Office of the Washington State Auditor
Pat McCarthy

September 6, 2018

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

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on Public Utility District No 2 of Grant County's financial statements for the fiscal year ended December 31, 2017. The District contracted with the CPA firm for this audit and requested that we accept in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • Pat.McCarthy@sao.wa.gov

POWERING OUR WAY OF LIFE

2017 ANNUAL REPORT

COMMISSIONERS' REPORT

Larry Schaapman
Commission President

Terry Brewer
Commission Vice President

Bob Bernd
Commission Secretary

Dale Walker
Commissioner

Tom Flint
Commissioner

IT'S AN HONOR and privilege to guide policy at Grant PUD during this time of challenge and promise.

A decade of unprecedented industrial and residential growth in Grant County reinforces our commitment to ensure all customers, present and future, continue to enjoy affordable electric rates, reliable service, predictable rate increases and a voice of ownership in their utility.

Here are a few of the top achievements in the busy year of 2017:

Substations Grant PUD successfully completed a two-year project to build or rebuild eight substations around the county. The work addresses a five-year backlog of needed repairs and helps prepare us for future growth.

Transmission Construction began this year on a new 115kV transmission line between Grant PUD's Rocky Ford and Dover substations. It will be energized by late 2018 to provide the City of Moses Lake with its first "redundant" – back-up source of power. The line should result in fewer and shorter power outages in Grant County's largest community.

Power Plant Crews and contractors refurbished the first of the 10 turbine/generator units at Priest Rapids Dam, embarking on what will be a decade-long project. Meanwhile, work to refurbish all 10 units at Wanapum Dam is nearing the end, with only two units to go.

Fish The sustained success of our hatchery and habitat programs, along with the high fish-survival rates through both dams this year moved Grant PUD to a key achievement. Agencies and tribes have said we may now conduct detailed salmon/steelhead survival "check-in" studies every 10 years instead of every five. This milestone will save millions in staff time and contractor expense.

Advanced meters Work began in October to replace Grant PUD's approximately 50,000 electric meters with new, electronic two-way meters. The new system should be operational in 2019. This system is expected to save the district $35.6 million over 10 years. These savings will help keep rates as low as possible for everyone.

Wholesale Fiber After months of analysis and community engagement, we agreed to allocate $7 million in 2018 to begin expanding Grant PUD's fiber-optic network to the remaining 30 percent of county residents. Grant PUD is creating a solid business plan. We'll evaluate progress yearly and make future allocations based on available funding.

Recreation Our work at Crescent Bar Recreation Area is nearly complete. A new on-island boat launch and drinking water system will be finished by summer 2018. A new wastewater system will be ready by November 2018, completing all major construction work. With camping, boating, beaches, picnic areas, a nature trail and more, Crescent Bar promises to be a premier recreation area on the Columbia River.

Growth Inquiries for Grant PUD energy soared to unprecedented levels in later 2017 pushed mostly by specialized, high-powered data centers that "mine" bitcoin and other cryptocurrencies. Growth is good for all Grant PUD customers. It helps us keep rates competitive, but we must approach this new industry with careful analysis to ensure our electric system remains reliable and sustainable for all. We're confident that this utility's highly skilled workforce will provide us with viable options during the coming year.

We support Grant PUD's Vision 2021 plan, which makes employee and customer safety the top priority. The plan emphasizes data-based decision making – an approach that will sustain the affordable rates and economic opportunity that locally-owned and controlled hydropower has brought to Grant County.

That was our predecessors' vision when they took a gritty, successful gamble and built Priest Rapids and Wanapum dams on one of the world's mightiest rivers. It's our vision, too.

MANAGER'S REPORT

WHEN GRANT PUD was created in 1938 by the voters of Grant County, it was envisioned as a utility that would provide high-quality, low-cost power for all – from the region's largest manufacturers to those living on family farms.

Eight decades later, we are just as committed to that founding principle as we serve our existing customers and plan for expected growth.

Grant County remains an attractive location for growing businesses and emerging technologies that depend on low-cost, reliable power. In this past year, we have received unprecedented requests for new electrical service. Requests are coming from existing customers looking to expand their operations as well as new customers wanting to locate in our county of opportunity. As we plan and prepare to meet these requests, our challenge is to grow our power system so quality and value remains at the same high standards we have worked so hard to achieve.

To that end, in 2017 we identified our top 10 initiatives that are guiding us in our mission. These initiatives are:

1. Establishing a culture of safety - We are working to improve our safety as a utility and the health of our employees. The safety of the public and our workers is our top priority. Success begins with continuing our comprehensive dam safety program at our hydropower plants and our efforts to always follow the best safety practices in the field and in our facilities. Everything we can do must be done to meet our goal of everyone arriving home safe, every day.

2. Expanding service - We are planning for and responding to the growing requests of power service for our customers. It is important that we proactively develop plans and policies that will help us provide timely response to the growing power needs of our county. We believe that a growing demand for our services puts us in an enviable position. We are positioning ourselves so that growth will continue to be a net positive for our county.

3. Producing power efficiently - We have the capacity to generate more than 2,000 megawatts of power through our generation system. We are poised to continue to have this resource for decades to come as we invest in the rehabilitation of the generating units at Wanapum and Priest Rapids dams.

4. Delivering power efficiently - We believe that the greatest thing we can do for our customers is explore ways to reduce our costs, and, at the same time, provide exemplary service to meet the growing demands on our power-delivery system. Examples from 2017 include implementing our remote-read power meter program and completing the design-build substation program, which built or renovated eight substations in the county.

5. Utilizing comprehensive financial reporting - We want to deliver tools necessary to make data-driven financial decisions that will help position us to maximize resources, minimize risk and identify opportunities to improve our utility. We have developed a number of indicators that we are now tracking to help us be certain we are moving in the right direction to maintain our strong financial position.

6. Implementing technology advancements - We want to strategically implement information technology improvements to help us become even more efficient in our ability to provide greater value to our customers. We are working to expand the reach of our wholesale fiber optic service to even more customers in a way that will help us provide a sustainable wholesale broadband service in Grant County for decades to come.

7. Providing timely decisions and communications - We are evaluating our decisions, controls and communication. As we move forward in a rapidly-changing world and with an expanding customer base, we want to make the correct decisions at the right time and also be certain we are effectively communicating with our customers and stakeholders.

8. Encouraging performance management - We are formalizing a system to invest in and support our staff as they reach for new opportunities to create additional value for our customers.

9. Executing our organizational redesign - In 2016, we identified a plan to streamline and centralize our organization. In 2017, we implemented the major changes outlined in the redesign, to maximize our human resources to help us perform our mission with even greater efficiency.

10. Coordinating river operations - We are transitioning from an older era, in which we produced power at our dams in coordination with other operators on the river, to a new one where we will have even greater ability to optimize the power production outcomes of Priest Rapids and Wanapum dams.

These initiatives will help us accomplish our overarching goal of providing a power service that meets the present and growing needs of our county while keeping our prices as low as possible.

While much has changed since 1938, one thing remains the same, our customers want Grant PUD to be an organization that will provide the same high level of service for everyone in Grant County. The knowledge of how important we are to each customer, from the largest of our industrial customers to individual residential customers, is what motivates and propels us to provide even greater value for our county in the decades to come.

Kevin Nordt
General Manager

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

OUR VISION

EXCELLENCE IN SERVICE AND LEADERSHIP

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

OUR MISSION

TO EFFICIENTLY AND RELIABLY GENERATE AND DELIVER ENERGY TO OUR CUSTOMERS

OUR VALUES

SAFETY
Everyone home safe, every day.

INNOVATION
We make decisions that best serve present and future generations.

SERVICE
We are committed to excellent customer service.

TEAMWORK
We are one team with the same mission.

RESPECT
We honor the rights and beliefs of those we work with and serve.

INTEGRITY
We hold ourselves and others accountable to be professional in our actions and words.

HERITAGE
We preserve and perpetuate the spirit of the PUD and Wanapum relationship.

OUR HERITAGE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

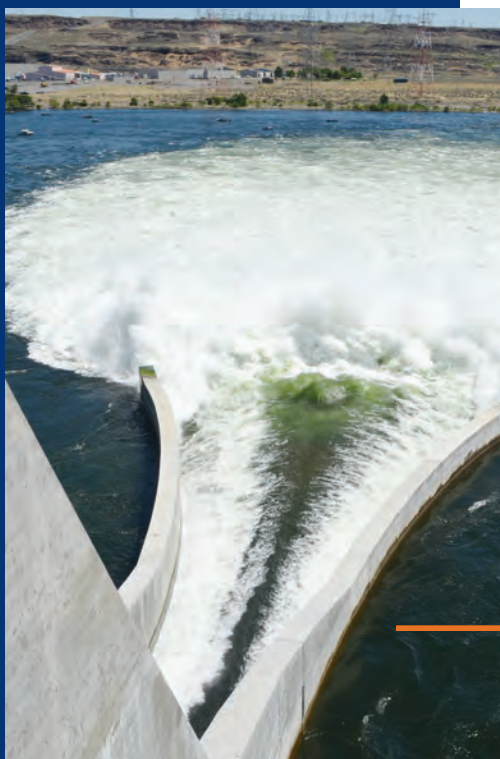
1990 - The first commercial operation of the Potholes East Canal Headworks hydroelectric project began. The facility is operated by Grant PUD under agreement with the Grand Coulee Project Hydroelectric Authority and has a rated generating capacity of 6.5 megawatts.

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

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

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

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



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

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

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

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

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

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

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

2017 - The new campsite, boat launch, docks and other features opens to the public at Crescent Bar. In the fall, construction began on the second phase, which includes a renovated boat launch and dock on Crescent Bar Island as well as improved water and wastewater treatment facilities.

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

POWERING OUR WAY OF LIFE:
WITH CLEAN, RENEWABLE ENERGY

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

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

THE PRIEST RAPIDS PROJECT:

WANAPUM DAM

Generation Units **10**

Rated Capacity (kilowatts) **1,185,200**

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

Rated Head **80 FT**

Construction Began **1959**

First Power Generation **1963**

PRIEST RAPIDS DAM

Generation Units **10**

Rated Capacity (kilowatts) **953,000**

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

Rated Head **78 FT**

Construction Began **1956**

First Power Generation **1959**

OTHER GENERATION:

NINE CANYON WIND PROJECT

12.54% of Project Peak Capacity (kilowatts)

12,000

First Power Generation

2003

QUINCY CHUTE HYDROELECTRIC PROJECT

Rated Capacity (kilowatts)

9,400

First Power Generation

1985

POTHOLES EAST CANAL HEADWORKS PROJECT

Rated Capacity (kilowatts)

6,500

First Power Generation

1990

THE COLOSSAL BALANCING ACT

THE PRIEST RAPIDS PROJECT IS PART OF A LARGER SYSTEM.

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

Let too much water pass any of these dams and entire communities could be flooded; keep reservoirs too empty and farmers can't irrigate crops. Send too much water through the spillways and fish may suffer from dissolved gases; send too much water through the turbines and transmission lines can become overloaded. This unseen balancing act is a drama played out every day.

