Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Vera Water and Power

For the period January 1, 2017 through December 31, 2017

Published October 11, 2018

Report No. 1022265

Office of the Washington State Auditor

Pat McCarthy

October 11, 2018

Board of Directors
Vera Water and Power
Spokane Valley, Washington

Report on Financial Statements

Please find attached our report on the Vera Water and Power's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Vera Water and Power
Spokane County
January 1, 2017 through December 31, 2017

Board of Directors
Vera Water and Power
Spokane Valley, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Vera Water and Power, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 28, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

August 28, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Vera Water and Power
January 1, 2017 through December 31, 2017

Board of Directors
Vera Water and Power
Spokane Valley, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Vera Water and Power, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

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Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vera Water and Power, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

August 28, 2018

FINANCIAL SECTION

Vera Water and Power
January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

VERA WATER AND POWER

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The management of Vera Water and Power (the District) offers readers of these financial statements this overview and summary analysis of the financial activities of the District for the year ended December 31, 2017. This annual report consists of a series of financial statements: The Statement of Net Position, Statement of Revenues and Expenses, and Changes in Fund Net Position. This report provides information about the activities of the District and present a longer-term view of the District's finances.

This section of the financial report is designed to assist the reader in focusing on significant financial activities and issues, as well as important changes in the District's financial position and results of operations. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

The District's overall financial condition remains very strong with some improvement over the past year. Two of the District's financial policies are:

- Unrestricted cash balances will equal or exceed 200 days of operating expenses. When cash balances fall below 90% of the goal, a line item will be added to the annual budget to recover the deficit through rates, cost reductions, a bond sale or other actions as may be approved by the Board. When cash balances exceed 120% of the goal, an agenda item will be added to the annual budget presentation to discuss this balance and determine if a balance reduction through early debt repayment, capital projects, increasing restricted funds or some other action as approved by the Board should be taken.

- Debt Service coverage on senior lien debt shall be greater than 1.5 times the maximum annual debt service.

As of December 31, 2017, and 2016, the District's cash balances are 161 and 132 days of expenditures, respectively. Unrestricted Cash and Investments increased from $5.4 million in 2016 to $7 million in 2017. This increase is largely due to replenishing of reserves used to fund significant infrastructure projects with a bond sale.

As of December 31, 2017, and 2016, the debt service coverage ratio is 3.80 and 4.45, respectively. The decrease in the debt service ratio is attributable to the added debt service from the 2017 Bonds.

FINANCIAL HIGHLIGHTS (cont.)

2017 Bond Sale

The District executed a Bond Purchase Contract issuing Water and Electric Power Revenue Bonds in the principal amount of $4,100,000 (the 2017 Bonds), dated April 7, 2017.

Proceeds of the Bonds were deposited into the 2017 Project Fund and will be used to finance: (a) electrical upgrades for the Vera, Valleyway and Sullivan Substations; (b) electrical plant improvement projects including the building of a mechanic maintenance shop; (c) overhead distribution system improvements; (d) underground distribution system improvements, and (d) pay the issuance costs of the Bonds.

The Bonds maturity date is January 1, 2037 and bears interest rates ranging from 1.65% to 4.00% throughout their maturity. Interest is payable semiannually on January 1 and July 1. The Bonds maturing on and after January 1, 2028 may be called for early redemption on or after January 1, 2027 in whole or in part (and if in part, with maturities to be selected by the District) on any date at a price of par plus accrued interest to the date of redemption.

Moody’s Investors Service has assigned a rating of “Aa3” to the Bonds.

Along with the 2017 Bond Sale, the District purchased a Bond Reserve insurance policy for $28,000. The policy covers the District’s entire portfolio of Revenue Bonds. The policy allowed the District to transfer the Debt Reserve of $967,338 to the General Fund.

2017B Bond Sale

The District finalized a bond sale on August 30, 2017 in the amount of $5.3 million in Refunding Bonds (the 2017B Bonds) The District received a premium from this sale totaling $415,046. The range of interest rates on the bonds is 1.00% on short maturities and climbs to 4.00%. Interest is payable semiannually on January 1 and July 1. The Term Bonds maturing on and after January 1, 2028 are subject to redemption at the option of the District on and after January 1, 2027 in whole or in part (and if in part, with maturities to be selected by the District) on any date at a price of par plus accrued interest to the date of redemption.

The proceeds from this bond sale were used to refund the series 2012 Revenue Refunding Bonds (2012 Bonds). The 2012 Bonds has an outstanding principle of $5.5 million for maturities January 1, 2018 through January 1, 2032, inclusive. As a result of the refunding, the District reduced its total debt service requirements by $253,000.

Moody’s Investors Service has assigned a rating of “Aa3” to the 2017B Bonds.

FINANCIAL HIGHLIGHTS (cont.)

As noted in Moody's report dated March 15, 2017:
"The Aa3 rating incorporates the enterprise's history of strong debt service coverage and cash management practices, favorable water and electric retail rates compared to regional peers, and low cost power supply from the Bonneville Power Administration. The rating additionally considers the stability of the water supply and the small size of the system and customer base located within the Spokane metropolitan area."

2015 Windstorm

On Nov. 17, 2015 a windstorm with gusts up to 71 mph ripped through the region, causing extensive damage and widespread outages. Roughly 6,000 Vera Water and Power customers were without power. To return the electric distribution system to its pre-disaster design, function and capacity, the District used a combination of contract services for tree trimming, mutual aid from a neighboring utility, Modern Electric Water Co, many pieces of equipment and over 3,300 labor hours of District personnel. However, due to the widespread damage caused by the storm, some customers were out for up to eight days. On Nov. 24, power was restored to all known outages.

After President Obama's declaration of the 2015 Wind Storm Disaster (Declaration # FEMA-4249-DR-WA), the District entered into a Public Assistance Grant Agreement with the Washington State Military Department. The District, working with FEMA, have totaled eligible expenditures resulting from the Wind Strom that have exceeded $400,000. As of December 31, 2016, the District received $344,286 from FEMA for reimbursement of the storm costs.

The District is expected to receive the remaining $36,477 once FEMA approves the final inspection report, which as of December 31, 2017 has not occurred.

