509	6,569,798	6,002,573
Employer's covered employee payroll	$	17,173,115	17,359,459	17,355,869	18,646,736
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	49.40%	46.42%	37.85%	32.19%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%	61.24%	63.30%

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Fourth year reporting.

Public Utility District No. 1 of Douglas County
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 2 & 3
As of June 30, 2018
Last 10 Fiscal Years

		2015	2016	2017	2018
Employer's proportion of the net pension liability (asset)	%	0.191162%	0.185707%	0.178088%	0.172521%
Employer's proportionate share of the net pension liability	$	6,830,329	9,350,201	6,187,707	2,945,643
TOTAL	$	6,830,329	9,350,201	6,187,707	2,945,643
Employer's covered employee payroll	$	17,173,115	17,359,459	17,355,869	18,646,736
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	39.77%	53.86%	35.65%	15.80%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	85.82%	90.97%	95.63%

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Fourth year reporting.

Public Utility District No. 1 of Douglas County
Schedule of Employer Contributions
PERS Plan 1
As of December 31, 2018
Last 10 Fiscal Years

		2015	2016	2017	2018
Contractually required contributions	$	745,396	856,049	864,162	926,932
Contributions in relation to the contractually required contributions	$	(745,396)	(856,049)	(864,162)	(926,932)
Contribution deficiency (excess)	$	0	0	0	0
Covered Employer Payroll	$	17,173,115	17,359,459	16,714,899	19,047,535
Contributions as a percentage of covered employee payroll	%	4.34%	4.93%	5.17%	4.82%

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Fourth year reporting.

Public Utility District No. 1 of Douglas County
Schedule of Employer Contributions
PERS Plan 2 & 3
As of December 31, 2018
Last 10 Fiscal Years

		2015	2016	2017	2018
Contractually required contributions	$	851,534	1,072,067	1,086,126	1,373,696
Contributions in relation to the contractually required contributions	$	(851,534)	(1,072,067)	(1,086,126)	(1,373,696)
Contribution deficiency (excess)	$	0	0		0
Covered Employer Payroll	$	17,173,115	17,359,459	16,714,899	19,047,535
Contributions as a percentage of covered employee payroll	%	4.96%	6.18%	6.50%	7.21%

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Fourth year reporting.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
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