OUR OBJECTIVES

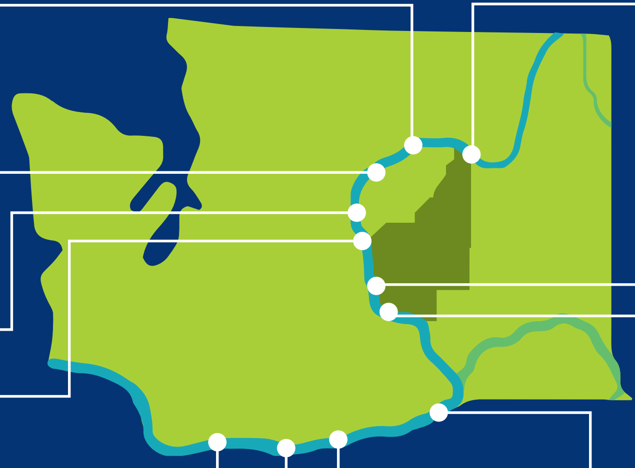
- Generate Electricity
- Flood Prevention
- Fish Protection
- River Navigation
- Water Recreation
- Cultural Preservation
- Farm Irrigation

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

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

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

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



Chief Joseph Dam
(River Mile 541.1)
Capacity 2,614 MW
Corps of Engineers

Wells Dam
(River Mile 515.1)
Capacity 840 MW
Douglas PUD

Rocky Reach Dam
(River Mile 473.0)
Capacity 1,300 MW
ChelanPUD

Rock Island Dam
(River Mile 453.4)
Capacity 624 MW
Chelan PUD

Bonneville Dam
(River Mile 145.5)
Capacity 1,227 MW
Corps of Engineers

The Dalles Dam
(River Mile 191.5)
Capacity 2,160 MW
Corps of Engineers

John Day Dam
(River Mile 215.8)
Capacity 2,480 MW
Corps of Engineers

McNary Dam
(River Mile 292.0)
Capacity 980 MW
Corps of Engineers

Grand Coulee Dam
(River Mile 596.6)
Capacity 6,809 MW
Bureau of Reclamation

Wanapum Dam
(River Mile 415.8)
Capacity 1,185 MW
Grant PUD

Priest Rapids Dam
(River Mile 397.1)
Capacity 953 MW
Grant PUD

RECREATION

- Fishing
- Camping
- Museum
- Boat Launch
- Hand Launch
- Picnic Area
- Sheltered Picnic Area
- Viewing
- Hunting
- Swimming
- Hiking

As a federally-licensed dam operator on the Columbia River, one of our main responsibilities is to provide for public access and recreation along our project lands. In the past decade, we have made significant upgrades to 19 recreation sites and opened our visitors center at Wanapum Dam. We invite all to come to one of these sites and enjoy the power of the Columbia.

1 CRESCENT BAR RECREATION AREA

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

2 PRIEST RAPIDS RECREATION AREA

Camping, boating and day-use opportunities. Reservation campground (tent/RV and single vehicle) with 14 sites, three-lane boat launch, walking/biking trails, picnic areas, and swim beach.

3 SAND HOLLOW RECREATION AREA

Camping and day-use opportunities including picnic areas and a swim beach. Forty-site reservation campground. Thirty of the campsites are accessible by vehicle (tent/RV and single vehicle), 10 campsites are primitive walk-in tent only sites.

4 ROCKY COULEE RECREATION AREA

Camping and day-use opportunities. Ten primitive first-come, first-served walk-in campsites, 14-vehicle parking area, and a hand boat launch.

5 JACKSON CREEK FISH CAMP

Camping and fishing opportunities. Ten primitive first-come, first-served campsites, and walk-in fishing access.

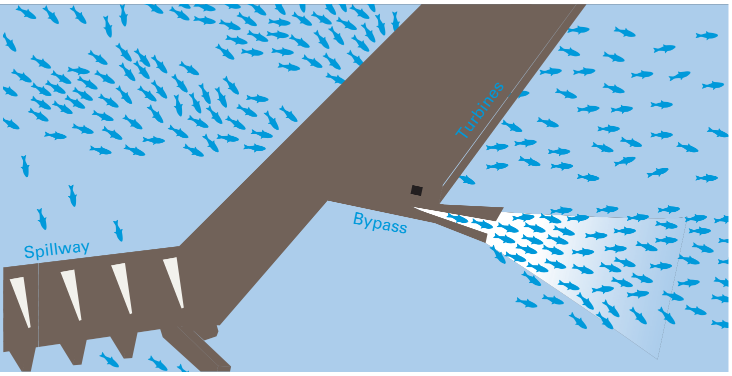
6 GRANT PUD VISITOR CENTER

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

For a full list of all recreation sites and campsite fees visit **GRANTPUD.ORG/RECREATION**

HOW WE PROVIDE FOR FISH

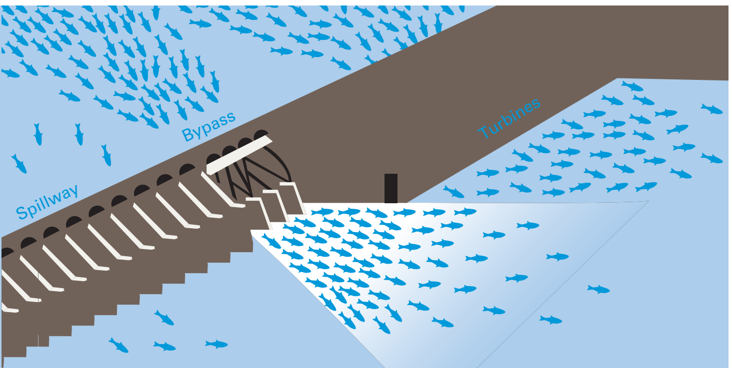
Grant PUD is one of the region's greatest contributors to the enhancement and protection of native fish and habitat. We take our responsibility to provide for fish passage seriously. We have made significant upgrades in the past two decades to improve fish passage at both Wanapum and Priest Rapids dams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



WANAPUM DAM

STEELHEAD SURVIVAL RATES

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



PRIEST RAPIDS DAM

STEELHEAD SURVIVAL RATES

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

FISH COUNTS AT PRIEST RAPIDS DAM

CHINOOK, SOCKEYE, COHO, AND STEELHEAD

Last year, Grant PUD released
8.3 MILLION SMOLTS
into the wild and invested
$2.3 MILLION
in habitat restoration programs.

THE WANAPUM HERITAGE CENTER

For more than 60 years, the Wanapum and Grant PUD have worked together to protect, preserve and perpetuate the natural and cultural resources of the area. Located next to the Wanapum's ancestral village and Priest Rapids Dam, this 50,000 square-foot building is instrumental in perpetuating the importance of the culture, traditions and beliefs of the Wanapum.

Rex Buck Jr.
Wanapum Leader

For more information about the Wanapum and the Wanapum Heritage Center, visit **WANAPUM.ORG**

POWERED BY SERVICE

For more than 75 years, Grant PUD has served the energy needs of rural Grant County. Throughout the decades, our connection to our community remains unchanged. We are consumers of the product we deliver. Our families and neighbors are directly impacted by our work to keep energy reliable and affordable.

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

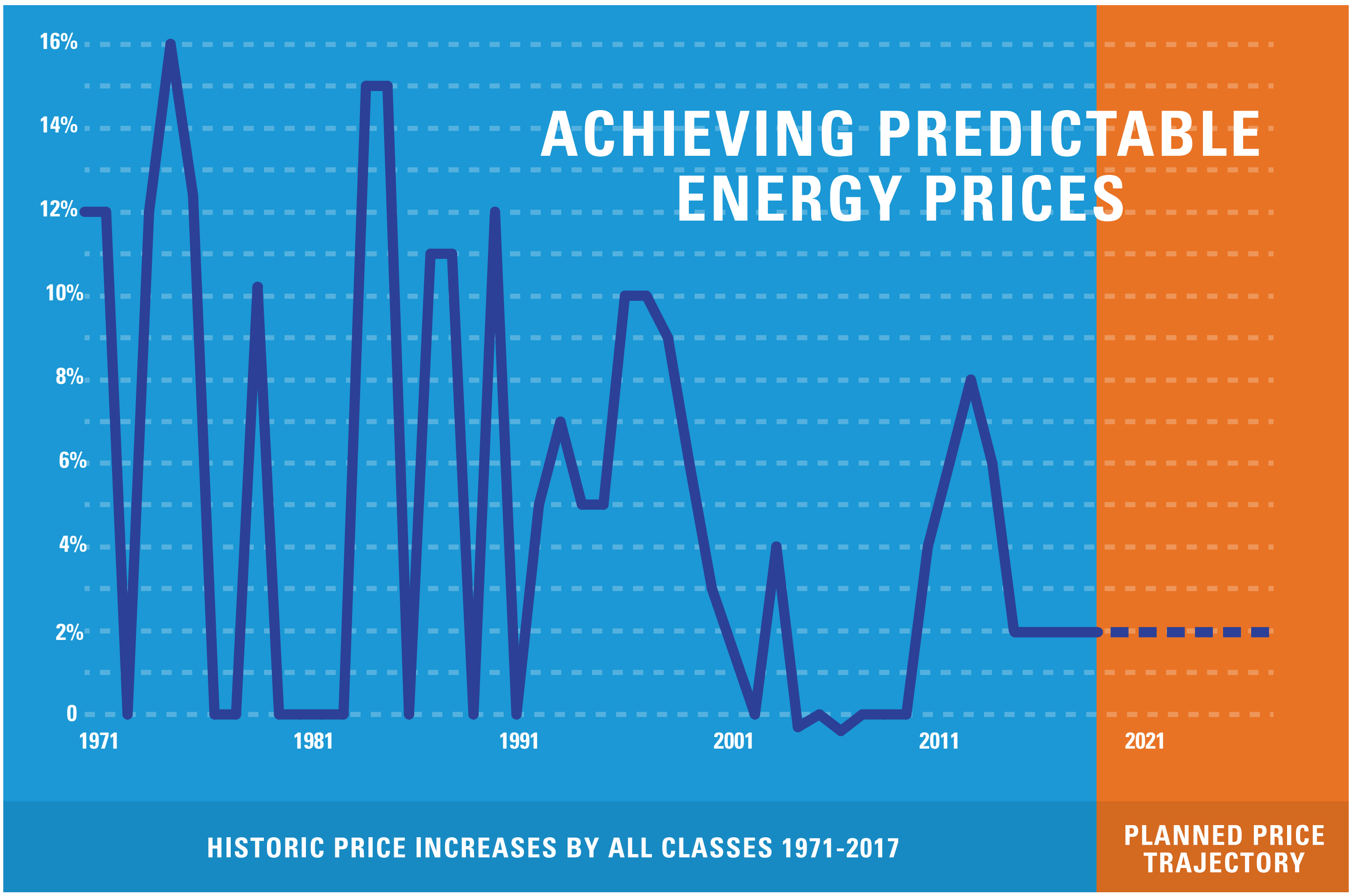
Beyond education, we also provide incentive programs to help our customers become more energy efficient and save money. We have developed a reduced-rate program for both seniors and disabled residents with low incomes. We are also proud that our customers can see our employees using their free time to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

FINANCES

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

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

That's why we have adopted our current price strategy of implementing small, and predictable annual increases. By doing so, we can cover rising costs, and respond to customer input, through our commissioners, asking us to try to avoid some of the larger increases experienced in the past decades.



ENERGY COSTS

HOW DO WE COMPARE?