THE STATEMENT OF NET POSITION AND CHANGES IN NET POSITION

The Statement of Net Position and the Statement of Revenues and Expenses and Changes in Fund Net Position report information about the District and about its activities. These statements include all assets and liabilities using the accrual basis of accounting. All the current year's revenues and expenses are considered regardless of when cash is received or paid.

These two statements report the District's net position and its changes. You can think of the District's net position - the difference between assets and liabilities - as a way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator as to whether its financial health is improving or deteriorating.

Our analysis below focuses on the net position and changes in net position of the District:

Statement of Net Position
(In thousands)

	2017	2016
Current and Other Assets	14,463	12,267
Capital Assets	57,290	54,390
Deferred Outflows - Pensions	431	612
Total Assets	**72,184**	**67,269**
Current Liabilities	3,128	3,595
Non-Current Liabilities	18,602	15,215
Deferred Inflows - Pensions	386	51
Total Liabilities	**22,116**	**18,861**
Net Position		
Invested in Capital Assets	41,398	41,973
Restricted – Debt Service	815	1,686
Unrestricted	7,855	4,750
Total Net Position	**50,068**	**48,409**

THE STATEMENT OF NET POSITION AND CHANGES IN NET POSITION (cont.)

The following is a detail of capital assets for the last two years:

Capital Assets at Year-end
(In thousands)

	2017	2016
Utility Plant	80,114	75,990
Land	2,515	2,515
Transportation Equipment	3,053	3,000
Construction in Progress	1,196	717
Other Utility Plant	18	18
Less: Accumulated Depreciation	(29,607)	(27,850)
Total Utility Plant, net	**57,289**	**54,390**

Capital assets grew to $57.3 million as of December 31, 2017. The major additions for 2017 and 2016 are as follows (in thousands):

	2017	2016
Underground Distribution Projects	674	816
Transportation Equipment	175	605
Overhead Distribution & Pole Replacement Projects	571	463
New and Replaced Electric Meters	227	284
Water Mains and Hydrants Paid for by Developers	489	177
Sunacres Sewer Plant	0	1,376
16th & Sullivan Substation	0	3,522
Morningside and Morrow Park Booster Upgrades	189	0
Vera Substation Upgrades	799	0
	3,124	**7,243**

2017 Capital Projects

Vera Substation Upgrades

In 2017 the District continued a multi-year plan to upgrade its electric infrastructure. The upgrades will improve reliability, provide redundancy, and ensure continued safe operations of the system. The first step was the completion of the 16th & Sullivan substation in 2016. In 2017 the District completed upgrades to the Vera substation including the installation of a circuit switcher, replacing regulators, and upgrading the metering equipment. The cost to complete the Vera substation was $799,170.

THE STATEMENT OF NET POSITION AND CHANGES IN NET POSITION (cont.)

2017 Capital Projects (cont.)

Sullivan and Valleyway Substation Upgrades

Similar upgrades to what the District completed at Vera substation have been begun at the remaining two substations as well. The District will compete the upgrades in 2018 and as of December 31, 2017 has spent $475,145 to upgrade these substations. This amount is still considered work in process for the District's capital assets.

Water Booster Station Upgrades

The District installed 2 additional pumps each in the Morningside Booster and the Morrow Park Booster stations. The additional pumps are needed to serve growth. In the case of the Morningside Booster a developer contributed $60,000 to expedite installation. The district's net cost to install the 4 additional booster pumps is $128,988.

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

Below is a detail of the District's outstanding debt:

Outstanding Long-Term Debt (exclusive of current portion), at Year-End
(In thousands)

	2017	2016
Revenue and Refunding Bonds	$14,855	$11,410
Drinking Water Loan	219	283
SRF Loan - Sunacres	206	215
Total	**$15,280**	**$11,908**

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN FUND NET POSITION

Changes in Net Position
(In thousands)

	2017	2016
OPERATING REVENUES	**19,842**	**18,230**
OPERATING EXPENSES	**18,321**	**17,095**
OPERATING INCOME	**1,521**	**1,135**
NONOPERATING REV. AND EXP.	**(489)**	**643**
INCOME BEFORE CONTRIBS. AND SPEC. ITEMS	**1,032**	**1,778**
Capital Contributions by Developers	457	177
Capital Contributions by Customers - Solar Project	0	39
Contributed Capital - Sunacres Sewer Plant Disposal	170	(37)
Adjustment of Accrued Admin Costs for Conservation and Unclaimed Funds	1	(30)
INCREASE IN NET POSITION	**1,660**	**1,927**
TOTAL NET POSITION, beginning of year	**48,408**	**46,481**
TOTAL NET POSITION, end of year	**50,068**	**48,408**

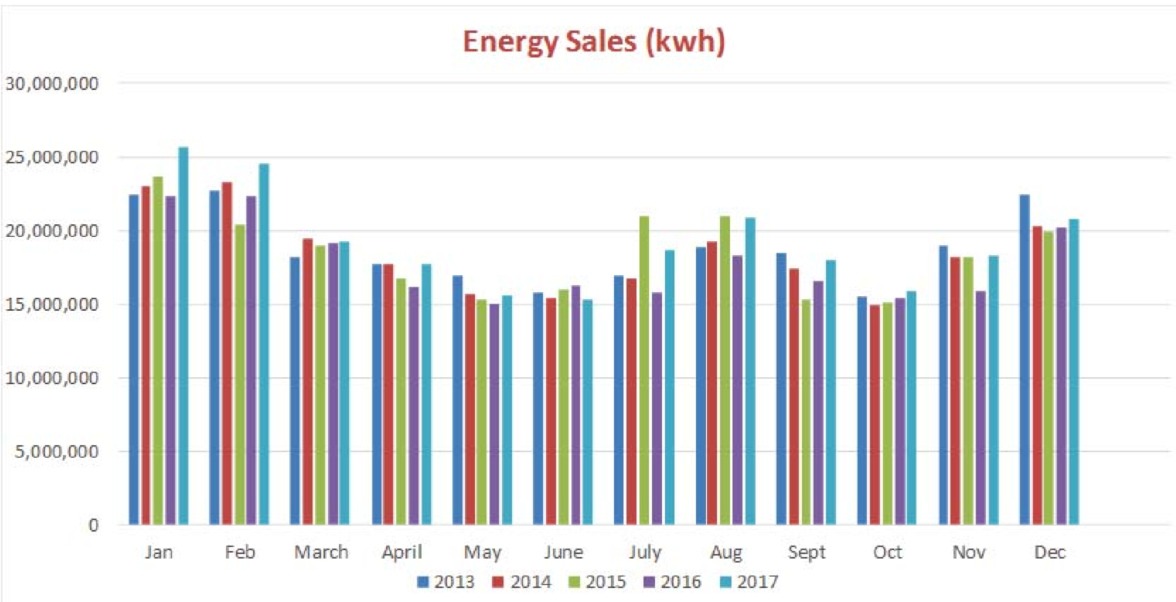
Electric Rates

Effective October 1, 2017 Vera's electric rates increased throughout all customer classes. This is primarily a result of an increase of 7.11% in wholesale power and 0.6% in transmission costs from Bonneville. Additional debt service requirements as well as material and labor inflation were also factored into the increase. This rate increase affected only three months of 2017.

STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN FUND NET POSITION (cont.)

Electric Division Sales

Electric sales increased to 230,995,601 kwh in 2017 as compared to 213,479,379 kwh in 2016. This 8.21% increase in electric sales is due primarily to weather differences impacting kwh sales and customer growth.



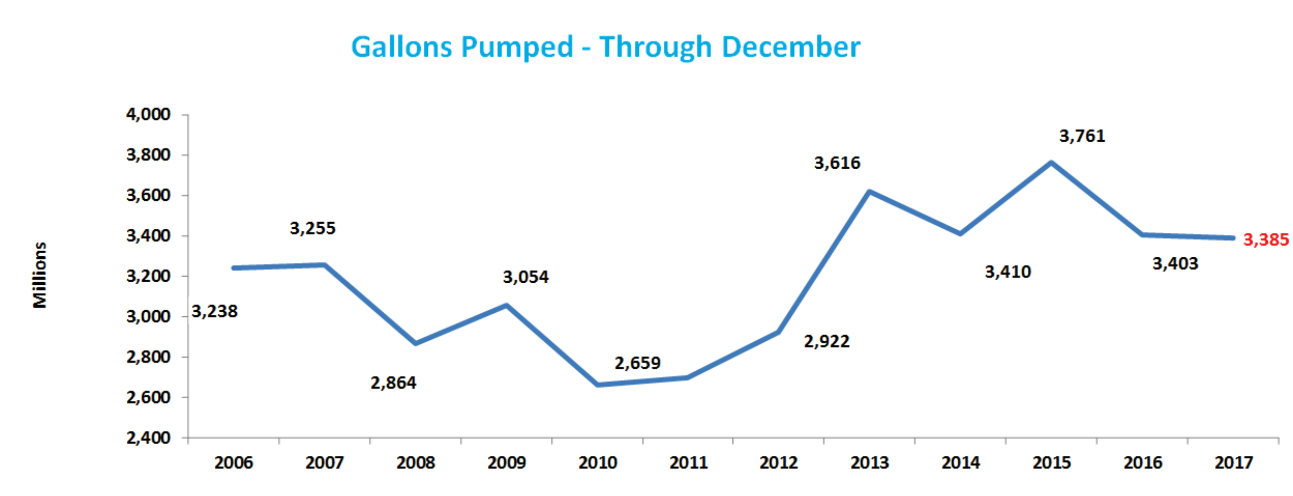
Water Rates

Water rates were not adjusted in 2017. The district performed a cost of service study for the water division in 2017. Results were presented to the board which adjusted the district's rate structure effective June 1, 2018.

STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN FUND NET POSITION (cont.)

Water Division Sales

Water Sales were $2,342,000 in 2017 versus $2,282,000 in 2016. The District pumped 3.4 billion gallons of water in 2017 and 2016. The following graph represents gallons of water pumped for the last 12 years. The variations from year to year are mostly weather dependent.



The District's Water Division's customers grew to 8,357 in 2017 from 8,226 in 2016.

Sewer Rates

The base sewer rates remained unchanged at $50 per month per customer in 2017. Additionally, the construction costs and general facilities charge (GFC) for the new lift station are being paid for through rates. The 41 sewer customers were given the choice of paying up front or financing through service rates. 11 customers paid in full. The remainder are paying additional monthly charges of $142.12 for construction and $115.84 for GFC.

STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN FUND NET POSITION (cont.)

Operating Expenses

The following is a summary of the fluctuations of expense as presented in the Statement of Revenues and Expenses and Changes in Fund Net Position:

- The increase in the Cost of Purchased Power is due to the rate increase from Bonneville, who adopted a 7.11% average wholesale power rate increase and a .6% average transmission rate increase beginning October 1, 2017. In addition, the cost of purchased power increased due to increased demand and kwh sales in 2017.

- General Operations and Maintenance Expense increased by 3% comparing 2016 to 2017. This modest increase is in line with inflation on materials and labor.

- Customer Services Expense increase by 6.1% comparing 2016 to 2017. This increase is due to:

    - Switching to a 24/7 answering service whose only customers are utilities. This allows for proficient handling of outages and after-hours situations.
    - Increase in credit card discount and fees from more customers using the District's website to pay their monthly utility bill.

- Depreciation expense increased by 10.6% comparing 2016 to 2017. This is due to significant infrastructure projects from 2016 being put into service. These projects are being depreciated starting in 2017.

Contributions in Aid of Construction

The District capitalized Contributions in Aid of Construction of $456,783 and $177,521 for 2017 and 2016, respectively. These costs represent donations of water lines and hydrants by developers in the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances. If you have questions about this report or need additional financial information, contact the Assistant General Manager at Vera Water and Power, P.O. Box 630, Spokane Valley, WA 99037.

VERA WATER AND POWER
Statement of Net Position
December 31, 2017

	2017
ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents	1,033,410
Temporary Investments	6,044,949
2017 Bond Construction Fund Investments	1,513,564
Accounts Receivable - Customer and Other	1,859,187
Inventories	840,945
Prepayments and Other	167,980
TOTAL CURRENT ASSETS	**11,460,035**
NONCURRENT ASSETS:	
Debt Service Cash and Investments	815,390
Capital Assets:	
Utility Plant in Service	80,113,567
Land	2,515,235
Transportation Equipment	3,053,112
Construction Work in Progress	1,196,240
Other Utility Plant	18,370
Less: Accumulated Depreciation	(29,606,792)
Total Capital Assets (Net)	57,289,732
Unamortized Debt Discount	385,519
Unamortized Water and Electric System Study Costs	147,022
Regulatory Asset - Bonneville Switch	339,983
Bonneville Transmission Credits Receivable	1,314,599
TOTAL NONCURRENT ASSETS	**60,292,245**
DEFERRED OUTFLOWS	
Pensions	431,225
TOTAL DEFERRED OUTFLOWS	**431,225**
TOTAL ASSETS	**72,183,505**

The Accompanying Notes Are An Integral Part Of The Financial Statements

VERA WATER AND POWER
Statement of Net Position
December 31, 2017

	2017
LIABILITIES	
CURRENT LIABILITIES:	
Accounts Payable	1,431,919
Interest Accrued	243,419
Bonds and Notes Payable, portion due within one year	611,952
Other Current and Accrued Liabilities	839,758
TOTAL CURRENT LIABILITIES	**3,127,048**
NONCURRENT LIABILITITES:	
Bonds and Notes Payable, portion due after one year	15,279,527
Unamortized Debt Premium	1,045,932
Net Pension Liability	2,276,903
TOTAL NONCURRENT LIABILITIES	**18,602,362**
DEFERRED INFLOWS	
Pensions	385,588
TOTAL DEFERRED INFLOWS	**385,588**
TOTAL LIABILITIES	**22,114,998**
NET POSITION	
Invested in capital assets, net of related debt	41,398,253
Restricted Net Assets - Debt Service	815,390
Unrestricted	7,854,864
TOTAL NET POSITION	**50,068,507**
TOTAL NET POSITION AND LIABILITIES	**72,183,505**

The Accompanying Notes Are An Integral Part Of The Financial Statements

VERA WATER AND POWER
Statement of Revenues and Expenses and Changes in Fund Net Position
For the Fiscal Year Ended December 31, 2017

	2017
OPERATING REVENUES	
Utility Sales	19,073,643
Other Operating Revenues	768,133
TOTAL OPERATING REVENUES	**19,841,776**
OPERATING EXPENSES:	
Cost of Purchased Power	9,528,040
General Operations & Maintenance	2,867,873
Cost of Pumping Water	470,538
Customer Services	1,564,293
General Administration	786,885
Depreciation & Amortization Expense	2,091,453
Taxes	780,184
Special Sales & Services Costs	231,303
TOTAL OPERATING EXPENSES	**18,320,569**
OPERATING INCOME	**1,521,207**
NONOPERATING REVENUES AND EXPENSES:	
Loss on Utility Plant Disposal	(47,526)
Interest Income	65,280
Interest Expense	(527,672)
Debt Discount Amortization Expense	(18,840)
Debt Premium Amortization Revenue	39,759
TOTAL NONOPERATING REVENUES AND EXPENSES	**(488,999)**
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	**1,032,208**
Capital Contributions by Developers	456,783
Contributed Capital - Sunacres Sewer Plant Disposal	169,768
Adjustment of Accrued Admin Cost for Conservation and Unclaimed Funds	1,157
INCREASE IN NET POSITION	**1,659,916**
TOTAL NET POSITION, beginning of year	**48,408,591**
TOTAL NET POSITION, end of year	**50,068,507**

The Accompanying Notes Are An Integral Part Of The Financial Statements

VERA WATER AND POWER
Statement of Cash Flows
For the Year Ended December 31, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	19,370,541
Payments for Purchased Power	(9,386,226)
Payments for payroll expenses	(4,056,989)
Payments to all other suppliers	(3,169,553)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**2,757,773**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for Purchase of Utility Plant	(4,601,241)
Payments to Retire Bond and Loan Principal	(535,401)
Payments for Water Cost of Service Study	(34,016)
Proceeds from 2017 Bonds Sale	4,356,567
Retirement of 2012 Bonds	(5,435,000)
Proceeds on 2017B Refunding Bond	5,669,366
Sunacres Repayments of GFC and Construction	169,768
Proceeds from Sale of Equipment	40,940
Interest paid	(498,571)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	**(867,588)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	27,621
NET CASH PROVIDED BY INVESTING ACTIVITIES	**27,621**
NET INCREASE IN CASH	**1,917,806**
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	7,489,507
CASH & CASH EQUIVALENTS, END OF YEAR	**9,407,313**

The Accompanying Notes Are An Integral Part Of The Financial Statements

VERA WATER AND POWER
Statement of Cash Flows
For the Year Ended December 31, 2017

	2017
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
OPERATING INCOME	**1,521,207**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization Expense	2,091,453
Net Changes In:	
Accounts Receivable - Customer and Other	(471,235)
Bonneville Transmission Credits Receivable	419,961
Material and Supplies	(33,093)
Prepayments and Other	15,856
Accounts Payable	(668,696)
Accrued Liabilities	(117,680)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**2,757,773**
NONCASH INVESTING, CAPITAL & FINANCING ACTIVITIES:	
Capital Contributions by Developers	396,783

The Accompanying Notes Are An Integral Part Of The Financial Statements

VERA WATER AND POWER
Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Vera Water and Power (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

a. Reporting Entity

The District is a quasi-municipal corporation governed by an elected five-member board and operated under the laws of the State of Washington applicable to Irrigation Districts. As required by GAAP, management has considered all potential component units in defining the reporting entity. The District has no component units and operates three utility divisions (electric, water and sewer).

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

The District statements are reported using the economic resources measurement focus and the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of the cash flows. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The District has not accrued year end unbilled revenues. The District has recorded revenues based on total customer billings. The customer meters are read and billed at various times during the month. Actual energy usage in the current period may not be billed until the subsequent period. The District's management has determined that the amount of unbilled revenues would be immaterial to the financial statements taken as a whole.

Other operating revenues include the gains and losses from disposal of utility plant.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The District distinguishes between operating revenues and expenses from non-operating revenues. Operating Revenues are revenues billed to customers of the District for usage of electricity, water, sewer and street lights. Other Operating Revenues are amounts billed for credit and collection fees, hookup fees and chargeable construction work orders. Operating Expenses for the District include purchased power, general maintenance and operations expense and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

c. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents

d. Utility Plant & Depreciation

See note 4 regarding capitalization, depreciation and retirement of Utility Plant.

e. Debt Service Cash & Investments

In accordance with bond resolutions, separate restricted funds are required to be established. The assets held in these funds restricted for debt service total $815,390 as of December 31, 2017.