Residential Average Electricity Rates in December 2017

12.5¢ per kWh*
UNITED STATES

9.63¢ per kWh*
WASHINGTON

5.55¢ per kWh
GRANT PUD

*Source: U.S. Energy Information Administration February 2017 report

2017 FINANCIAL TARGETS

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

OBJECTIVE 01
MAINTAIN A STRONG FINANCIAL POSITION

	TARGET	ACTUAL	FINAL GOAL
Electric System Liquidity	≥ $155 MM	$157 MM	≥ $155 MM
Consolidated Return On Net Assets	≥ 3.4%	3.7%	> 4.0%
Consolidated Debt To Plant Ratio	≤ 64%	65%	< 60%
Consolidated Debt Service Coverage	≥ 1.75X	1.77X	> 1.80X

OBJECTIVE 02
PROVIDE LONG-TERM LOW RATES

	TARGET	ACTUAL	FINAL GOAL
Retail Operating Ratio - Adjusted	≤ 115.0%	105%	< 100%
District Credit Rating	AA3 (Moody's equivalent)	AA3	AA3

OUR BOND RATINGS

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

RATING AGENCY	RATING	OUTLOOK
Fitch Ratings	AA	STABLE
Moody's Investor Service	AA3	STABLE
Standard & Poor's Rating Services	AA	STABLE

ELECTRIC SYSTEM

Overhead Distribution Lines	2,781 MILES
Underground Distribution Lines	1,073 MILES
Overhead Transformers	24,303
Padmount Transformers	9,531
115kV Transmission Lines	273 MILES
230kV Transmission Lines	201 MILES

ACTIVE METERS

Residential	37,774
Irrigation	5,158
Industrial	99
Commercial	6,951
Large Commercial	118
Street Light and Other	410
Total Active Meters	50,510

SUBSTATIONS

Distribution	47
Transmission	5
Transmission/Distribution	3

HIGH SPEED NETWORK

Customers with fiber-optic availability	29,799
Customers using fiber-optic service	14,766
Customers using wireless service	233

As of Dec. 31, 2017

Public Utility District No. 2 of Grant County, Washington
Financial Statements
December 31, 2017 and 2016

Table of Contents

Report of Independent Auditors

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

We have audited the accompanying financial statements of Public Utility District No. 2 of Grant County, Washington (the "District"), which comprise the statements of net Position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 2 of Grant County, Washington as of December 31, 2017 and 2016, and the changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, 805 SW Broadway, Suite 800, Portland, OR 97205
T: (971) 544 4000, F: (971) 544 4100, www.pwc.com/us

Other Matters

Required Supplementary Information

The accompanying Management's Discussion and Analysis on pages 3 through 11 and the Required Supplementary Information on Page 60 through 62, are required by accounting principles generally accepted in the United States of America 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 audits 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.

PricewaterhouseCoopers LLP

Portland, Oregon
April 27, 2018

As of December 31, 2017, Public Utility District No. 2 of Grant County, Washington (the "District") comprises two operating systems: the Electric System and the Priest Rapids Project which consists of the Priest Rapids Hydroelectric Production Development ("Priest Rapids") and the Wanapum Hydroelectric Production Development ("Wanapum"). The Priest Rapids Project is operated under Federal Energy Regulatory Commission ("FERC") License, Project No. 2114.

Presented below is a discussion and analysis of the financial activities for the years ended December 31, 2017, 2016, and 2015. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District produced a positive change in net financial position of $76.1 million, $82.2 million, and $73.4 million during 2017, 2016, and 2015 respectively. Despite the regional challenges of low wholesale power prices, the District strengthened its financial position. Two key components to this success are the slice contracts and pooling agreement of the Electric System to mitigate the effect of the fluctuation in wholesale power prices and water variability for generation (see "*Slice and Pooling Agreements*").

- In November of 2017, the rating agencies of Moody's, Standard & Poor's, and Fitch all reaffirmed their ratings of all Electric System and Priest Rapids Project bonds of Aa3/stable, AA/stable, and AA/stable, respectively. The rationale for the ratings included strong operations, strong liquidity, equity funding of capital projects, strong availability, low production costs, low-cost power supply, and strong financial and risk management practices. These high grade credit ratings allow the District to receive competitive interest rates in the bond market and help keep the costs down for District ratepayers and power purchasers.

Sortable Table Key	Moody's	Fitch	S&P
Highest grade credit	Aaa	AAA	AAA
Very high grade credit	Aa1, Aa2, Aa3	AA+, AA, AA-	AA+, AA, AA-
High grade credit	A1, A2, A3	A+, A, A-	A+, A, A-
Good credit grade	Baa1, Baa2, Baa3, Baa4	BBB+, BBB, BBB-	BBB+, BBB, BBB-
Speculative grade credit	Ba1, Ba2, Ba3	BB+, BB, BB-	BB+, BB, BB-
Very speculative credit	B1, B2, B3	B+, B, B-	B+, B, B-
Substantial risks - In default	Caa1, Caa2, Caa3, Ca	CCC, CC, C, RD, D	CCC+, CCC, CCC-, CC, C, D

(Source: Wall Street Journal)

- In December of 2017, the District issued $64.5 million of fixed rate refunding bonds at a premium of $10.8 million, to refund the ES 2011 - I series, pay issuance costs and fund debt service reserves. The District utilized $12.9 million of existing debt service reserve funds to make the refunding whole and reduce the total amount of the issuance. This transaction realized a $1.2 million refunding loss that will be amortized through 2023.

- In November of 2017, the District issued $49.9 million of fixed rate revenue refunding bonds at a premium of $0.5 million to refund the Electric System 2014 - K issue and pay associated issuance costs. There was no refunding gain or loss. The refunding bonds were issued as a three year soft put fixed rate product, with final maturities ranging between year 2035 and 2044. The bonds are callable at par on or after September 1, 2020 and the end of the Initial Term Rate Period is December 1, 2020 with a Mandatory Tender Date of December 2, 2020.

- In September of 2017, the District issued $50 million of variable rate revenue bonds to finance capital improvements to the Electric System through a direct placement with Wells Fargo Bank, National Association. The revenue bonds were issued using a variable rate product that primarily focused on asset liability matching.

- In February of 2017, the District issued $7.9 million of fixed rate refunding revenue bonds to refund the Wanapum 2006B issue through a direct placement bond with Government Finance, Inc. The District realized a refunding loss of less than $0.1 million that was expensed in the current year.

- In April of 2016, the District issued $50 million of variable rate revenue bonds to finance improvements to the Electric System through a direct placement bond held with Bank of America, N.A.

- In October of 2015, the District issued $90.7 million of revenue and refunding bonds at a net premium of $10.7 million and $90 million in Clean Renewable Energy Bonds, associated with the Priest Rapids Project to refund certain bonds previously issued, to finance improvements at the Priest Rapids Project, to pay issuance costs, and to fund a debt service reserve. The refunding of $97 million resulted in a net present value savings of $11.1 million. The Clean Renewable Energy Bonds have an authorized 70% refund from the U.S. Federal Government on interest payments made.

- The Commission continued its implementation of small, incremental price increases. In January of 2016, April of 2017, and April of 2018, the Commission implemented 2.0% average annual price increases to retail customers. The largest driver of these increases is the rising cost to produce power at the Priest

Rapids Project. Production cost increases are related to the replacement of turbines and generators at the two dams as well as requirements in the District's federal license to build parks, construct and operate fish hatcheries, and protect cultural resources. Despite the production cost increases, the Priest Rapids Project remains among the lowest cost generation plants in the United States.

Electric System Significant Capital Projects:

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

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

The Priest Rapids Project Significant Capital Projects:

- In 2008, the District determined the final scope and design of a long-term capital improvement project for the Wanapum Development. A contract was awarded January 5, 2009, to Alstom Hydro US, Inc. (currently doing business as Alstom Power, Inc.) for approximately $150 million to upgrade all ten generators at Wanapum Dam. The on-site construction began in June of 2010 and is scheduled through Sept. of 2020. The existing generators are currently rated at 109.3 megavolt-amperes ("MVA"). The new upgraded generators have a nameplate rating of 128.6 MVA, an increase of 17.7%. As of August 2017, eight of the ten generators have been replaced. The schedule is to replace one generator per year. As of December 31, 2017, the cost of the remaining Wanapum generators to be replaced is estimated at $14.7 million.

- In addition to the Wanapum turbine and generator replacement project, the District has completed most of the design and engineering work on turbine life extension/replacement and generator rewinds for the Priest Rapids Development. Turbine modeling and hydraulic design has been completed and a contract to supply turbines was awarded to Voith Hydro, Inc. in June of 2014 in the amount of $61.6 million. Generator rehabilitation was awarded to Alstom Power, Inc. in June of 2015 in the amount of $87.9 million. The first unit upgrade at the Priest Rapids Development began in August of 2016 and returned to service in January of 2018.

- As part of the Federal Energy Regulatory Commission (FERC) license to operate the Priest Rapids Project, the District is required to make improvements to the Crescent Bar Recreation Area to enhance public access and recreation opportunities. In 2017, Phase I of the planned upgrades to the area was completed, which included construction of a new campground, marina, fuel float, boat launch, parking area, walking trail, and day use area including playground equipment and sports courts. A second boat launch and parking area, and upgrades to the water and wastewater systems, are currently underway and are expected to be completed in the spring of 2018. The total cost to the District is estimated at $30 million.

SLICE AND POOLING AGREEMENTS

In an effort to increase revenue stability by improving the predictability of net wholesale revenues, the District entered into agreements for the Electric System's 63.3% physical share from the Priest Rapids Project (PRP) to Shell Energy North America (U.S.), L.P. (SENA) and Avangrid Renewables, LLC ("Avangrid"), formerly known as Avangrid Renewables, Inc. The agreements are summarized below.

- **Slice Agreements**: The District has entered into various "slice" sales from its retained 63.3% share. The agreements sell the capacity and energy to buyers who assume the associated water and wholesale price risks. The District obtains a stable revenue from the sale. In January of 2015, the District entered into an agreement with Avangrid for a 10% slice of PRP from July 1, 2015, to June 30, 2018. The District also had an agreement with SENA for 10% of PRP output from July 1, 2013, to June 30, 2016. These agreements are paid as equal monthly installments over the lives of the agreements. The District regularly monitors its exposure with Avangrid and SENA and retains the right to call for additional assurances at any time. The District has the right to curtail delivery in the event of nonpayment.

- **Pooling Agreement:** The District entered into an Agreement for Pooling of Priest Rapids Project Physical Output (the "Pooling Agreement") with SENA in September 2015. Under the Pooling Agreement, the District provides SENA with a portion of the District's share of the capacity in the Priest Rapids Project, and SENA provides to the District firm power sufficient to meet the Electric System's retail load forecast, adjusted for the portion of Electric System load that is expected to be met with other District resources. In addition, SENA provides certain scheduling services for the District, including managing power schedules, and the District provides certain flexibility to SENA within the District's balancing area authority. The term of the Pooling Agreement expires September 29, 2020.

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

PRIEST RAPIDS PROJECT

The Priest Rapids Project consists of the Priest Rapids Dam and the Wanapum Dam.

Priest Rapids consists of a dam and hydroelectric generating station having a nameplate rating of 953,000 kilowatts ("kW"). Priest Rapids is located on the Columbia River in Grant and Yakima Counties about 150 air miles northeast of the City of Portland, 130 air miles southeast of the City of Seattle, and 18 miles downstream of Wanapum.

Wanapum consists of a dam and hydroelectric generating station having a nameplate rating of 1,185,200 kW. Wanapum is located on the Columbia River in Grant and Kittitas Counties about 160 air miles northeast of the City of Portland, 129 air miles southeast of the City of Seattle, and 18 miles upstream of Priest Rapids.