Assets and liabilities shown as current in the accompanying Statement of Net Position exclude current maturities on revenue bonds and accrued interest thereon because debt service funds are provided for their payment.

These funds are included in the cash and investments detailed in the Cash and Investments note 3.

f. Receivables

The District has a lien on all property, within its boundaries. Because of this lien, the District does not have a policy for estimating and/or writing off uncollectible accounts receivable. There are instances, however, where the District may write off certain accounts because of a court order. The District also may write off certain accounts resulting from pole-hits and other activities as they are deemed uncollectible.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

g. Inventories

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

h. Investments

All temporary investments are stated at cost plus accrued interest which approximates market. Management intends to hold its investments until maturity. See the Deposits and Investments Note No. 3 for more detailed information concerning the District's investments.

i. Compensated Absences

All of the District's full-time employees have a one leave bank system titled "Personal Time Off" (PTO). PTO is payable upon termination. The PTO liability included in other current and accrued liabilities as of December 31, 2017 is $749,764.

j. Unamortized Debt Discount and Debt Premium

Costs relating to the sale of bonds are deferred and amortized over the lives of the various bond issues.

k. 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.

l. Long-Term Debt (See Note 5, Long Term Debt)

2. THE DISTRICT'S POWER SUPPLY

The District, a statutory preference customer of the BPA, is entitled to the same preference rights as BPA's other preference customers and, as such, has priority to purchase power over BPA's non-preference customers. The District purchases power from BPA pursuant to a twenty-year "Full Service Power Sales Agreement" which expires in 2028.

In December 2008, BPA signed new wholesale power contracts with its preference customers, including the District, and some investor-owned utilities. These new long-term contracts are effective from October 1, 2011 through September 30, 2028. The contracts deliver low-cost power sourced from federally owned, Northwest based, hydroelectric facilities for long durations. This provides customers with highly reliable power supply and BPA with highly predictable sources of revenue that will cover its costs to the U.S. Treasury.

Bonneville's rates include a Cost Recovery Adjustment Clause (CRAC) to allow BPA a temporary upward adjustment to power rates. The CRAC is triggered when accumulated and modified net revenues reach thresholds as established in the rate case. A Dividend Distribution Charge, which could reduce rates under certain circumstances, was also included. These adjustments were not needed for fiscal years 2012 through 2017. Bonneville's financial conditions did not deteriorate sufficiently during fiscal years 2012 through 2017 and there were not significant fish costs associated with a qualifying trigger event requiring the rate adjustment. Should the events described above occur, they could trigger the cost recovery rate adjustments.

Due to a rise in wholesale costs from BPA and inflationary cost increases for other expenses, the District increased electric rates effective October 1, 2017. The rate increase also takes into account the recently completed cost of service study. BPA increased its wholesale costs and, as noted above, the District purchases nearly all of its power and transmission from BPA which directly affects the District's rates. The rate increase provided funds for system upgrades to ensure reliable operation of the power system and continued financial stability for the District in the present day and into the future.

The BPA contract gives the District a contract-defined right to purchase an amount of power at Tier 1 rates. Power at Tier 1 rates would be limited to the output of the existing resources of the federal system as of fiscal year 2011, together with limited potential additional resources, the amount of which is capped by contract. Tier 1 rates are expected to remain relatively low and stable because they recover the existing overhead of the federal system, which in the aggregate, is expected to be a low-cost portfolio of generating resources.

2. THE DISTRICT'S POWER SUPPLY (cont.)

As the District's load demand grew, it had the choice of purchasing this incremental need from BPA at Tier 2 rates or securing their own resources. Tier 2 rates are customarily set to cover the full cost of additional power purchased by BPA to meet additional loads. In order to respond to the Tier 2 requirement, the District joined NIES.

In May 2009, the following three legal entities were incorporated; Northwest Energy Supply Cooperative ("NESC"), NIES, and Northwest Energy Management Services ("NEMS"). The cooperatives joined NESC; and the municipals, PUD's, and special purpose districts (including the District) joined NIES; and the two organizations signed agreements with NEMS.

NIES has completed multiple market purchases to serve load placed by its members. Administrative costs, resource investigation costs and resource costs are allocated to members based on load placement. NESC and NIES separately sign contracts for resources that are added to the resource pools. The credit support of NESC and NIES remains separate to conform to underlying legal requirements.

The District has participated in several transactions between NIES and Shell Energy North America, L.P. (Shell) for the period beginning October 1, 2011 and ending September 30, 2019. Investigation is currently underway to establish active counter parties, in addition to Shell, that can provide this service in the next purchase period, 2020 through 2024.

NIES and Shell executed a Master Power Purchase and Sale Agreement (PPA) to govern the power purchase and sale transactions between the parties. The remaining contracted MWh and Shell transaction price under these contracts are as follows:

Fiscal Year	MWh	Price
2018	2.000	34.72
2019	2.000	36.56

Purchases are scheduled based on forecasted needs and market rate projections. In some cases, if load does not materialize, power purchased may need to be remarketed. If more load than forecasted is connected, additional purchases may be needed.

2. THE DISTRICT'S POWER SUPPLY (cont.)

2018 Cost Recovery Adjustment Clause (CRAC) - Subsequent Event

In April 2018, under court order BPA was required to spill water across its dams to allow fish passage through its infrastructure. BPA activated CRAC to offset lost revenue resulting from the spill activity. The district's portion of the CRAC amounts to $53,862. The district will absorb the cost through reserves.

3. DEPOSITS & INVESTMENTS

Cash & Cash Equivalents of $1,033,410 for the year ended December 31, 2017, represent deposits held at Washington Trust Bank and Mountain West Bank. The District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction, the District would not be able to recover the value of the investment or collateral securities. None of District's deposits and investments is exposed to custodial credit risk. The District does not have a deposit or investments policy.

All the District's investments are insured, registered or held by the District or its agent in the District's name. The District has funds invested in the State Treasurer's Local Government Investment Pool (LGIP), invested in a premium savings account at Washington Trust Bank and money market account at Mountain West Bank.

Below is a summary of Cash & Cash Equivalents and the carrying value of the District's investments as of December 31, 2017:

Statement of Net Position Classification	Washington Trust and Mountain West Bank	State Treasurer Investment Pool (LGIP)	Total Deposits and Investments
Cash & Cash Equivalents	1,033,410	0	1,033,410
Temporary Investments	5,527,983	516,966	6,044,949
2015 Bond Construction Fund Investments	1,513,564	0	1,513,564
Debt Service Cash and Investments	0	815,390	815,390
	8,074,957	1,332,356	9,407,313

All the District's investments carrying value approximate their market value as of December 31, 2017. There are no maturity restrictions to the deposits and investments held at the LGIP, Washington Trust Bank or Mountain West Bank.

4. UTILITY PLANT & DEPRECIATION

Major expenses for capital assets and major repairs that increase useful lives of the assets are capitalized. The District's management considers the nature and dollar amount of the item or project when capitalizing expenditures to Utility Plant. Maintenance, repairs, and minor renewals are expensed when incurred.

Utility plant in service and other capital assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated cost. Donations by developers and customers are recorded at the fair value at the date of donation.

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, if the sale of a significant operating unit or system occurs, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line method with useful lives of 5 to 70 years.

- Utility Infrastructure — 40 - 50 Years
- Electric Altered Services and Meters — 33 Years
- Office, Tools & Equipment — 10 Years
- Computer System Equipment — 5 - 10 Years
- Transportation Equipment — 4 - 15 Years
- Pumps, Wells and Discharge Piping — 70 Years
- Reservoirs — 50 Years
- Water Mains, Hydrants — 70 Years

Initial depreciation on utility plant is recorded in the year subsequent to purchase.

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

4. UTILITY PLANT & DEPRECIATION (cont.)

	2016 Balance	Increase	Decrease	2017 Balance
Utility plant not being depreciated:				
Land	2,515,235	0	0	2,515,235
Construction in progress	716,511	479,729	0	1,196,240
Total utility plant not being depreciated	**3,231,746**	**479,729**	**0**	**3,711,475**
Utility plant being depreciated:				
Utility Plant	75,990,067	4,226,382	(102,882)	80,113,567
Other Utility Plant	18,370	0	0	18,370
Transportation Equipment	2,999,882	174,895	(121,665)	3,053,112
Total utility plant being depreciated	**79,008,319**	**4,401,277**	**(224,547)**	**83,185,049**
Less accumulated depreciation for:				
Utility Plant	(26,373,393)	(1,848,402)	168,892	(28,052,903)
Transportation Equipment	(1,476,624)	(209,001)	131,736	(1,553,889)
Total accumulated depreciation	**(27,850,017)**	**(2,057,403)**	**300,628**	**(29,606,792)**
Total utility plant being depreciated, net	**51,158,302**	**2,343,874**	**76,081**	**53,578,257**
TOTAL UTILITY PLANT, NET	**54,390,048**	**2,823,603**	**76,081**	**57,289,732**

All capital assets are depreciable except for Land and Construction in Progress. Construction in Progress represents expenditures to date on projects whose authorizations total $1,196,240 at December 31, 2017.

5. LONG-TERM DEBT

The annual requirements to amortize all debts outstanding as of December 31, 2017, including interest, are as follows:

	Total	Principal	Interest
2018	796,407	611,952	184,455
2019	906,471	577,047	329,424
2020	947,372	622,142	325,230
2021	955,581	637,239	318,342
2022	1,143,444	832,336	311,108
2023-2027	5,677,763	4,353,758	1,324,005
2028-2032	5,959,627	5,143,378	816,249
2033-2037	3,360,422	3,113,627	246,795
Total	**19,747,087**	**15,891,479**	**3,855,608**

5. LONG-TERM DEBT (cont.)

All of the restricted assets of $815,390 as of December 31, 2017, represent debt reserve requirements of the District. There are several other limitations and restrictions contained in the various bond indentures. The District is in compliance with all limitations and restrictions.

The following changes occurred in Non-Current Liabilities:

	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
Bonds Payable	$11,410,000	$9,445,000	($6,000,000)	$14,855,000	$565,000
Drinking Water Loan	$255,306	$0	($36,472)	$218,834	$36,472
SRF Loan - Sunacres	$216,173	$0	($10,480)	$205,693	$10,480
Total Long-Term Liabilities	**$11,881,479**	**$9,445,000**	**($6,046,952)**	**$15,279,527**	**$611,952**
Net Pension Liability	$2,989,944	$0	($713,041)	$2,276,903	
Unamortized Debt Premium	$316,556	$769,135	($39,759)	$1,045,932	
Total Non Current Liabilities	**$15,187,979**	**$10,214,135**	**($6,799,752)**	**$18,602,362**	

2017 Bond Sale

The District finalized a bond sale on April 7, 2017 in the amount of $4.1 million in Revenue Bonds (the 2017 Bonds) The District received a premium from this sale totaling $354,088. The range of interest rates on the bonds is 1.65% on short maturities and climbs to 4.00%. Interest is payable semiannually on January 1 and July 1. The Bonds maturing on and after January 1, 2028 may be called for early redemption on or after January 1, 2027 in whole or in part (and if in part, with maturities to be selected by the District) on any date at a price of par plus accrued interest to the date of redemption.

The proceeds from this bond sale will be used to fund necessary electrical protection upgrades to the District's substations. The District will replace fuses with circuit switchers and install necessary control panels as well as updated metering equipment at 3 substations using the proceeds from the 2017 bond sale.

Along with the 2017 Bond Sale, the District purchased a Bond Reserve insurance policy for $28,000. The policy covers the District's entire portfolio of Revenue Bonds. The policy allowed the District to transfer the Debt Reserve of $967,338 into the District's General Fund.

Moody's Investors Service has assigned a rating of "Aa3" to the Bonds.

5. LONG-TERM DEBT (cont.)

2017B Bond Sale

The District finalized a bond sale on August 30, 2017 in the amount of $5.3 million in Refunding Bonds (the 2017B Bonds) The District received a premium from this sale totaling $415,046. The range of interest rates on the bonds is 1.00% on short maturities and climbs to 4.00%. Interest is payable semiannually on January 1 and July 1. The Term Bonds maturing on and after January 1, 2028 are subject to redemption at the option of the District on and after January 1, 2027 in whole or in part (and if in part, with maturities to be selected by the District) on any date at a price of par plus accrued interest to the date of redemption.