During the year ended December 31, 2017, the Priest Rapids Project provided 8,944,788 net megawatt hours ("MWh") of electric energy at an average cost of $18.69 per MWh. During the year ended December 31, 2016, the Priest Rapids Project provided 9,193,102 net MWh of electric energy at an average cost of $16.14 per MWh. During the year ended December 31, 2015, the Priest Rapids Project provided 8,677,766 net MWh of electric energy at an average cost of $18.04 per MWh.

The timing of the runoff and spill requirements factor into the water available for generation from year to year. Runoff was 117%, 98%, and 96% of average for 2017, 2016, and 2015, respectively. The return of Wanapum to full operation for the majority of 2015 and all of 2016 combined with the decrease in extraordinary expenses and receipt of insurance proceeds associated with the fracture resulted in an 11% decrease in cost per MWh from 2015 to 2016.

OVERVIEW OF DISTRICT'S FINANCIAL STATEMENTS

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

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

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

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

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

CONDENSED COMPARATIVE FINANCIAL INFORMATION
(AMOUNTS IN THOUSANDS)

Statements of Net Position	**2017**	**2016**	**2015**
Assets			
Current	$ 224,660	$ 222,395	$ 187,141
Net utility plant	2,045,370	1,953,628	1,881,265
Noncurrent	398,402	410,306	402,218
Total assets	2,668,432	2,586,329	2,470,624
Deferred outflows of resources - pensions	6,582	8,428	5,004
Deferred outflows of resources - unamortized losses on refundings	5,554	5,367	6,518
Total assets and deferred outflows of resources	$ 2,680,568	$ 2,600,124	$ 2,482,146
Liabilities			
Current	$ 154,217	$ 151,088	$ 128,437
Noncurrent	1,443,733	1,450,355	1,430,341
Total liabilities	1,597,950	1,601,443	1,558,778
Deferred inflows of resources - pensions	8,725	926	7,837
Total liabilities and deferred inflows of resources	1,606,675	1,602,369	1,566,615
Net position			
Net Investment in capital assets	761,891	638,520	613,865
Restricted	164,986	160,550	146,705
Unrestricted	147,016	198,685	154,961
Total net position	1,073,893	997,755	915,531
Total liabilities, deferred inflows of resources and net position	$ 2,680,568	$ 2,600,124	$ 2,482,146

Revenues and Expenses and Changes in Net Position	**2017**	**2016**	**2015**
Operating revenues			
Retail energy sales	$ 188,472	$ 175,798	$ 172,915
Sales to other utilities	54,753	62,521	82,073
Sales to power purchasers at cost	41,789	40,001	51,083
Other	8,895	7,996	7,098
Total operating revenues	293,909	286,316	313,169
OPERATING EXPENSES			
Depreciation and amortization	66,206	61,956	56,985
Other operating expenses	132,606	125,618	160,092
Total operating expenses	198,812	187,574	217,077
NET OPERATING INCOME	95,097	98,742	96,092
Other revenues (expenses)	(29,608)	(31,017)	(31,568)
Contributions in aid of construction	10,649	4,603	13,222
Extraordinary loss - Wanapum fracture	-	9,896	(4,359)
Change in net position	$ 76,138	$ 82,224	$ 73,387
Total net position - beginning of year	$ 997,755	$ 915,531	$ 842,144
Total net position - end of year	$ 1,073,893	$ 997,755	$ 915,531

FINANCIAL ANALYSIS

The following discussion provides comparative financial information for the years ended December 31, 2017, 2016, and 2015.

ASSETS AND DEFERRED OUTFLOWS

Total assets have increased from 2015 to 2016 by 5% and 3% from 2016 to 2017. This is driven by the continued investments in the turbines and generators at Wanapum, and other capital improvements in both systems, which increases Net utility plant. These investments align with the District's Strategic Plan objectives, which include delivering long term value and reliability to customers.

Deferred outflows of resources related to pensions fluctuate due to the District recording its proportionate share of the increase or decrease in collective deferred outflows each year for the PERS plans as provided by the Department of Retirement Systems, partially offset by associated amortization.

LIABILITIES AND DEFERRED INFLOWS

The District had approximately $1.3 billion in bonded debt outstanding for each of the years ended December 31, 2017, 2016, and 2015, respectively.

In 2016 and 2017, the District's share of the PERS liability increased by $8.2 million and decreased by $14.6 million, respectively, due to the changes in the actuarial valuation of the PERS collective net pension liability.

Deferred inflows of resources related to pensions fluctuate due to the District recording its proportionate share of the increase or decrease in collective deferred outflows each year for the PERS plans as provided by the Department of Retirement Systems, partially offset by associated amortization. Deferred inflows of resources related to pensions were $7.8 million, $0.9 million, and $8.7 million for the years ended 2015 through 2017, respectively. These changes were largely driven by the District's share of the difference between expected and actual investment earnings experienced at the plan level.

NET POSITION

Net position increased by $76.1 million, $82.2 million, and $73.4 million in 2017, 2016, and 2015, respectively. Results in 2015 and 2016 benefited from reduced market purchases, return of normal operations of the Wanapum Dam, and the effect on net wholesale revenues of the slice and pooling agreements mentioned previously. Results in 2017 continued to strengthen the District's financial position driven by stable net wholesale revenue streams and increased retail energy sales, partially offset by a 6% increase in operating expenses.

STATEMENT OF REVENUES AND EXPENSES

Sales to power purchasers at cost are directly tied to power costs as defined in the long-term power sales contracts (operating expenses – noncash items + debt service – interest and other earnings). Additional expenses related to compliance with the license and other fish and operational costs have added to the revenues required to cover the cost of production.

Retail energy sales and Sales to other utilities revenues are reflective of the individual ebbs and flows of the economy through power consumption and market forces on wholesale power prices. Retail energy sales increased by 7% from 2016 to 2017 largely driven by a 12% and 7% increase in the Residential and Commercial rate classes that are most sensitive to weather as 2017 had more heating and cooling degree days when compared to prior years. The decrease in operating revenues from 2015 to 2016 is largely driven by the Shell Pooling Agreement because revenue associated with the agreement is only reported net of firm retail load SENA provides the Electric System. This decreased gross Sales to other utilities by $20 million and Purchased Power expense by $27 million to effectively zero in 2016 and 2017 as the District needs to purchase less power on the open market to meet the Electric System's retail load. Net wholesale revenues (Sales to other utilities less Purchased power expense) were relatively stable as expected under the Pooling Agreement at $54.4 million, $62.5 million and $54.8 million from 2015 to 2017.

Most components of Other Revenues (Expenses) remained flat from 2015 to 2017. Interest and Other Income rose substantially from 2015 to 2017 because of improved investment strategy and stronger market conditions; lease revenues associated with Crescent Bar and other recreation fees; and insurance proceeds.

Contributions In Aid of Construction ("CIAC") revenues were $10.6 million, $4.6 million, and $13.2 million in 2017, 2016 and 2015 respectively. These revenues are earned as the District completes infrastructure requests funded by customers. Variability in numbers correlate with any planned or ongoing capital projects.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016
(AMOUNTS IN THOUSANDS)

ASSETS	2017	2016
CURRENT ASSETS		
Cash	$ 157	$ 742
Investments	89,333	93,719
Restricted funds		
Cash	46,782	40,597
Investments	42,816	45,026
Customer accounts receivable, net of allowance for uncollectible accounts	25,036	23,250
Materials and supplies	17,843	17,582
Due from power purchasers	952	-
Other current assets	1,741	1,479
Total current assets	224,660	222,395
NONCURRENT ASSETS		
Investments	122,310	168,640
Restricted funds		
Cash	5,286	1,380
Investments	263,783	237,476
Conservation loans	459	566
Demand-side management	698	1,025
Preliminary expenses	5,866	1,219
Total other noncurrent assets	398,402	410,306
Utility plant, net of accumulated depreciation and amortization	2,045,370	1,953,628
Total noncurrent assets	2,443,772	2,363,934
TOTAL ASSETS	2,668,432	2,586,329
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pensions	6,582	8,428
Deferred outflows of resources - losses on refundings	5,554	5,367
Total deferred outflows	12,136	13,795
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 2,680,568	$ 2,600,124

The accompanying notes are an integral part of these financial statements

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016
(AMOUNTS IN THOUSANDS)

LIABILITIES AND NET POSITION	2017	2016
CURRENT LIABILITIES		
Accounts payable		
Trade	$ 34,768	$ 32,528
Wages payable	11,534	11,803
Due to Power purchasers	-	4,441
Accrued taxes	7,026	6,490
Customer deposits	14,900	11,210
Accrued bond interest	28,191	30,607
Unearned revenue	8,664	6,007
Habitat liability	15,146	13,287
Other current liabilities	40	39
Current portion of licensing obligations	2,313	2,601
Current portion of long-term debt	31,635	32,075
Total current liabilities	154,217	151,088
NONCURRENT LIABILITIES		
Accrued other postemployment benefits	2,794	2,491
Long-term unearned revenue	5,224	964
Licensing obligations, less current portion	49,220	52,520
Pension obligations	46,371	60,922
Revenue bonds, less current portion	1,298,635	1,293,030
Unamortized bond premium, net of discount	41,489	40,428
Total noncurrent liabilities	1,443,733	1,450,355
TOTAL LIABILITIES	1,597,950	1,601,443
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions	8,725	926
Total liabilities and deferred inflows of resources	1,606,675	1,602,369
NET POSITION		
Net investment in capital assets	761,891	638,520
Restricted	164,986	160,550
Unrestricted	147,016	198,685
Total net position	1,073,893	997,755
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 2,680,568	$ 2,600,124

The accompanying notes are an integral part of these financial statements

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSTION
YEARS ENDED DECEMBER 31, 2017 AND 2016
(AMOUNTS IN THOUSANDS)

	2017	2016
OPERATING REVENUES		
Sales to power purchasers at cost	$ 41,789	$ 40,001
Retail energy sales		
Residential	45,270	40,252
Irrigation	24,080	23,876
Commercial and industrial	118,025	110,604
Governmental and others	1,097	1,066
Sales to other utilities	54,753	62,521
Wholesale fiber optic network sales	6,860	6,170
Other	2,035	1,826
Total operating revenues	293,909	286,316
OPERATING EXPENSES		
Generation	30,899	28,803
Transmission	5,378	4,634
Distribution	14,367	14,053
Customer and information services	5,640	5,979
Wholesale fiber optic network operations	1,921	1,325
Administrative and general	37,731	37,107
License compliance and related agreements	20,386	18,909
Depreciation and amortization	66,206	61,956
Taxes	16,284	14,808
Total operating expenses	198,812	187,574
NET OPERATING INCOME	95,097	98,742
OTHER REVENUES (EXPENSES)		
Interest and other income	12,833	10,008
Interest on revenue bonds and other, net of capitalized interest	(56,933)	(56,469)
Federal rebates on revenue bonds	10,556	10,545
Amortization of debt discount/premium	4,909	5,094
Cost of debt issuance	(973)	(195)
Total other revenues (expenses)	(29,608)	(31,017)
CONTRIBUTIONS IN AID OF CONSTRUCTION	10,649	4,603
EXTRAORDINARY LOSS - WANAPUM FRACTURE	-	9,896
CHANGE IN NET POSITION	76,138	82,224
NET POSITION		
Beginning of year	997,755	915,531
Total net position - end of year	$ 1,073,893	$ 997,755

The accompanying notes are an integral part of these financial statements

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(AMOUNTS IN THOUSANDS)

	TWELVE MONTHS ENDED DECEMBER 31, 2017	TWELVE MONTHS ENDED DECEMBER 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retail energy sales	$ 186,310	$ 181,168
Cash received from sales to power purchasers at cost	20,566	42,210
Cash received from sales to other utilities	86,569	76,994
Other cash receipts	10,667	7,811
Net cash paid for customer deposits	3,836	3,880
Cash paid for purchase of power	(16,342)	(15,091)
Cash paid to contractors, suppliers, and employees	(114,976)	(110,516)
Cash received from deposits	-	134
Taxes paid	(15,817)	(15,020)
Cash recovered for extraordinary loss	-	9,896
Net cash provided by operating activities	160,813	181,466
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on revenue bonds	(32,075)	(30,915)
Interest paid on revenue bonds	(59,349)	(54,276)
Federal interest rebates	10,556	10,545
Bond proceeds	183,556	50,000
Payment on refunded debt	(140,534)	-
Bond issuance cost	(973)	(195)
Cash received from contributions in aid of construction	19,766	9,981
Licensing obligation payments	(3,049)	(3,604)
Acquisition and construction of plant assets	(166,956)	(125,728)
Proceeds on sale of plant assets	277	3,493
Miscellaneous nonoperating income	1,647	912
Net cash used in capital and related financing activities	(187,134)	(139,787)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(602,339)	(570,954)
Sale of investment securities	621,448	516,321
Investment income proceeds	9,511	8,794
Net repurchase agreements	7,100	40,000
Net cash received for conservation loans	107	99
Net cash provided by (used in) investing activities	35,827	(5,740)
NET INCREASE/(DECREASE) IN CASH	$ 9,506	$ 35,939

The Statements of Cash Flows continue onto the following page.

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(AMOUNTS IN THOUSANDS)

	TWELVE MONTHS ENDED DECEMBER 31, 2017	2016
CASH AT END OF YEAR	$ 52,225	$ 42,719
CASH AT BEGINNING OF YEAR	42,719	6,780
NET INCREASE IN CASH	$ 9,506	$ 35,939
OPERATING ACTIVITIES		
Net operating income	$ 95,097	$ 98,742
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	66,206	61,956
Accretion expense	2,766	2,533
Earned revenue from deposits	(107)	(107)
Provision for uncollectible accounts	(21)	198
Cash received for extraordinary loss	-	9,896
Cash provided by (used in) changes in operating assets and liabilities:		
Change in Habitat funds held in trust	1,828	1,584
Customer accounts receivable	(3,857)	6,089
Materials and supplies	(261)	(164)
Other current assets	(262)	153
Trade and wages payables	3,120	(3,638)
Payable to power purchasers	(5,392)	2,209
Deferred outflows - Pension	1,845	(3,423)
Deferred inflows/outflows	16,429	-
Deferred inflows - Pension	(8,634)	(6,910)
Pension obligation	(14,552)	8,161
Accrued taxes	537	(224)
Customer deposits	3,690	4,009
Accrued other postemployment benefits	304	402
Other Income	2,077	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 160,813	$ 181,466
Non-cash Investing, Capital and Related Financing Activities		
Changes in construction costs included in accounts payable	$ (739)	$ 10,567
Amortization of debt related costs, net	(5,382)	(5,192)
Changes in investments	719	2,395
Change in Licensing Obligation	3,305	-

The accompanying notes are an integral part of these financial statements

1. ORGANIZATION AND ACCOUNTING POLICIES

Public Utility District No. 2 of Grant County, Washington (the "District") is comprised of two operating systems: the Electric System and the Priest Rapids Project. The Priest Rapids Project is operated under Federal Energy Regulatory Commission ("FERC") License, Project No. 2114. The District also maintains a Service System to provide administrative services to the operating systems. Internal transactions, including revenues and expenses between the District's reporting segments and the Service System, have been eliminated in the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America. The District is required by its financing arrangements to maintain separate accounts and to report separately on each operating system. See Note 14. The financing arrangements require maintenance of certain funds and application of accounting procedures prescribed by the State of Washington, which generally conform to those prescribed by FERC and accounting principles generally accepted in the United States of America. The accompanying financial statements are those of the District, which generates, transmits, and distributes electric energy and wholesale fiber optic network services within Grant County, Washington.

The District maintains its accounts in accordance with accounting principles generally accepted in the United States of America for proprietary funds as prescribed by the Governmental Accounting Standards Board ("GASB"). The District's accounting records generally follow the Uniform System of Accounts for public utilities and licensees prescribed by FERC except as it relates to the accounting for Contributions In Aid of Construction ("CIAC"). FERC prescribes for CIAC proceeds to be recorded as a reduction to plant.

In June 2015, GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans other than Pension Plans" and Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions." The primary objective of these statements is to improve both the usefulness of information about postemployment benefits other than pensions (OPEB) included in the external financial reports of state and local OPEB plans and the accounting and financial reporting by state and local governments for OPEB. The Statements replace Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans," and Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." These Statements establish standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit OPEB, these Statements identify the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined OPEB are also addressed. Statements No. 74 and No. 75 are effective for fiscal years 2017 and 2018, respectively. GASB 74 does not apply to the District because our OPEB plan is not administered through an irrevocable trust. The District plans on implementing GASB 75 in fiscal year 2018 and the most significant impact will be including the entire unfunded actuarial liability in the Statement of Net Position in addition to the enhanced disclosures aforementioned. The unfunded actuarial liability for the District's OPEB plan was $6.8 million and $6.2 million for 2017. Refer to Note 9.

In January 2016, GASB issued Statement No. 80, "Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14." This Statement's objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The District does not have any component units nor is the District a component unit of a larger government; therefore, there is no impact to the District's financial statements.

In March 2016, GASB issued Statement No. 81, "Irrevocable Split Interest Agreements" The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations where a government is a beneficiary of the agreement. The requirements of Statement No. 81 are effective for reporting periods after December 15, 2016. The District does not have any irrevocable split interest agreements; therefore, this Statement does not impact the District.

In March 2016, GASB issued Statement No. 82, "Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73." The purpose of this Statement is to address certain issues that have been raised with respect to Statements No. 67, No. 68 and No. 73. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of Statement No. 82 are effective for reporting periods after June 15, 2016. The adoption of this statement did not have a material effect on the District's financial statements.

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

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

In March 2017, GASB issued Statement No. 85, “OMNIBUS 2017.” The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of Statement No. 85 are effective for reporting periods after June 15, 2017. The District is currently evaluating the financial statement impact of adopting this Statement.

In May 2017, GASB issued Statement No. 86, “Certain Debt Extinguishments Issues.” The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of Statement No. 86 are effective for reporting periods after June 15, 2017. The District is currently evaluating the financial statement impact of adopting this Statement.

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

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

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

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

SENA Pooling Agreement – Under the Pooling Agreement, SENA has rights to the actual output of a portion of the Priest Rapids Project, which will vary with water conditions, and will provide firm power to meet the District’s load forecast regardless of the actual output of the Priest Rapids Project. Over the life of the agreement, the majority of these values will be offsetting and exchanged without cash payment; there will, however, be monthly payments owed by either SENA or the District due to the seasonal differences between capacity and energy amounts and loads. In addition, certain nonhydrological performance metrics were assumed at the beginning of the contract and monthly differences in these metrics will be trued up and payment made by either SENA or the District. Upon entering the agreement, the District does not expect that there will be any significant monthly true-up payments. The amount of monthly payments over the term could vary based upon actual performance versus the estimates at the time the Pooling Agreement was executed. All activity under the SENA Pooling agreement are presented net in either the “Sales to other utilities” or “Purchased power expense” line items on the

Statement of Revenues and Expenses and Changes in Net Position. For 2017 and 2016, the agreement resulted in a net revenue for the District.

Allowance for Uncollectible Accounts – Management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts due from specific customers for which collection is in question. Such estimates are developed based on historical experience. For 2017 and 2016, the allowance for uncollectible accounts was approximately $0.2 million for both years.

Contributions in Aid of Construction – A portion of the District's utility plant is financed through contributions from customers in accordance with the District's Line Extension Policy. Additionally, a portion of utility plant may be financed through contributions from other sources, such as other governmental organizations. The District recognizes capital contributions from these sources as non-operating revenue at the point at which it becomes nonrefundable. The District recognized $10.6 million and $4.6 million of Contributions in Aid of Construction for the years ended December 31, 2017 and 2016, respectively.

Capitalized Interest – Interest costs incurred to finance major construction projects are capitalized as part of the cost of the project. The composite interest rate for calculating capitalized interest was 2.09% and 2.20% for 2017 and 2016, respectively. Interest capitalized during 2017 and 2016 was $4.0 million and $5.2 million, respectively.

Utility Plant – Utility plant assets are recorded at cost including an allocation of internal payroll and other administrative and general costs associated with construction of the assets. Depreciation is determined by the straight-line method over the estimated life of the asset. The District's asset lives used for computing depreciation range from five to 100 years, with an average rate of 2.29% and 2.25% for 2017 and 2016, respectively. When utility plant assets are retired, their original cost, together with removal costs, less salvage, are charged to accumulated depreciation.

The costs of maintenance and repairs are charged to operations as incurred. Renewals, replacements, and betterments are capitalized. The District assesses its assets for obsolescence and possible impairment on a periodic basis. Once an asset has been identified as impaired due to a significant and unexpected decline in usable capacity, it is written down to reflect its current service utility and the associated impairment loss is charged either to operations or an extraordinary item depending on its nature.

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

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

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

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

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

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

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

Debt Discounts, Premiums, and Issuance Costs – Debt discounts and premiums relating to the sale of bonds are amortized over the lives of the related bonds using the constant yield method. Debt issuance costs are recognized in the period incurred.

Refunds of Debt – The gain or loss on refunding of debt is amortized over the remaining life of the refunded or newly issued bond, whichever is shorter. If debt is extinguished using the District's own reserves, any resulting gain or loss is recognized during the current period and recorded as a deferred inflow or outflow.

Unearned Revenue – Contributions In Aid of Construction that are refundable are recorded as short-term or long-term unearned revenue depending on when construction associated with the contribution(s) is expected to be complete. Additionally, the District has two long-term exchange contracts under which the District received collective prepayments of $2 million that are being amortized into revenue on a straight-line basis over the life of these agreements.

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

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

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses, and related unspent project and debt service funds.

- *Restricted* – This component of net position consists of assets with constraints placed on their use. Constraints include those imposed by debt trust indentures, grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.

- *Unrestricted* – This component of net position consists of net assets and liabilities that do not meet the definition of "restricted" or "net investment in capital assets."

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

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

***Personal Leave Benefit* –** Employees of the District accrue a personal leave benefit based upon a years of service schedule. Personal leave may be used for vacation, sick leave, or other employee absences. The District records personal leave as an expense and a liability as earned. Unused personal leave may be accumulated up to a maximum of 1,200 hours for employees who began service prior to April 1, 2011. For employees hired on or after April 1, 2011, the maximum amount of accrued personal leave is 700 hours.

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

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

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.

2. CASH AND INVESTMENTS

The District's cash deposits at December 31, 2017 and 2016, were either covered by federal depository insurance or protected against loss by being on deposit with financial institutions recognized as qualified public depositories of the State of Washington under the Revised Code of Washington ("RCW") Chapter 39. Subject to specific bond resolution limitations, management is permitted to invest as provided under the laws of the State of Washington.

Unspent cash, and associated investments, received in connection with bond offerings are maintained in funds as required by the District's bond indentures. Restricted assets represent funds that are restricted by bond covenants or third party contractual agreements. Funds that are allocated by Commission resolution are considered to be board designated funds. Board designated funds are a component of unrestricted assets as their use may be redirected at any time by Commission approval.

As of December 31, 2017 and 2016, the District's unrestricted, board designated, and restricted assets included on the Statement of Net Position as Cash and Investments, including accrued interest, consisted of the following:

(amounts in thousands)	2017	2016
Unrestricted assets:		
Unrestricted funds:		
Revenue and Service System funds	$ 89,490	$ 136,227
Board designated funds:		
Electric System Reserve and Contingency fund	121,262	125,820
Self-Insurance Reserve fund	1,048	1,054
Total board designated funds	122,310	126,874
Total unrestricted funds	211,800	263,101
Restricted:		
Construction funds	137,393	107,793
Bond Sinking funds	137,337	128,297
Debt Service Reserve funds	54,769	61,143
Renewal, Replacement and Contingency fund	12,462	12,133
Habitat funds	15,212	13,387
Quincy Chute Renewal and Replacement fund	1,494	1,726
Total restricted funds	358,667	324,479
Total	$ 570,467	$ 587,580

Interest Rate Risk – The District has adopted a formal investment policy and an investment oversight committee which monitors its investment position limitations as a means of managing its exposure to fair value losses arising from increasing interest rates. To further mitigate risk of selling investments early to meet unexpected cash flow needs, a minimum of 20% of the total portfolio will be comprised of investments maturing within one year. To the extent possible, the District matches its investments with anticipated cash flow requirements such as operating, construction, habitat and current year debt service. Other funds such as reserves and long-term sinking funds are invested within targeted effective duration parameters as determined by the investment oversight committee. With the exception of reserve and long-term sinking funds, the District will not invest in securities with an effective duration of more than six years from the date of purchase unless authorized by the investment oversight committee for specific transactions. Callable investments are assumed to be held to maturity.

Credit Risk – The District has adopted a formal investment policy that specifies minimal credit rating acceptability criteria of potential investment issuers as well as both a wholesale and retail electric power customer credit risk management program as a means of managing the District's exposure to credit risk. Pursuant to the investment policy, the minimum credit rating requirement at the time of investment purchase is one of the three highest credit ratings of a nationally recognized rating agency.

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

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

The investment oversight committee actively monitors portfolio composition and seeks to ensure prudent diversification is maintained. The following are the concentrations of risk greater than five percent in either year. The credit ratings listed are from Standard and Poor's as of December 31, 2017. TSY refers to U.S. Treasury securities.

Investments by Issuer	**Credit Rating**	**2017**	**2016**
U.S. Treasuries	TSY	20%	31%
Federal Home Loan Bank	AA+	4%	5%

The District's investments at December 31, 2017 and 2016, as identified on the Statements of Net Position, are shown below by investment type. All investments are either issued or registered in the name of the District or are held by the District or by the District's agent in the District's name, except for funds held in the Washington State Local Government Investment Pool which are not evidenced by securities. The difference between the totals shown in the previous table and table below is accrued interest of $3.5 million and $3.2 million for 2017 and 2016, respectively.

During 2017 and 2016, the District realized $9.7 million and $9.3 million of interest earnings and realized gains from investments, respectively. The unrealized net gain/loss on investments held at December 31, 2017 and 2016, was a $1.0 million net loss and a $2.4 million net loss, respectively. Investments are made in investment types authorized by Washington State law. The types are 1) Obligations of the U.S. Government and its agencies, 2) Repurchase agreements collateralized by U.S. Government obligations, 3) Supranational institutions – debt issued by entities formed by two or more central governments with the purpose of promoting economic development in member countries, 4) Money market funds that have holdings of or are backed by U.S. Government obligations 5) Municipal bonds, 6) Corporate bonds and commercial paper, and 7) the Washington State Treasurer's Local Government Investment Pool ("LGIP" or "State Investment Pool"). Investments by type at December 31, 2017 and 2016, were as follows:

(amounts in thousands)	**2017**	**2016**
U.S. Treasuries	$ 112,030	$ 182,624
Municipal Bonds	199,149	184,588
U.S. Agencies	60,710	102,972
Repurchase Agreements	20,900	28,000
Commercial Paper	26,329	28,071
Supranational Institutions	46,258	-
Corporate Notes	41,856	15,423
State Investment Pool	7,507	-
Total investments	514,739	541,678
Cash	52,225	42,719
Total cash and investments	$ 566,964	$ 584,397

Fair Value Measurements –- The District's investments have been adjusted to reflect fair value measurements as of December 31, 2017, obtained from available financial industry valuation sources. The District categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, "Fair Value Measurement and Application," which was adopted in 2016. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. In particular, the District valued its U.S. Treasuries using quoted prices in active markets. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The State Investment Pool is an unrated external investment pool that invests in a manner consistent with the U.S. Securities and Exchange Commission's rule 2a-7 of the Investment Company Act of 1940. The District reports these investments at amortized cost. Participants may contribute and withdraw funds on a daily basis and must inform the LGIP of any contribution or withdrawal over $1 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for $1 million or less can be requested at any time prior to 10:00 a.m. on the day of the transaction. However, participants may complete transactions greater than $1 million when notification is made between 9:00 a.m. and 10:00 a.m., at the sole discretion of the LGIP. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

Below are the District's fair value measurements as of December 31, 2017 and 2016:

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

(amounts in thousands)	Total 2016	Level 1	Level 2	Level 3	Not Leveled
Investments by fair value level					
Debt Securities					
Municipal Bonds	$ 184,588	$ -	$ 184,588	$ -	$ -
U.S. Treasuries	182,624	182,624	-	-	-
U.S. Agencies	102,972	-	102,972	-	-
Commercial Paper	28,071	-	28,071	-	-
Repurchase Agreements	28,000	-	28,000	-	-
Supranational Institutions	15,423	-	15,423	-	-
Total investments by fair value level	$ 541,678	$ 182,624	$ 359,054	$ -	$ -

3. UTILITY PLANT

Utility plant of the District as of December 31, 2017, and 2016, is summarized as follows:

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

(amounts in thousands)	Balance 2015	Additions	Retirements/ Transfers	Balance 2016
Distribution facilities	$ 494,080	$ 10,738	$ (280)	$ 504,538
Transmission facilities	240,843	297	-	241,140
Hydro facilities				
Power plant structures	73,227	62,789	(1,156)	134,860
Reservoirs, dams, waterways	495,941	-	-	495,941
Power plant equipment	567,504	11,946	(408)	579,042
General facilities				
Quincy Chute (Note 6)	17,771	-	-	17,771
Potholes East Canal (Note 6)	16,450	-	-	16,450
Other generation	30	-	-	30
General plant	408,709	67,542	(402)	475,849
FERC License	119,355	-	-	119,355
Other intangible assets	27,769	6,228	-	33,997
Total	2,461,679	159,540	(2,246)	2,618,973
Accumulated depreciation and amortization	(870,451)	(61,874)	1,716	(930,609)
Subtotal	1,591,228	97,666	(530)	1,688,364
Land and land rights	24,618	-	-	24,618
Construction in progress	265,419	134,669	(159,442)	240,646
Total net utility plant	$ 1,881,265	$ 232,335	$ (159,972)	$ 1,953,628

4. LICENSING

The Priest Rapids Project is operated under a 44-year FERC license that expires in 2052. Costs associated with the relicensing efforts, totaling $57.1 million, were recorded as an intangible asset included in Utility plant and are being amortized over the term of the license. Accumulated amortization related to the relicensing efforts totaled $21.9 million and $19.1 million as of December 31, 2017 and 2016, respectively.

Under the license, the District is committed to numerous obligations related to fish and habitat protection which require payments to other organizations using funds provided by the District. The present value of these obligations totaled $51.5 million as of December 31, 2017, of which approximately $2.3 million is expected to be paid within one year. The present value of the obligations was $55.1 million as of December 31, 2016. These amounts are the FERC Licensing Obligations reflected as liabilities in the Statement of Net Position. The elements of these obligating payments, comprising the Salmon and Steelhead Agreement, Part A (Hatchery Renovation) and Part B (Resident Fish Monitoring and Trout Purchase), are further discussed in Note 7.

5. REVENUE BONDS

In December of 2017, the District issued $64.5 million of fixed rate refunding bonds at a premium of $10.8 million, to refund the ES 2011 - I series, pay issuance costs and fund debt service reserves. Additionally, the District used $12.9 million of debt service reserves to reduce the total amount issued. This transaction realized a $1.2 million current refunding loss that will be amortized through 2023.

In November of 2017, the District issued $49.9 million of fixed rate revenue refunding bonds at a premium of $0.5 million to refund the Electric System 2014 - K issue and pay associated issuance costs. There was no refunding gain or loss. The refunding bonds were issued as a three year soft put fixed rate product, with final maturities ranging between year 2035 and 2044. The bonds are callable at par on or after September 1, 2020 and the end of the Initial Term Rate Period is December 1, 2020 with a Mandatory Tender Date of December 2, 2020.

In September of 2017, the District issued $50 million of variable rate revenue bonds to finance capital improvements to the Electric System through a direct placement with Wells Fargo Bank, National Association. The revenue bonds were issued using a variable rate product that primarily focused on asset liability matching.

In February of 2017, the District issued $7.9 million of fixed rate refunding revenue bonds to refund the Wanapum 2006B issue through a direct placement bond with Government Finance, Inc. The District realized a refunding loss of less than $0.1 million that was expensed in the current year.

In April of 2016, the District issued $50 million of variable rate revenue bonds to finance improvements to the Electric System through a direct placement bond held with Bank of America, N.A.

The District’s total outstanding bonds of $1.3 billion are mostly comprised of fixed rate debt and are secured by a pledge of the net revenues of the District and are on parity with each other.

The District’s variable rate outstanding bonds total $100 million and are secured by a pledge of the net revenues of the District, and are subordinate to the senior fixed rated bonds.

The District's outstanding revenue bonds as of December 31, 2017 and 2016 were as follows:

(amounts in thousands)	2017	2016
Electric System, interest rates of 1.32% to 5.00%, maturing through 2047	$ 282,035	$ 244,795
Priest Rapids Project, interest rates of 2.00% to 5.83%, maturing through 2044	1,048,235	1,080,310
Total revenue bonds outstanding	$1,330,270	$1,325,105

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

(amounts in thousands)	Principal	Interest	Total
2018	$ 31,635	$ 58,721	$ 90,356
2019	79,240	58,841	138,081
2020	80,580	56,807	137,387
2021	31,985	54,979	86,964
2022	32,940	53,379	86,319
2023 - 2027	240,270	241,708	481,978
2028 - 2032	245,315	173,929	419,244
2033 - 2037	227,445	112,137	339,582
2038 - 2042	303,105	45,363	348,468
2043 - 2047	57,755	3,408	61,163
Total	$ 1,330,270	$ 859,271	$ 2,189,541

For the years ending December 31, 2017 and 2016, the District is in compliance with all debt covenants related to the outstanding bonds, which includes a minimum debt service coverage of 1.15x and 1.25x for the Priest Rapids Project bonds and Electric System bonds, respectively.

During the years ended December 31, 2017 and 2016 the following changes occurred in the District's long-term debt:

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

(amounts in thousands)	2015 Balance	Additions	Reductions	2016 Balance	Due Within One Year
Revenue bonds payable	$ 1,306,020	$ 50,000	$ (30,915)	$ 1,325,105	$ 32,075
Unamortized premiums and discounts, net	46,673		(6,245)	40,428	-
Total	$ 1,352,693	$ 50,000	$ (37,160)	$ 1,365,533	$ 32,075

6. POWER PURCHASER COMMITMENTS

Priest Rapids Project

Under the Priest Rapids Power Sales Contracts, the amount of net Priest Rapids Project power costs incurred by the District in serving its load changes on an annual basis in relation to its firm power requirements. The District incurred 75.0% and 73.4% of Priest Rapids Project power costs with power purchasers funding the remaining 25.0% and 26.6% for 2017 and 2016, respectively. Each purchaser is obligated to pay its share of the cost (excluding depreciation and amortization) of producing and delivering power, plus 115% of its share of the amounts required for debt service payments in accordance with the power purchase agreement.

Bonneville Power Administration (BPA)

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

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

Estimated BPA Contractual Payments
(amounts in thousands)

2018	$ 1,031
2019	1,431
2020	2,520
2021	2,579
2022	2,640

Nine Canyon Wind Power Purchase Agreement

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

The District is one of nine public agencies participating in the original project power purchase agreement for Phase I of the Project. The District’s purchaser share of Phase I of the project output was 25% of output up to a maximum of 12 MW. Since the District did not participate in either Phase II or Phase III of the Project, its amended share of the combined Project is 12.54%. In exchange for the output, the District pays its 12.54% share of certain Project costs and its 25% share of Phase I debt service (principal and interest), which is estimated to be a total of $2 million annually.

Yakama Nation Agreement

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

A primary consideration for the agreement is an allocation of the benefit from the Priest Rapids Project to the Yakama Nation. The financial equivalent of 15 aMW was paid during 2010-2015 less the associated power costs. Per the agreement, the financial benefit will be 10 aMW net of cost of production from 2016 through the remainder of the agreement. The net payments to the Yakama Nation totaled $0.4 million and less than $0.1 million during 2017 and 2016, respectively. The agreement expires at the end of the FERC license term (2052). The projected annual cost for this agreement is listed in the table below.

Estimated Yakama Nation Contractual Payments
(amounts in thousands)

2018	$ 451
2019	391
2020	480
2021	578
2022	755
2023	832

Other Sources

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

7. NONPOWER COMMITMENTS

Capital Projects

The District has contractual commitments relating to several Electric System capital improvement projects including electrical system upgrades, multiple transformer purchases, power cable purchases, and substation and distribution line construction projects over the next few years totaling approximately $38.9 million as of December 31, 2017.

The District's improvement programs for the Priest Rapids Project include restoration or replacement of generators, turbine upgrades, development of Crescent Bar recreation area and replacing trunnion bearings and coating systems for spillway gates. The District also is committed to ongoing Dam Safety initiatives, which currently include Priest Rapids Dam's right embankment upgrade, assessment of Wanapum Dam's left embankment and seismic evaluation of concrete structures at both dams. The District intends to, or has committed by contract or regulatory requirement to, fulfill these programs, which are projected to be substantially complete by 2028. The contractually committed amount on future Priest Rapids Project work to be performed on these major capital programs is approximately $249.6 million as of December 31, 2017.

Other Commitments

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

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

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

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

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

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

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

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

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

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

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

Estimated Fixed Habitat Funding Commitments
(amounts in thousands)

2018	$ 2,313
2019	2,356
2020	2,400
2021	2,445
2022	2,491
2023 and thereafter	74,321
Total	$ 86,326

8. RETIREMENT AND DEFERRED COMPENSATION PLANS

State Sponsored Pension Plans

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

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

Contributions

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

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

PERS Plan 1 Actual Contribution Rates:		Employer	Employee
Janaury - June 2017			
PERS Plan 1		6.23%	6.00%
PERS Plan 1 UAAL		4.77%	-
Administrative Fee		0.18%	-
	Total	**11.18%**	**6.00%**
July - December 2017			
PERS Plan 1		7.49%	6.00%
PERS Plan 1 UAAL		5.03%	-
Administrative Fee		0.18%	-
	Total	**12.70%**	**6.00%**

The District's actual contributions to the plan were $3.1 million and $3.0 million for the years ended December 31, 2017 and 2016, respectively.

PERS Plan 2/3 provide retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

Contributions

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

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3			
Actual Contribution Rates:		**Employer**	**Employee**
Janaury - June 2017			
PERS Plan 2/3		6.23%	6.12%
PERS Plan 1 UAAL		4.77%	-
Administrative Fee		0.18%	-
Employee PERS Plan 3		-	varies
	Total	**11.18%**	
July - December 2017			
PERS Plan 2/3		7.49%	7.38%
PERS Plan 1 UAAL		5.03%	-
Administrative Fee		0.18%	-
Employee PERS Plan 3		-	varies
	Total	**12.70%**	

The District's actual contributions to the plan were $3.9 million and $3.8 million for the years ended December 31, 2017 and 2016, respectively.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

There were minor changes in methods and assumptions since the last valuation:

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

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of NPL

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

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

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017 and 2016, respectively, the District reported a total pension liability of $46.4 million and $60.9 million for its proportionate share of the net pension liabilities as follows:

Liability (amounts in thousands)	2017	2016
PERS 1	$ 24,158	$ 28,191
PERS 2/3	22,213	32,731
Total	$ 46,371	$ 60,922

At June 30, 2017 the District's proportionate share of the collective net pension liabilities was as follows:

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

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

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

Pension Expense

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

Pension Expense (amounts in thousands)	2017	2016
PERS 1	$ 649	$ 432
PERS 2/3	2,201	3,893
Total	$ 2,850	$ 4,325

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017 and 2016, respectively, the District recognized deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(amounts in thousands)	2017		2016	
PERS Plan 1	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 901	$ 710	$ -
Contributions subsequent to measurement date	1,640	-	1,488	-
Total	$ 1,640	$ 901	$ 2,198	$ -

(amounts in thousands)	2017		2016	
PERS Plan 2/3	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 2,251	$ 731	$ 1,743	$ 1,080
Net difference between projected and actual investment earnings on pension plan investments	-	5,921	4,005	-
Changes of assumptions	236	-	338	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	1,172	(1,807)	(154)
Contributions subsequent to measurement date	2,455	-	1,951	-
Total	$ 4,942	$ 7,824	$ 6,230	$ 926

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(amounts in thousands)	PERS 1	PERS 2/3
Year ended December 31:		
2018	$ (608)	$ (2,865)
2019	192	249
2020	(45)	(617)
2021	(440)	(2,437)
2022	-	145
2023-2024	-	188
	$ (901)	$ (5,337)

Deferred Compensation Plans

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

The District also administers a 401(a) governmental money purchase plan and trust. Eligible employees may participate in the 401(a) defined contribution plan. The election to participate in the 401(a) defined contribution plan must be made at the time the employee becomes eligible to participate and cannot be changed during the time of their employment. Eligible employees can also elect to contribute to the 457 plan as discussed above. The District's matching employer contributions ($0.50 per $1 of employee contributions) are deposited into the 401(a) plan, and is capped at 2% of straight-time employee wages for the pay period. The District made matching contributions of approximately $1 million in 2017 and 2016.

9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")

Plan Description

The District administers a single-employer defined benefit premium program ("the retiree subsidy plan"). The plan provides a subsidy that covers a portion of healthcare insurance for retirees ages 59½ to 65 and their spouses. The retiree subsidy plan may be amended through collective bargaining (for bargaining unit employees) and ratified by the District's Commission, or changed without bargaining for non-bargaining unit employees. The retiree subsidy plan does not issue a publicly available financial report.

Funding Policy

The District pays a percentage of the medical premiums based upon years of service of the retirees. At the age of 59½, the retiree is eligible for a subsidy of 3% of their premium cost for each year of service up to 30 years (years x 3% x retiree premium). The subsidy cannot be more than the premium amount paid for active employees and is effective until the retiree turns 65. For the years ended December 31, 2017 and 2016, the District paid approximately $0.3 million and $0.1 million in retiree subsidies, respectively.

Annual OPEB Cost and Net Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution ("ARC") of the employer. The District's ARC and related information is based upon an actuarial valuation as required by GASB Statement No. 45. As of year-end, the net OPEB obligation represents the cumulative difference in ARC and payments made through the plan since actuarial accounting began in 2007. The following table shows the components of the District's annual OPEB cost for the years ended December 31, 2017 and 2016:

(amounts in thousands)	**2017**	**2016**
Normal cost with interest	$ 359	$ 350
Amortization amount with interest	243	194
Annual required contribution	$ 602	$ 544
Annual OPEB cost	$ 602	$ 544
Less: benefit payments	(299)	(142)
Increase in net OPEB obligation	303	402
Net OPEB obligation at beginning of year	2,491	2,089
Net OPEB obligation at end of year	$ 2,794	$ 2,491

Funded Status and Funding Progress

As of December 31, 2017 and 2016, the District's Actuarial Accrued Liability ("AAL") was $6.8 million and $6.2 million, respectively, all of which was unfunded. The District has no plans at this time to fund the obligation using an irrevocable trust. The AAL is being amortized over a 30-year period and the increase in net OPEB obligation is accrued each year and is split between the District systems, based on current labor allocations. For 2017 and 2016, the covered payroll (annual payroll of active employees covered by the plan) was $58.6 million and $54 million, respectively, and the ratio of the unfunded obligation to the covered payroll was 11.5% for both years.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the valuation and the sharing of benefit costs between the employer and plan members in effect at the time of the valuation which was December 31, 2017. The Entry Age Normal method is used to develop an Annual Required Contribution and an Actuarial Accrued Liability. The UAAL amortization was changed to a level percentage of payroll over 30 years instead of a level dollar.

The following are the significant assumptions related to the plan's actuarial liability:
***Retirement age for active employees* –** Rates of retirement are the same that were used for PERS participants in the June 30, 2017, actuarial valuation published by the office of the State Actuary.

***Mortality* –** Rates of mortality are the same that were used for PERS participants in the June 30, 2017, actuarial valuation published by the Office of the State Actuary.

***Medical trends* –** Premium increases of 6.3% in 2018, then gradually reducing the increase in premiums to an ultimate rate of 5.0% in 2031 and thereafter.

***Discount rate* –** The discount rate of 3.5% was used in the valuation to reflect expected investment returns. This rate reflects the return available on high quality 20-year, tax-exempt general obligation municipal bonds as of the Measurement Date, as required by applicable GASB statements.

10. CONTINGENCIES

The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material impact on its financial position, results of operations, or cash flows. See Note 13 Subsequent Events, for disclosures related to operational issues discovered at Priest Rapids Dam.

11. TELECOMMUNICATION ACTIVITIES

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

The following is a summary of the results of operations of the wholesale fiber optic and wireless networks, and the related utility plant balances and related additions, as of and for the years ended December 31, 2017 and 2016:

(amounts in thousands)	**2017**	**2016**
Operating revenues		
Wholesale fiber services	$ 6,307	$ 5,663
Dark fiber revenue	483	447
Wireless fiber revenue	70	60
Wholesale fiber optic network sales	$ 6,860	$ 6,170
Operating expenses		
Administrative and general	$ 489	$ 276
Repairs and maintenance	1,433	1,049
Depreciation	7,433	7,049
Total operating expenses	$ 9,355	$ 8,374
Nonoperating revenues		
Contributions in aid of construction	$ 162	$ 14
Utility plant		
Additions to utility plant	$ 3,446	$ 5,363
Utility plant, net of accumulated depreciation	83,561	87,547

12. EXTRAORDINARY LOSS – WANAPUM FRACTURE

On February 27, 2014, a horizontal fracture was discovered on the upstream side of Wanapum Dam's Spillway Monolith Number 4. The District concluded that expenses incurred related to restoration of the fracture were not a part of the normal life cycle of the dam and therefore met the definition of an extraordinary item, as the event was both unusual and infrequent in nature.

In order to correct the original design error in the structure incremental capital costs were incurred to properly anchor the dam into the bedrock with additional steel and concrete reinforcements. The total capital expenditures for these structural improvements were $62.4 million. Repairs related to the fracture were complete in 2015. During 2016, the District received $10.5 million of insurance proceeds and incurred final clean-up expenses of $0.6 million resulting in the $9.9 million extraordinary gain for the year. The District did not have any further costs or recoveries related to the fracture in 2017.

13. SUBSEQUENT EVENTS

In late 2017, electronic spillway drains at Priest Rapids Dam detected elevated pressure levels, which initiated an investigation. Investigatory drilling in the spillway monolith 17 and surrounding monoliths revealed water leakage and led to the reservoir being drawn down to between 481.5 and 484.5 feet above sea level, which is still within normal range of operation for the Dam. Additionally, a non-failure emergency was declared at the Dam on March 28, 2018, out of an abundance of caution. The Priest Rapids spillway monoliths are stable, but merit further investigation. Crews will continue to perform investigative work and devise a repair strategy, if necessary, once analysis is complete. Investigative work is expected to cost approximately $1.5 million and be completed by August 2018. As of April 27, 2018, no indicators that Priest Rapids Dam is impaired exist and the Dam continues to operate within normal operating range. It is probable that repairs will be required to prevent continued leakage and pressure build up within the spillway monoliths, but a range for these repair costs is inestimable at this time. The issue at Priest Rapids Dam is different than the one at Wanapum Dam in 2014, when a fracture was found on the spillway. That repair required prolonged reservoir drawdown. Wanapum Dam has since been completely repaired (see Note 12).

14. SEGMENTS

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

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

CONDENSED STATEMENT OF NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
ASSETS				
Total current assets	$ 126,558	$ 102,443	$ (4,341)	$ 224,660
Net utility plant	591,861	1,453,509	-	2,045,370
Noncurrent	404,999	236,306	(242,903)	398,402
TOTAL ASSETS	1,123,418	1,792,258	(247,244)	2,668,432
Deferred outflows of resources	18,937	8,395	(15,196)	12,136
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,142,355	$ 1,800,653	$ (262,440)	$ 2,680,568
LIABILITIES				
Current	$ 45,171	$ 111,413	$ (2,367)	$ 154,217
Noncurrent	318,796	1,369,788	(244,851)	1,443,733
TOTAL LIABILITIES	363,967	1,481,201	(247,218)	1,597,950
Deferred Inflows of resources	3,556	20,365	(15,196)	8,725
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	367,523	1,501,566	(262,414)	1,606,675
NET POSITION				
Net investment in capital assets	320,285	195,090	246,516	761,891
Restricted	12,648	149,531	2,807	164,986
Unrestricted	441,899	(45,534)	(249,349)	147,016
TOTAL NET POSITION	774,832	299,087	(26)	1,073,893
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 1,142,355	$ 1,800,653	$ (262,440)	$ 2,680,568

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
OPERATING REVENUES				
Retail energy sales	$ 188,472	$ -	$ -	$ 188,472
Sales to other utilities	54,753	-	-	54,753
Sales to power purchasers at cost	-	168,172	(126,383)	41,789
Other	8,895	-	-	8,895
Total operating revenues	252,120	168,172	(126,383)	293,909
OPERATING EXPENSES				
Depreciation and amortization	35,845	30,361	-	66,206
Other operating expenses	178,212	80,777	(126,383)	132,606
Total operating expenses	214,057	111,138	(126,383)	198,812
NET OPERATING INCOME	38,063	57,034	-	95,097
OTHER REVENUES (EXPENSES)				
Interest and other income	11,756	6,274	(5,197)	12,833
Interest on revenue bonds and other, net of capitalized interest	(8,382)	(54,222)	5,671	(56,933)
Federal rebates on revenue bonds	-	10,556	-	10,556
Amortization of debt discount/premium	1,305	4,078	(474)	4,909
Cost of debt issuance	(902)	(71)	-	(973)
Total other revenues (expenses)	3,777	(33,385)	-	(29,608)
CONTRIBUTIONS IN AID OF CONSTRUCTION	10,649	-	-	10,649
CHANGE IN NET POSITION	52,489	23,649	-	76,138
NET POSITION				
Beginning of year	722,342	275,439	(26)	997,755
End of year	$ 774,831	$ 299,088	$ (26)	$ 1,073,893

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

CONDENSED SCHEDULE OF CASH FLOWS

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

CONDENSED STATEMENT OF NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
ASSETS				
Total current assets	$ 174,269	$ 114,520	$ (66,394)	$ 222,395
Net utility plant	571,248	1,382,380	-	1,953,628
Noncurrent	285,619	197,658	(72,971)	410,306
TOTAL ASSETS	1,031,136	1,694,558	(139,365)	2,586,329
Deferred outflows of resources	19,920	10,307	(16,432)	13,795
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,051,056	$ 1,704,865	$ (155,797)	$ 2,600,124
LIABILITIES				
Current	$ 50,675	$ 122,762	$ (22,349)	$ 151,088
Noncurrent	277,664	1,289,680	(116,989)	1,450,355
TOTAL LIABILITIES	328,339	1,412,442	(139,338)	1,601,443
Deferred inflows of resources	375	16,984	(16,433)	926
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	328,714	1,429,426	(155,771)	1,602,369
NET POSITION				
Net investment in capital assets	336,417	184,089	118,014	638,520
Restricted	20,317	138,401	1,832	160,550
Unrestricted	365,608	(47,051)	(119,872)	198,685
TOTAL NET POSITION	722,342	275,439	(26)	997,755
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 1,051,056	$ 1,704,865	$ (155,797)	$ 2,600,124

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

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
OPERATING REVENUES				
Retail energy sales	$ 175,798	$ -	$ -	$ 175,798
Sales to other utilities	62,521	-	-	62,521
Sales to power purchasers at cost	-	148,397	(108,396)	40,001
Other	7,996	-	-	7,996
Total operating revenues	246,315	148,397	(108,396)	286,316
OPERATING EXPENSES				
Depreciation and amortization	33,614	28,342	-	61,956
Other operating expenses	158,997	75,017	(108,396)	125,618
Total operating expenses	192,611	103,359	(108,396)	187,574
NET OPERATING INCOME	53,704	45,038	-	98,742
OTHER REVENUES (EXPENSES)				
Interest and other income	7,561	5,887	(3,440)	10,008
Interest on revenue bonds and other, net of capitalized interest	(7,654)	(52,357)	3,542	(56,469)
Federal rebates on revenue bonds	-	10,545	-	10,545
Amortization of debt expense, discount, and premium	1,332	3,860	(98)	5,094
Cost of debt issuance	(167)	(28)	-	(195)
Total other revenues (expenses)	1,072	(32,093)	4	(31,017)
CONTRIBUTIONS IN AID OF CONSTRUCTION	4,603	-	-	4,603
EXTRAORDINARY LOSS - WANAPUM FRACTURE	-	9,896	-	9,896
CHANGE IN NET POSITION	59,379	22,841	4	82,224
NET POSITION				
Beginning of year	662,963	252,598	(30)	915,531
End of year	$ 722,342	$ 275,439	$ (26)	$ 997,755

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

CONDENSED SCHEDULE OF CASH FLOWS

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
Net cash provided by operating activities	$ 88,088	$ 90,604	$ 2,774	$ 181,466
Net cash provided by (used in) capital and related financing activities	12,425	(119,457)	(32,755)	(139,787)
Net cash (used in) provided by investing activities	(97,350)	62,197	29,413	(5,740)
NET DECREASE IN CASH	$ 3,163	$ 33,344	$ (568)	$ 35,939
CASH AT END OF YEAR	$ 4,085	$ 39,722	$ (1,088)	$ 42,719
CASH AT BEGINNING OF YEAR	923	6,378	(521)	6,780
NET INCREASE/DECREASE IN CASH	$ 3,162	$ 33,344	$ (567)	$ 35,939

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Schedule of the District's Proportionate shares' of the Net Pension Liability

(amounts in thousands)

	PERS 1		PERS 2/3	
Measurement Date Ended June 30	**2017**	**2016**	**2017**	**2016**
Proportion of the net pension liability	0.509107%	0.524928%	0.639308%	0.650080%
Proportionate share of the net pension liability	$ 24,158	$ 28,191	$ 22,213	$ 32,731
Covered-employee payroll	648	913	62,862	58,869
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	3728.09%	3087.73%	35.34%	55.60%

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Schedule of the District's Contributions

(amounts in thousands)

PERS 1

Fiscal Year Ended June 30	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 72	$ 102	$ 86	$ 114	$ 112	$ 163	$ 128	$ 164	$ 267	$ 211
Contributions in Relation to the Contractually Required Contribution Subtotal	(72)	(102)	(86)	(114)	(112)	(163)	(128)	(164)	(267)	(211)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 648	$ 913	$ 956	$ 1,277	$ 1,586	$ 2,382	$ 2,578	$ 3,398	$ 3,693	$ 3,889
Contributions as a Percentage of Covered Employee Payroll	11.11%	11.17%	9.00%	8.93%	7.06%	6.84%	4.97%	4.83%	7.23%	5.43%

PERS 2/3

Fiscal Year Ended June 30	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 4,030	$ 3,685	$ 3,026	$ 2,984	$ 2,756	$ 3,923	$ 3,001	$ 2,934	$ 4,200	$ 2,824
Contributions in Relation to the Contractually Required Contribution Subtotal	(4,030)	(3,685)	(3,026)	(2,984)	(2,756)	(3,923)	(3,001)	(2,934)	(4,200)	(2,824)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$62,862	$58,869	$60,273	$60,446	$58,703	$55,948	$58,289	$55,851	$52,138	$47,568
Contributions as a Percentage of Covered Employee Payroll	6.41%	6.26%	5.02%	4.94%	4.69%	7.01%	5.15%	5.25%	8.06%	5.94%
PERS Plan 1 UAAL*	$ 2,998	$ 2,898	$ 2,417	$ 2,428	$ 1,383	$ -	$ -	$ -	$ -	$ -

Notes to Schedules

Grant County PUD #2 implemented GASB 68 for the year ended June 30, 2015.

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

Schedule of Funding Progress for Postretirement Health Benefits Program

(amounts in thousands)

Fiscal Year Ended	Actuarial Value of Assets	Covered Payroll	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio
12/31/2009	$ -	$ 55,831	$ 5,182	$ 5,182	0%
12/31/2011	-	60,867	4,168	4,168	0%
12/31/2013	-	60,289	4,127	4,127	0%
12/31/2015	-	61,229	5,808	5,808	0%
12/31/2017	-	58,579	6,806	6,806	0%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 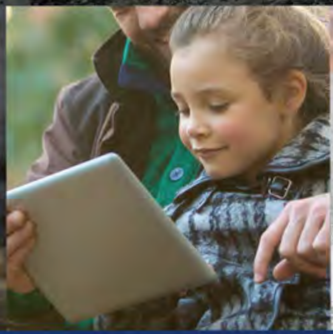   

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