The proceeds from this bond sale were used to refund the series 2012 Revenue Refunding Bonds (2012 Bonds). The 2012 Bonds has an outstanding principle of $5.5 million for maturities January 1, 2018 through January 1, 2032, inclusive. As a result of the refunding, the District reduced its total debt service requirements by $253,000.

Moody's Investors Service has assigned a rating of "Aa3" to the 2017B Bonds.

6. PENSION PLANS

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

Aggregate Pension Amounts - All Plans	
Pension liabilities	$(2,276,903)
Pension assets	$0
Deferred outflows of resources	$431,225
Deferred inflows of resources	$(385,588)
Pension expense/expenditures	$184,195

State Sponsored Pension Plans

Substantially all Vera Water and Power's full-time and qualifying part-time employees participate in one of the statewide retirement systems, described in this note, 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.

6. PENSION PLANS (cont.)

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

Contributions

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

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
January - 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%**

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

6. PENSION PLANS (cont.)

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

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

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

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

Contributions

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

6. PENSION PLANS (cont.)

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2**
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0,18%	
Employee PERS Plan 3		Varies
Total	**12.70%**	**7.38%**

The District's actual PERS plan contributions were $ 20,205 to PERS Plan 1 and $361,601 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2016 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:** 3.0% 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

6. PENSION PLANS (cont.)

generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

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

Discount Rate

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

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the

6. PENSION PLANS (cont.)

pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of the Net Pension Liability/(Asset)

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.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$1,514,410	$1,243,163	$1,008,205
PERS 2/3	$2,785,003	$1,033,740	$(401,161)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the District reported a total pension liability of $ 2,276,903 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$1,243,163
PERS 2/3	$1,033,740

6. PENSION PLANS (cont.)

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	.027026%	.026199%	.000827%
PERS 2/3	.030557%	.029752%	.000805%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

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

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

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

Pension Expense

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

	Pension Expense
PERS 1	$19,119
PERS 2/3	$165,076

6. PENSION PLANS (cont.)

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Net difference between projected and actual investment earnings on pension plan investments	$0	$(46,391)
Changes of assumptions	$0	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$103,626	$0
TOTAL	$103,626	$(46,391)

PERS Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$104,742	$(33,998)
Net difference between projected and actual investment earnings on pension plan investments	$0	$(275,570)
Changes of assumptions	$10,980	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$78,260	$(29,629)
Contributions subsequent to the measurement date	$133,616	$0
TOTAL	$327,599	$(339,197)

6. PENSION PLANS (cont.)

All Plans in Total	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$104,742	$(33,998)
Net difference between projected and actual investment earnings on pension plan investments	$0	$(321,962)
Changes of assumptions	$10,980	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$78,260	$(29,629)
Contributions subsequent to the measurement date	$237,242	$0
TOTAL	$431,225	$(385,588)

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

Year ended December 31:	PERS 1
2018	$(31,358)
2019	$9,900
2020	$(2,299)
2021	$(22,635)
2022	$0
Thereafter	$0
TOTAL	**$(46,391)**

Year ended December 31:	PERS 2/3
2018	$(74,953)
2019	$57,658
2020	$(22,984)
2021	$(115,538)
2022	$4,610
Thereafter	$5,993
TOTAL	**$(145,215)**

7. DEFERRED DEBITS (OR CREDITS)

In accordance with GAAP for regulated businesses, the District has deferred bond discounts of $385,519 and deferred bond premium of $1,045,932. These discounts and premiums are amortized using the costs method over the original life of bonds. The charges would have been included in net income for non-regulated business, but for rate-making purposes they are treated as applicable in the future.

8. RISK MANAGEMENT

The District maintains insurance against most normal hazards except for unemployment insurance where it has elected to be self-insured. Claims are processed by the District. The District does not have any material outstanding claims as of December 31, 2017. There were no claim settlements exceeding the District's insurance coverage in 2017.

9. INSURANCE POOL

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2017, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on a liability loss.
- $250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on a property loss.
- Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

9. INSURANCE POOL (cont.)

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

10. WINDSTORM 2015 – FEMA REIMBURSEMENT

On Nov. 17, 2015 a windstorm with gusts up to 71 mph ripped through the region, causing extensive damage and widespread outages. Roughly 6,000 Vera Water and Power customers were without power. To return the electric distribution system to its pre-disaster design, function and capacity, the District used a combination of contract services for tree trimming, mutual aid from a neighboring utility, Modern Electric Water Co, many pieces of equipment and over 3,300 labor hours of District personnel. However, due to the widespread damage caused by the storm, some customers were out for up to eight days. On Nov. 24, power was restored to all known outages.

After President Obama's declaration of the 2015 Wind Storm Disaster (Declaration # FEMA-4249-DR-WA), the District entered into a Public Assistance Grant Agreement with the Washington State Military Department. The District, working with FEMA, have totaled eligible expenditures resulting from the Wind Strom that have exceeded $400,000. As of December 31, 2016, the District received $344,286 from FEMA for reimbursement of the storm costs.

The District is expected to receive the remaining $36,477 once FEMA approves the final inspection report, which as of December 31, 2017 has not occurred.

11. SEGMENT ACTIVITY - ENTERPRISE FUNDS

The District Operates 3 utilities which are primarily financed by user charges. The key financial data for the years ended December 31, 2017 for these utilities are as follows:

Condensed Statement of Net Position:	ELECTRIC DIVISION	WATER DIVISION	SEWER DIVISION	INTER-DIVISION ACTIVITY	TOTAL UTILITY
Current & Other Assets	13,623,746	1,657,362	(387,335)		14,893,773
Total Capital Assets, Net	33,600,039	22,273,944	1,415,749		57,289,732
TOTAL ASSETS	**47,223,785**	**23,931,306**	**1,028,414**		**72,183,505**
Total Current Liabilities	2,478,330	631,956	16,762		3,127,048
Total Noncurrent Liabilities	12,007,269	6,774,987	205,694		18,987,950
TOTAL LIABILITIES	**14,485,599**	**7,406,943**	**222,456**		**22,114,998**
Net Invested in Capital Assets	24,088,135	16,110,543	1,199,575		41,398,253
Restricted Net Position – Debt Service	447,453	367,937	0		815,390
Unrestricted	8,202,598	45,883	(393,617)		7,854,864
TOTAL NET POSITION	**32,738,186**	**16,524,364**	**805,958**		**50,068,507**

11. SEGMENT ACTIVITY - ENTERPRISE FUNDS (continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position	ELECTRIC DIVISION	WATER DIVISION	SEWER DIVISION	INTER-DIVISION ACTIVITY	TOTAL UTILITY
Utility Sales	$17,018,396	$2,342,066	$24,564	(311,383)	$19,073,643
Other Operating Revenues	438,619	352,914	0	(23,400)	768,133
TOTAL OPERATING REVENUES	**17,457,015**	**2,694,980**	**24,564**	**(334,783)**	**19,841,776**
Operating Expenses	14,695,734	1,846,522	21,643	(334,783)	16,229,116
Depreciation & Amortization Expense	1,519,934	542,347	29,172	0	2,091,453
TOTAL OPERATING EXPENSES	**16,215,668**	**2,388,869**	**50,815**	**(334,783)**	**18,320,569**
OPERATING INCOME (LOSS)	**1,241,347**	**306,111**	**(26,251)**	**0**	**1,521,207**
NONOPERATING REVENUES AND EXPENSES					
Gain (Loss) on Utility Plant Disposal	(47,526)	0	0	0	(47,526)
Interest & Net Debt Amortization Expense	(288,813)	(215,666)	(2,274)	0	(506,753)
Interest Income	62,828	2,452	0	0	65,280
TOTAL NONOPERATING REV. AND EXPENSES	**(273,511)**	**(213,214)**	**(2,274)**	**0**	**(488,999)**
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	**967,836**	**92,897**	**(28,525)**	**0**	**1,032,208**
Sewer Capital Contributions Disposal	0	0	169,768	0	169,768
Capital Contributions by Developers	0	456,783	0	0	456,783
Adjustment of Accrued Admin Cost for Conservation and Unclaimed Funds	1,157	0	0	0	1,157
Change in Net Position	**968,993**	**549,680**	**141,243**	**0**	**1,659,916**
Net Position, January 1, 2017	**31,768,850**	**15,975,026**	**664,715**	**0**	**48,408,591**
Total Net Position, December 31, 2017	**$32,737,843**	**$16,524,706**	**$805,958**	**$0**	**$50,068,507**

11. SEGMENT ACTIVITY - ENTERPRISE FUNDS (continued)

Condensed statement of cash flows:

	ELECTRIC DIVISION	WATER DIVISION	SEWER DIVISION	INTER-DIVISION ACTIVITY	TOTAL UTILITY
Net cash provided (used) by:					
Operating activities	$2,150,780	$748,687	(141,694)		$2,757,773
Capital and related financing activities	(440,842)	(568,440)	141,694		(867,588)
Investing activities	25,169	2,452	0		27,621
Beginning cash and cash equivalents	6,433,426	1,056,081	0	0	7,489,507
Ending cash and cash equivalents	**$8,168,533**	**$1,238,780**	**$0**	**$0**	**$9,407,313**

VERA WATER AND POWER
Required Supplementary Information
For the Fiscal Year Ended December 31, 2017

Schedule of Pension Contributions

	Measurement Date: December 31, 2017	
	PERS 1	**PERS 2/3**
Actuarially/Statutorily/Contractually Determined Contribution	$20,205	$361,601
Actual Contribution in Relation to the Above	$20,205	$361,601
Contribution Deficiency/(Excess)	$0	$0
Covered Employee Payroll	$168,851	$3,020,149
Contributions as a % of Covered-Employee Payroll	12.0%	12.0%

Schedule of Proportionate Share of the Net Pension Liability

	Measurement Date: June 30, 2017	
	PERS 1	**PERS 2/3**
Vera's Proportion of the Net Pension Liability	0.026199%	0.029752%
Vera's Proportionate Share of the Net Pension Liability	$1,243,163	$1,033,740
Covered Employee Payroll	$167,909	$2,918,700
Vera's Proportionate Share of the Net Pensions Liability as a Percentage of its Covered Payroll	740.38%	35.42%
Plan Fiduciary Net Position as a Percentage of the Total Net Pension Liability	61.24%	90.97%

VERA WATER AND POWER

Required Supplementary Information

For the Fiscal Year Ended December 31, 2016

Schedule of Pension Contributions

	Measurement Date: December 31, 2016	
	PERS 1	**PERS 2/3**
Actuarially/Statutorily/Contractually Determined Contribution	$18,637	$313,189
Actual Contribution in Relation to the Above	$18,637	$313,189
Contribution Deficiency/(Excess)	$0	$0
Covered Employee Payroll	$166,406	$2,796,328
Contributions as a % of Covered-Employee Payroll	11.2%	11.2%

Schedule of Proportionate Share of the Net Pension Liability

	Measurement Date: June 30, 2016	
	PERS 1	**PERS 2/3**
Vera's Proportion of the Net Pension Liability	0.027026%	0.030557%
Vera's Proportionate Share of the Net Pension Liability	1,451,423	1,538,521
Covered Employee Payroll	$165,299	$2,854,779
Vera's Proportionate Share of the Net Pensions Liability as a Percentage of its Covered Payroll	878.06%	53.89%
Plan Fiduciary Net Position as a Percentage of the Total Net Pension Liability	57.03%	85.82%

VERA WATER AND POWER

Required Supplementary Information

For the Fiscal Year Ended December 31, 2015

Schedule of Pension Contributions

	Measurement Date: December 31, 2015	
	PERS 1	**PERS 2/3**
Actuarially/Statutorily/Contractually Determined Contribution	$16,787	$283,573
Actual Contribution in Relation to the Above	$16,787	$283,573
Contribution Deficiency/(Excess)	$0	$0
Covered Employee Payroll	$164,097	$2,786,625
Contributions as a % of Covered-Employee Payroll	10.2%	10.2%

Schedule of Proportionate Share of the Net Pension Liability

	Measurement Date: June 30, 2015	
	PERS 1	**PERS 2/3**
Vera's Proportion of the Net Pension Liability	0.024619%	0.027679%
Vera's Proportionate Share of the Net Pension Liability	$1,287,803	$988,986
Covered Employee Payroll	$162,415	$2,470,722
Vera's Proportionate Share of the Net Pensions Liability as a Percentage of its Covered Payroll	792.91%	40.03%
Plan Fiduciary Net Position as a Percentage of the Total Net Pension Liability	59.10%	89.20%

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov