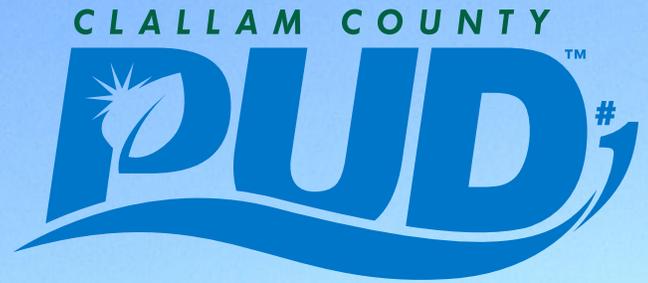


ANNUAL FINANCIAL REPORT

Fiscal Year Ended December 31, 2017



Bringing Energy To Life™



Public Utility District #1 of Clallam County

P.O. Box 1000 Carlsborg, WA 98324 • 360-452-9771

www.clallampud.net

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Message From the General Manager

Dear Clallam PUD Owners,

As General Manager, I am pleased to introduce our 2017 Financial Annual Report. In 1940 the voters of Clallam County decided that their electric and water should be publicly owned and operated. That means we are owned by those we serve and charged with managing the ratepayer funds consistent with our Mission Statement of “Providing reliable, efficient, safe, and low cost utility services in a financially and environmentally responsible manner.” This Mission Statement we take very seriously. Every day PUD employees are working to improve upon reliability, conserve energy, and implement new technologies to make managing your account convenient and informative.

During the last decade we have emphasized improving our reliability and believe we have made many strides in that direction. Now in the last two years and moving into our Main Office in Carlsborg we are looking at improving our customer service by having one stop shopping for our customers and looking at ways to reduce costs. Our Vision Statement is “Being the best utility for OUR customers” and we strive to accomplish that through our Strategic Plan.

Our Strategic Plan, that’s available on our website, indicates eleven objectives to help us achieve a “Picture of Excellence” in service to our customers. Some of those customer objectives include:

Provide Stable Rates

The District works to prevent large spikes in rates even though Bonneville Power Administrations (BPA) has continued to give us 5 – 10% or greater increases every two years for over the last decade. The District gets 98% of our power from BPA. Our power supply costs are over 45% of our budget and therefore any increase in BPA’s rates has a major impact on our budget and rates. By working to minimize rate increases to the 3 – 4% range yearly; our customers and the District are better able to manage budgets, instead of being faced with sharp increases every other year.

The District as a member in a number of agencies such as Washington PUD Association and Public Power Council work to reign in BPA’s increases and watch over their operations. Some progress is being made with the market prices reduced and BPA having to face future competition for negotiating with utilities for their 2028 contracts.

The District completed a Water Cost of Service Study in 2017, which recommended working toward the “postage stamp” option for rate design over the next 10 years. This will help provide a reliable, stable source of funding for water operational and capital improvement reserves.

Additionally, the Water Department added the Frost Road Booster Pump Station in 2017 to serve a low pressure area near the Frost Road Reservoirs. The package pump station, which operates entirely by an high-efficiency, variable-frequency-drive (VFD) controller, was the first of its kind used by the District and will reduce cost.

Ensure Reliable Supply

The District has accomplished a number of projects and made changes that have improved our reliability over the years. Such changes include an audit of all of our substations. The audit revealed a number of upgrades to the substations that improves the reliability and monitors their operation with the addition of a Supervisory Control and Data Acquisition (SCADA) system, which allows us to monitor, gather and process real-time data.

Other changes included adding our second Vegetation Management crew out in Forks along with one in the eastern county areas to control vegetation around our transmission and distribution lines. This has minimized outages throughout the county during the last eight years. There have been many more system improvements that have been added to increase the reliability to all of our customers.



General Manager, Doug Nass

Message From the General Manager ...continued

In 2017 the District has for the second time been awarded the prestigious designation of RP3 (Reliable Public Power Provider) from the American Public Power Association (APPA). This is recognition for best practices of a utilities focusing on operating in a high quality in four major areas, reliability, Safety, Workforce Development and System Improvement. Currently only 254 of the nation's more than 2,000 public power utilities hold an RP3 designation.

In 2017 the District has added an Equipment Building on the property acquired a few years ago in the Forks Industrial Park. This building will house some of the equipment used by the Forks line crews. This equipment, such as large Bucket Trucks have a \$350,000 - \$450,000 price tag and deteriorate rapidly in a community getting over ten feet of rain each year. It is important and prudent to protect this equipment to help extend its life.

The District's Commissioners adopted a water system expansion policy in 2017 that ensures reliability of our water resources. The policy requires acquisition of new water rights to serve any expansion of water service areas and reserves existing rights for existing service areas.

Practice Environmental Responsibility

We are very proud to have over 98% of our power coming from both clean and carbon-free energy sources. Bonneville Power Administration (BPA) provides 88% of our wholesale power from renewable hydropower from the Columbia and Snake River dams and 10% from the nuclear Columbia Generating Station.

The District falls under the Washing States Energy Independence Act (EIA) requiring utilities serving at least 25,000 customers to use a certain percentage of renewable energy and energy conservation. In Washington, there are only 18 utilities subject to the EIA. This is an added cost to our customers and we take it serious to meet our obligation while minimizing the burden to our ratepayers.

Continuous Performance Improvement

In 2016, we embarked on adding a new software package, Enterprise Software Solution (NISC) that is fully integrated utility wide. All of our customer service, engineering, accounting and Human Resources services have been integrated into the NISC system. Our goal to eliminate the duplication of the input of data is underway. Many other advantages will be realized.

During 2017, we had a number of long time employee's retire. We have used this opportunity to reorganize into a more efficient, lower cost and better run PUD. All retiree or vacant positions are looked at carefully to assess if it is still needed and if a better alternative is achievable.

Be Financially Responsible

Our Strategic Plan for "Be Financially Responsible" states that our Picture of Excellence is to maintain a Aa3 rating with Moody's Investors Service, stay within the boundaries of our Strategic Plan and manage expenses to budgeted levels. Thus far, we have accomplished this goal and have developed a ten-year budget plan to continually evaluate where we are going and making sure, we are staying on a strong financial course.

Future

The future outlook for your utility, Clallam PUD #1 continues to be strong. Moody's Investors Service announced that they have assigned an Aa3 rating to the PUD #1 of Clallam County's \$9.1 million, 2018 Electric System Revenue Bonds stating that the rating "reflects the District's strong financial profile, including strong debt service coverage and healthy but declining liquidity levels. The rating takes into consideration the stable, rural residential character of the service area and low cost power supply from Bonneville Power Administration, as well as the District's manageable debt and pension liabilities". A rating that our bond underwriter says is the highest rating possible for a utility our size.

In 2019 – 2020 the District will be adding a new Forks Operations Center in the Forks Industrial Park. The old operation center is located in town adjacent to the Forks substation. The substation upgrade, which includes two substations being consolidated and a rebuild project with new Supervisory Control and Data Acquisition (SCADA) expands into the old operation center. This project will help us provide the Forks' area better reliability and service. The old Forks Operation Center has some buildings over 50 years old that need constant repair and are failing rapidly. The ones close to collapsing will be torn down and any usable ones not in the way of the substation upgrade will be used for storage.

The District will during the next four years embark on a Grid Modernization project that will bring our metering system up to the 21st Century. Because of the various terrain and tree growth in Clallam County the District will employ two basic types of meters, power line carrier meters and RF meters. The power line carrier meters will mostly be installed in western Clallam County where the terrain makes it difficult for other technology. The RF meters will be used in areas such as Sequim where the terrain allow radio frequency signals to be sent for long distances. These technologies will allow the District to know when your homes power is out on close to a real time basis. This will improve our Outage Management System and allow dispatchers and crews to work more efficiently and minimize outage time. In the future, these meters allows you to be able to monitor and perform remote diagnostics of your power consumption.

In 2020 the Energy Independence Act (EIA) requires the District to obtain 15% of our power from “qualified renewables”. Even though the District gets 88% of our power from the renewable power source, Hydro, the state of Washington does not count Hydro as renewable, although most other states do. Therefore, with that need we have been purchasing the most cost effective resource approved by the EIA to maintain the lowest electric rates, Renewable Energy Credits (RECs). These RECs are purchased from other qualified renewable resources and are stripped away from the energy. For example, we buy some of our RECs from a geothermal plant in Idaho that strips the RECs off and sells us only that, and no power.

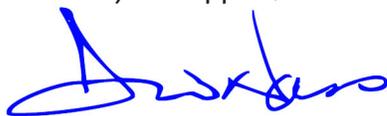
Other future unknowns include potential legislation or initiatives surrounding clean energy.

Another unknown is the speed at which electric vehicles (EVs) will become more common. This can have some positive and some negatives impacts on your PUD. We are keeping a close eye on how it progresses and what our role can be in helping our customers.

Finally, I need to thank our commissioners who are elected by you, the citizens of Clallam County, and who listen to your voice to make sure we are striving towards our Vision of “Being the best utility for OUR customers” They have unique talent and experience and are very supportive of our Strategic Plan which they review and approve every year.

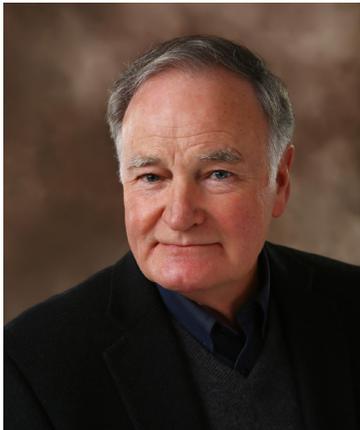
Moreover, our most valuable asset here at the PUD are our employees. They are your neighbors and are dedicated to providing great service on the job and in the many community contributions while off the job. They are there when you need them, in the middle of the night when a tree falls into your power line, when the wind and rain are causing countywide outages, when the legislature is trying to pass bills that will increase your rates, and when new technology is proven and will help make your life better. They continue to progress in learning how to operate the latest equipment and technologies to help become more effective and efficient every day. They are there because they are your neighbors, may have kids sharing the classroom with yours and take pride in their service for you.

Be safe and thanks for your support,



Doug Nass, General Manager

About Clallam PUD



Will Purser, Commissioner - District 1



*Hugh Haffner- District 2
(Resigned July 15, 2018)*



Ted Simpson, Commissioner - District 3

Clallam County Public Utility District #1 is directed by a three-member Board of Commissioners elected by citizens of the county. Each Commissioner represents a different sector of the county and serves a six-year term. The Commissioners set utility policies and hire a General Manager to implement those policies. Washington RCW Chapter 54.12 governs Public Utility District Commissioners. Commissioners' meetings are open to the public and start at 1:30 p.m. Meetings are held the 2nd and 4th Mondays, monthly, at the Carlsborg Main Office.

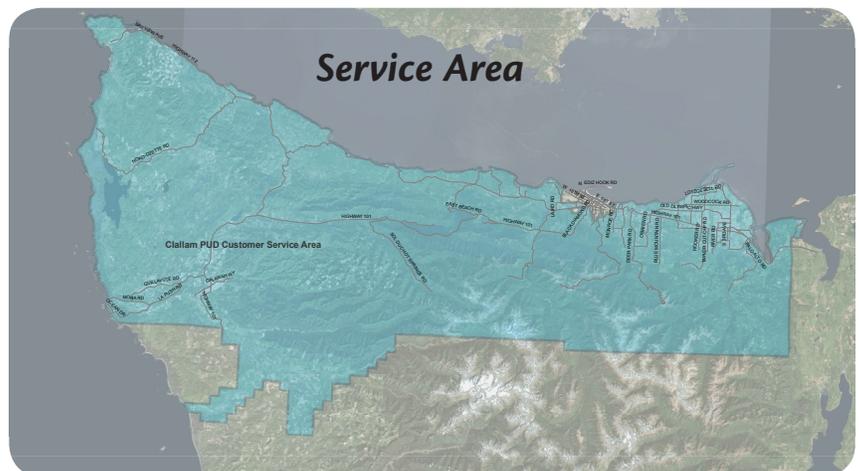
Vision: Being the best utility for OUR customers.

Mission Statement: Providing reliable, efficient, safe, and low cost utility services in a financially and environmentally responsible manner.

Fuel Mix

Your PUD's electricity comes from the following fuel mix (which is 98% clean energy!):

- 1% Coal
- 87% Hydroelectric
- 1% Natural Gas
- 11% Nuclear



At A Glance 2017 Year-End

Number of Customers - 26,602
Full-time Employees - 142
Residential Electric Rate - \$0.0697

Miles of Transmission Lines - 128
Miles of Distribution Line - 1,805
Total Kilowatt Hours Sales - 651,407,210



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

December 20, 2018

Board of Commissioners
Public Utility District No. 1 of Clallam County
Carlsborg, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Clallam County January 1, 2017 through December 31, 2017

Board of Commissioners
Public Utility District No. 1 of Clallam County
Carlsborg, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Clallam County, 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 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 Public Utility District No. 1 of Clallam County, 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 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated

December 10, 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

December 10, 2018

PUD #1 OF CLALLAM COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis is designed to provide an overview of the financial activities of the Public Utility District No. 1 of Clallam County ("District") for the year ended December 31, 2017. This section is intended to be read in conjunction with the basic financial statements and accompanying notes.

Overview of the Financial Statements

The District is a municipal corporation duly organized and existing under the laws of the State of Washington. The District operates and maintains three divisions: the Electric Division, the Water Division (consisting of nine water systems), and the Wastewater Division (consisting of four sewer systems). In accordance with the requirements set forth by the Governmental Accounting Standards Board (GASB), the District uses full accrual basis accounting where revenues are recognized when earned and expenses are recognized when incurred. The basic financial statements are comprised of:

- **Statement of Net Position:** This statement presents information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) at year-end. Net position is separated into three categories: net investment in capital assets, net position – restricted and net position – unrestricted.
- **Statement of Revenue, Expenses and Changes in Net Position:** This statement reports revenues, expenses and the change in net position for the year indicated and measures the success of the District's operations. It can be used to evaluate the level of cost recovery from charges for products and services.
- **Statement of Cash Flows:** This statement reflects the sources and uses of cash resulting from operating, financing, and investing activities. It provides insight into the District's ability to generate cash flow and to meet its obligations.
- **Notes to the Financial Statements:** The notes provide additional information pertaining to the District's operations and financial position and are essential to fully understanding the basic financial statements.

Financial Highlights

- The District's Net Position increased by \$4.9 Million in 2017. This result is primarily due to increased revenues from rate increases in all three divisions combined with higher customer usage due to colder weather. The District also experienced increases in capital contributions in 2017.
- Total Assets increased in 2017 by \$1.4 Million. This was a combined result of a small increase in Cash, Cash Equivalents and Investments and an increase in Accounts Receivable. Offsetting these increases was a decrease in Restricted Assets due to the depletion of a 2014 Construction Fund and the elimination of a retainage fund.
- The District has a sales agreement with Bonneville Power Administration (BPA), a federal power-marketing agency, to purchase power through September 30, 2028. The District had an effective power rate increase of 5.86% starting October 1, 2015 and running through September 2017. BPA adopted a 5.4% average increase in wholesale power rates and an average 0.7% decrease in transmission rates for fiscal years 2018 and 2019 which went into effect October 1, 2017. Purchased power expense increased \$2.7 Million relative to 2016 due to increased year-over-year sales because of colder weather.
- The District purchases water from the City of Port Angeles to serve 1,560 out of its 4,481 water customers. The purchased water expense increased by \$63 Thousand in 2017 due to increased water usage. The District owns other water sources that serve the needs of the remaining water customers.

PUD #1 OF CLALLAM COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The District's overall net position improved during 2017. The following table provides analysis of 2017 and 2016 in a condensed statement of net position.

Condensed Statement of Net Position (in thousands) *

	2017	2016	Change	% Change
Assets and Deferred Outflows of Resources				
Current Assets	\$ 42,800	\$ 41,108	\$ 1,692	4.1%
Capital Assets, net	168,805	169,022	(217)	-0.1%
Other Assets	3,741	3,776	(35)	-0.9%
Total Assets	215,346	213,906	1,440	0.7%
Deferred Outflows of Resources	1,608	2,361	(753)	-31.9%
Total Assets and Deferred Outflows of Resources	216,954	216,267	687	0.3%
Liabilities and Deferred Inflows of Resources				
Current Liabilities	12,364	12,865	(501)	-3.9%
Noncurrent Liabilities	47,571	52,522	(4,951)	-9.4%
Total Liabilities	59,935	65,387	(5,452)	-8.3%
Deferred Inflows of Resources	1,470	205	1,265	617.2%
Total Liabilities and Deferred Inflows of Resources	61,406	65,592	(4,186)	-6.4%
Net Position				
Net Investment in Capital Assets	130,112	128,837	1,275	1.0%
Restricted for:				
Debt Service	4,368	4,312	56	1.3%
Rural Economic Development Fund	544	541	3	0.6%
Unrestricted	20,524	16,985	3,539	20.8%
Total Net Position	\$ 155,548	\$ 150,675	\$ 4,873	3.2%

PUD #1 OF CLALLAM COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Assets

Total assets increased by \$1.4 Million in 2017. This was primarily due to a \$1.4 Million increase in Accounts Receivable. Along with the increase in Accounts Receivable, the District had a \$600 Thousand increase in Cash and Investments offset by a \$766 Thousand decrease in Restricted Assets due to the elimination of a Retainage Fund and the 2014 Construction Fund. Total Net Plant for all three divisions remained steady year over year with minor decreases.

Capital Assets - At the end of 2017, the District had a total investment in gross capital assets of \$289.4 Million which was an increase of 2.7% over 2016. Projects in the Electric Division included distribution pole replacements, underground replacements and transmission rebuilds including the replacement of transmission structures over the Elwah River. Construction work in progress decreased \$1.5 Million in 2017 due to the District completing and capitalizing projects including the NISC software implementation and the upgrade to the Beaver Camp Substation. Projects for the Water Division included upgrades to water mains and services throughout all water systems.

Liabilities

Total liabilities decreased \$5.5 Million in 2017. Noncurrent liabilities decreased \$4.9 Million, a result of a \$2.6 Million decrease in Net Pension Liability and a \$2.0 Million decrease in long-term debt. Current liabilities decreased by \$500 Thousand primarily due to a decrease in Accounts Payable.

Long Term Debt – At the end of 2017, the District had \$33.6 Million in bonds outstanding and \$4.7 Million in Drinking Water Loans outstanding, a decrease in total long term debt of 5.2% over 2016. No additional long debt was incurred by the District in 2017 except for a small draw on a Drinking Water State Revolving Fund Loan being used to upgrade facilities in the Fairview water system.

Net Position

The District's net position increased by \$4.9 Million in 2017 from net revenue of \$3.2 Million and contributed capital of \$1.7 Million.

There were no significant restrictions, commitments, or other limitations that would affect the availability of resources for future use in 2017 and 2016.

PUD #1 OF CLALLAM COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statement of Revenue, Expenses, and Changes in Net Position (in thousands)*

	2017	2016	Change	% Change
Operating Revenues	\$ 64,731	\$ 57,875	\$ 6,856	11.8%
Non-Operating Revenues	648	777	(129)	-16.6%
Total Revenues	65,379	58,652	6,727	11.5%
Operating Expenses	60,946	57,040	3,906	6.8%
Non-Operating Expenses	1,217	1,281	(64)	-5.0%
Total Expenses	62,163	58,321	3,842	6.6%
Net Revenue before Contributions	3,216	331	2,885	871.6%
Capital Contributions	1,658	870	788	90.6%
Change in Net Position	4,874	1,201	3,673	305.8%
Net Position, January 1	150,675	149,474	1,201	0.8%
Net Position, December 31	\$ 155,549	\$ 150,675	\$ 4,874	3.2%

Operating Revenues

Operating revenues increased by \$6.9 Million in 2017 due to an increase in Utility Sales of \$5.8 Million and an increase in BPA Energy Efficiency Incentives of \$747 Thousand. District electric customers increased by 540 billable meters and water customers increased by 42 billable meters in 2017.

Operating Expenses

During 2017, operating expenses increased by \$3.9 Million. This increase was due to an overall increase in operating and maintenance expenses of \$605 Thousand as well as an increase in purchased power expense of \$2.7 Million.

Requests for Financial Information

Please direct questions relating to this financial report or additional financial information to the District's Controller at PO Box 1000, Carlsborg, WA 98324.

PUD #1 OF CLALLAM COUNTY

STATEMENT OF NET POSITION

For the year ended December 31, 2017

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	11,359,967.00
Investments	13,993,685
Accounts Receivable, Net	4,875,078
Accrued Unbilled Revenues Receivable	3,033,271
Other Accounts Receivable, Net	1,435,192
Materials and Supplies	5,386,360
Prepayments	1,014,310
Interest Receivable	25,429
Restricted Assets	
Debt Service Funds	1,677,360

TOTAL CURRENT ASSETS

42,800,652

NONCURRENT ASSETS

Restricted Assets

Rural Economic Development Fund	544,384
Debt Service Reserve Funds	3,044,050

Total Restricted Assets

3,588,434

Utility Plant

Non-Depreciable	7,564,139
Depreciable, Net	160,014,544

Total Utility Plant, Net

167,578,683

Other Noncurrent Assets

Non-Utility Plant	1,226,517
Preliminary Surveys	152,078

Total Other Noncurrent Assets

1,378,595

TOTAL NONCURRENT ASSETS

172,545,712

TOTAL ASSETS

\$ 215,346,364

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflow-Pension	1,296,186
Deferred Outflow-Loss on Refunding	311,838

TOTAL DEFERRED OUTFLOWS OF RESOURCES

\$ 1,608,024

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	5,328,889
Customer Deposits	1,029,475
Accrued Taxes	1,650,665
Accrued Liabilities	1,860,635

Payables from Restricted Assets

Accrued Interest Payable	367,423
Current Portion of Long-Term Debt	2,127,366

TOTAL CURRENT LIABILITIES

12,364,453

NONCURRENT LIABILITIES

Revenue Bonds Payable	31,880,817
Drinking Water State Revolving Fund Loans	4,330,377
Customer Advances for Construction	503,785
Accrued Other Post-Employment Benefits	1,651,494
Accrued Net Pension Liability	9,154,869
Unearned Revenues	49,452

TOTAL NONCURRENT LIABILITIES

47,570,794

TOTAL LIABILITIES

\$ 59,935,247

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows-Pension	1,470,355
--------------------------	-----------

TOTAL DEFERRED INFLOWS OF RESOURCES

\$ 1,470,355

NET POSITION

Net Investment in Capital Assets	130,112,001
Restricted For:	
Debt Service	4,367,825
Rural Economic Development Fund	544,384
Unrestricted	20,524,576

TOTAL NET POSITION

\$ 155,548,786

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

PUD #1 OF CLALLAM COUNTY

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended December 31, 2017

OPERATING REVENUES

Utility Sales	\$ 62,044,194
Other Operating Revenues	2,686,455
TOTAL OPERATING REVENUES	64,730,649

OPERATING EXPENSES

Purchased Power	27,317,810
Purchased Water	314,327
Operating Expenses	16,236,267
Maintenance	4,513,581
Taxes	3,175,013
Depreciation	9,389,293
TOTAL OPERATING EXPENSES	60,946,291

NET OPERATING INCOME **3,784,358**

NON-OPERATING REVENUES AND EXPENSES

Interest Income	160,271
Interest and Amortization on Long-Term Debt	(1,073,880)
Unrealized Loss on Investments	(18,795)
Miscellaneous Non-operating Income	161,257
Miscellaneous Non-operating Expenses	(89,339)
Grant Revenue	326,959
Loss on Disposal of Plant	(35,257)
TOTAL NON-OPERATING REVENUES AND EXPENSES	(568,784)

CAPITAL CONTRIBUTIONS 1,658,837

CHANGE IN NET POSITION **4,874,411**

Net Position, Beginning 150,674,375

NET POSITION, ENDING **\$ 155,548,786**

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

PUD #1 OF CLALLAM COUNTY

STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 63,485,908
Cash Paid to Suppliers	(36,741,879)
Cash Paid to Employees	(13,041,508)
Taxes Paid	(3,006,731)
Other Cash Receipts	155,672
Other Cash Payments	(6,665)
Net Cash Provided From Operating Activities	10,844,797

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Utility Plant	(9,142,648)
Proceeds from Sale of Utility Plant	25,008
Capital Contributions	815,912
Proceeds from Drinking Water Loans	168,490
Principal paid on Revenue Bonds/Drinking Water Loans/Leases	(2,044,589)
Interest Paid on Revenue Bonds and Leases	(1,295,197)
Net Cash Used by Capital and Related Financing Activities	(11,473,024)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Grant Revenue-Storm Damage Recovery	326,958
Net Cash Provided by Noncapital Financing Activities	326,958

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	115,697
Investments-Purchased	(16,979,364)
Investments-Proceeds	6,039,413
Net Cash Provided by Investing Activities	(10,824,254)

NET INCREASE (DECREASE) IN CASH

(11,125,523)

Cash and cash equivalents, including restricted cash - Beginning of the Year 27,751,284

Less Restricted Cash (5,265,794)

Cash and cash equivalents - End of the Year \$ 11,359,967

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

PUD #1 OF CLALLAM COUNTY

STATEMENT OF CASH FLOWS (CONTINUED)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income \$ 3,784,358

Adjustments to reconcile Operating Income To Net Cash Provided by Operating Activities

Add (Deduct):

Depreciation	9,389,293
Other Non-Operating (Receipts) Payments	145,603
Change in Accounts Receivable	(1,088,005)
Change in Unbilled Revenues	351,037
Change in Other Receivables	(443,296)
Change in Materials	(359,391)
Change in Prepayments	(76,704)
Change in Deferred Charges	38,602
Change in Accounts Payable	(375,796)
Change in Customer Deposits	(52,329)
Change in Accrued Taxes	126,776
Change in Accrued Liabilities	(267,629)
Change in Other Post-Employment Benefits Obligation	305,606
Change in Net Pension Liability	(624,581)
Change in Unearned Revenues	(8,747)

NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ 10,844,797

SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES

- Customer installed services brought into plant and included in Capital Contributions totalled \$174,759 and had no effect on cash.
- The District had a decrease in fair value of investments as of December 31, 2017 of \$18,795.
- The deferred inflows and deferred outflows related to GASB 68 had no cash effect in 2017. The pension deferred outflow was \$1,296,186 and the pension deferred inflow was \$1,470,355.

The accompanying notes are an integral part of these financial statements

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Public Utility District No. 1 of Clallam County (“District”) is a municipal corporation providing electric, water, and wastewater (sewer) service. The District was voted into existence on November 5, 1940. In July 1944 the District acquired electric facilities and began providing service. In the following year, the District began providing water service and in 1990 began providing sewer utility service.

The District is governed by a three-member board of elected commissioners and is comprised of an electric system, nine water systems, and four sewer systems. The accompanying combined financial statements include the financial position of the electric, water and sewer systems and the results of their operations. For the purpose of these statements, all interdepartmental transactions have been eliminated.

The electric system provides certain services to the water and sewer systems which are recorded as interdepartmental charges and eliminated upon consolidation. District financing arrangements require the restriction of certain funds through debt covenants. Under the authority of Chapter 43.09 RCW, the District is required to follow accounting procedures prescribed by the State of Washington.

Basis of Accounting and Presentation

The accounting policies of the District conform to Generally Accepted Accounting Principles (GAAP) as applicable to proprietary funds of governments. The District adheres to the accounting standards and pronouncements of the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for governmental entities. Accounts are maintained in accordance with the Uniform System of Accounts for Public Utilities and Licenses as published by the Federal Energy Regulatory Commission (FERC). The District uses the full accrual basis of accounting recognizing revenues when earned and expenses as incurred. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with principal operations of the District. All other revenues and expenses are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

The District considers cash equivalents as short-term (less than three months), highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value due to market forces.

Investments

It is the District's policy to record investments at fair value. For various risks related to the investments see Note 2.

Accounts Receivable and Provision for Doubtful Accounts

Management reviews accounts receivable and provides for estimated uncollectible accounts. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis. Customer accounts receivable is presented in the Statement of Net Position net of the uncollectible balance. The District's provision for doubtful accounts was \$98,998 as of December 31, 2017.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Customer accounts receivable contain credit balances for advance payments from Average Payment Plan residential customers. The total dollar amount of the credit balances was \$332,528 at December 31, 2017 and has been reclassified as accounts payable.

Materials and Supplies

Materials and supplies inventories are valued on a weighted average cost basis.

Restricted Assets

Certain funds have been restricted either for compliance of debt covenants or through resolution. The assets held in these funds are limited and classified to their use including debt service and economic development.

Total Utility Plant, Net

Utility Plant Assets are recorded at cost and include both direct and indirect costs of construction or acquisition. The District has a capitalization policy for general plant purchases over \$1,000 with a useful life of greater than one year. The cost of maintenance and repairs is expensed as incurred; renewals, replacements and improvements are capitalized.

Composite rates are used for groups of infrastructure assets and, accordingly, no gain or loss is recorded on the retirement of an asset unless it represents a major retirement. Property, plant and equipment are depreciated based on the straight-line method over estimated useful lives summarized in the table below.

Electric Plant – Transmission	25 – 40 years
Electric Plant – Distribution	10 – 40 years
Electric General Plant	3 – 40 years
Water Plant – Distribution	20 – 50 years
Water General Plant	3 – 40 years
Sewer Plant – Collection & Transmission	20 – 50 years

Utility Plant disposals are recorded to accumulated depreciation. For additional information on plant assets see Note 3.

Allowance for Funds Used During Construction (AFUDC)

An allowance for funds used during construction is capitalized as a component of cost of construction projects and is credited to interest expense. This allowance represents the cost to finance construction. The allowance totaled \$228,882 for 2017.

Non-Utility Plant

Non-Utility plant represents capital assets that do not directly relate to the District's primary business purposes.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Preliminary Survey Charges

Costs incurred for proposed projects are recorded as Preliminary Survey Charges pending construction of the facility. Charges relating to projects ultimately constructed are transferred to utility plant; charges relating to projects abandoned are charged to expense. The Preliminary Survey Charges are presented as noncurrent assets in the Statement of Net Position. As of December 31, 2017, the account totaled \$152,078. Major pending projects include a Water System Plan Update.

Compensated Absences

Employees earn Paid Time Off (PTO) as a benefit to their employment. The District accrues unpaid PTO in Accrued Liabilities on the Statement of Net Position as it is earned. In accordance with District policy, PTO may accumulate to no more than 1,000 hours and is payable upon separation of service. As of December 31, 2017, the District's PTO liability was \$1,156,521.

Revenue Recognition and Unbilled Revenues

Revenues are based on monthly cyclical customer billings. This system of billing results in earned but unbilled revenues at year-end, which are included in the financial statements. Estimated earned but unbilled revenues were \$3,033,271 as of December 31, 2017.

Contributed Capital

Non-exchange transactions are those in which the government either gives value (benefit) to another party without directly receiving equal value in exchange or receives value (benefit) without directly giving equal value. Non-exchange transactions are recorded as non-operating revenue. The District reported Contributed Capital of \$1,658,837 for the year ended December 31, 2017. In 2017, contributions reported by the Electric Division were \$1,350,593. The Water Division had contributions of \$304,369, and the Wastewater Division had contributions of \$3,875.

Pensions

The District is a member of the Washington State Public Employees' Retirement System (PERS) cost-sharing plan. Information about the fiduciary net position of all state sponsored pension plans and additions to or deductions from those plans' fiduciary net position have been determined on the same basis as 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, while investments are reported at fair value.

Use of Estimates

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Specific estimates include allowance for doubtful accounts, unbilled revenue, depreciation, pension and post-employment benefit obligations. Actual results may differ from those estimates.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Significant Risks 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 force majeure, changes in normal weather, collective bargaining labor disputes, changing local and national economic conditions, the financing and completion of significant capital projects, changing federal and state laws, regulations and requirements, and market risks inherent in buying of power.

NOTE 2 – DEPOSITS AND INVESTMENTS

As of December 31, 2017, the District had \$30,619,446 in deposits and investments.

Investment Type	Maturities	Fair Value
Cash and Cash Equivalents		13,521,921
LGIP		3,103,840
U.S. Treasury	1/31/2018	1,999,134
U.S. Treasury	4/30/2018	1,995,468
U.S. Treasury	7/31/2018	1,990,078
FFSL	9/28/2018	3,011,186
Sound Community Bank	9/28/2018	3,010,708
U.S. Treasury	1/31/2019	1,987,110
Total Investments		\$ 30,619,446

Reconciliation of Statement of Net Position

Cash and Cash Equivalents	11,359,967
Investments and Deposits	13,993,685
Debt Service Fund	1,677,360
Debt Service Reserve Fund	3,044,050
Rural Economic Development Fund	544,384
Total	\$ 30,619,446

Deposits

Custodial Credit Risk – For a deposit, this is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

As required by state law, all District cash is deposited with Washington state banks and savings and loan institutions or invested in obligations of the U. S. Government or governmental agencies, the Washington State Local Government Investment Pool (LGIP), or other investments allowed by RCW 39.59. The District's Investment Policy prohibits investments in banker's acceptances and repurchase agreements.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

District deposits and certificates of deposit (CD) 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).

Investments

Washington State Local Government Investment Pool – As of December 31, 2017, the District had \$3,103,840 invested with the LGIP. The LGIP portfolio meets the requirements set forth in GASB 79 to report the investment at amortized cost, which approximates fair value of the pool shares. Since the pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is deemed to be a cash equivalent. The District considers all investments with the LGIP to be cash and cash equivalents.

Fair Market Value – The District's investments on the Statement of Net Position have been adjusted to reflect available market values as of December 31, 2017 obtained from available financial industry valuation services. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs;
- Level 3 inputs are significant unobservable inputs.

All of the District's fair market measurements are classified as Level 1.

Investment Risks:

Interest Rate Risk – The risk that the District may face should interest rate variances affect the fair value of investments. The District's investment policy requires matching investment maturities with the anticipated cash flow requirements. The policy limits average "time to maturity" to two years, excluding bond reserve funds.

Concentration Risk – The risk of loss attributable to the magnitude of an investment in a single issuer. The District's investment policy requires diversification of investments by institution with the exception of US Treasury and the District's operating accounts.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's Investment Policy conforms with state law, which restricts investments of public funds to the following:

- Debt securities and obligations of the U.S. Treasury, U.S. government agencies and certain other US government sponsored corporations
- CDs and other evidences of deposit at financial institutions qualified by the PDPC
- Investment-grade general obligation debt of state and local governments and public authorities
- Washington State Treasurer's Local Government Investment Pool (LGIP)

At December 31, 2017, the District had investments in US Treasury Notes which were rated Aaa by Moody's Investor Services and AA+ by Standard & Poor's. The District has a third-party safekeeping agreement for investments through U.S. Bank.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 –UTILITY PLANT AND DEPRECIATION

Utility Plant activity for the year ended December 31, 2017, was as follows:

	Balance 2016	Increases	Decreases	Balance 2017
<u>Electric Plant Assets</u>				
Utility Plant-Non Depreciable				
Construction Work In Progress	\$ 5,153,853	\$7,694,074	\$ 9,422,214	\$ 3,425,714
Land & Land Rights	3,155,162	-	-	3,155,162
Total Non-Depreciable	8,309,015	7,694,074	9,422,214	6,580,876
Utility Plant-Depreciable				
Transmission	19,363,524	1,889,110	830,214	20,422,420
Distribution	165,761,787	7,065,790	1,479,283	171,348,294
General Plant	54,969,114	2,203,623	157,702	57,015,035
Other	19,794	-	-	19,794
Total Depreciable	240,114,219	11,158,523	2,467,199	248,805,543
Less Accumulated Depreciation	104,387,716	9,260,464	2,191,338	111,456,842
Net Electric Plant	<u>\$144,035,518</u>	<u>\$9,592,133</u>	<u>\$ 9,698,075</u>	<u>\$143,929,577</u>
<u>Water Plant Assets</u>				
Utility Plant-Non Depreciable				
Construction Work In Progress	\$ 266,024	\$ 677,805	\$ 433,218	\$ 510,611
Land & Land Rights	441,547	-	-	441,547
Total Non-Depreciable	707,571	677,805	433,218	952,158
Utility Plant-Depreciable				
Transmission & Distribution	30,583,001	474,161	99,947	30,957,215
General Plant	1,149,388	75,306	56,560	1,168,134
Other	-	-	-	-
Total Depreciable	31,732,389	549,467	156,507	32,125,349
Less Accumulated Depreciation	9,176,529	840,763	113,049	9,904,243
Net Water Plant	<u>\$ 23,263,431</u>	<u>\$ 386,509</u>	<u>\$ 476,676</u>	<u>\$ 23,173,264</u>

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(continued from prior page)	Balance 2016	Increases	Decreases	Balance 2017
Sewer Plant Assets				
Utility Plant-Non Depreciable				
Construction Work In				
Progress	\$ 57	\$ 6,712	\$ 6,769	\$ -
Land & Land Rights	31,105	-	-	31,105
Total Non-Depreciable	31,162	6,712	6,769	31,105
Utility Plant-Depreciable				
General Plant	867,466	6,769	-	874,235
Total Depreciable	867,466	6,769	-	874,235
Less Accumulated Depreciation	401,836	27,662	-	429,498
Net Sewer Plant	\$ 496,792	\$ (14,181)	\$ 6,769	\$ 475,842
Total Utility Plant				
Utility Plant-Non Depreciable				
Construction Work In				
Progress	\$ 5,419,934	\$8,378,591	\$ 9,862,200	\$ 3,936,325
Land & Land Rights	3,627,814	-	-	3,627,814
Total Non-Depreciable	9,047,749	8,378,591	9,862,200	7,564,139
Utility Plant-Depreciable				
Transmission	19,363,524	1,889,110	830,214	20,422,420
Distribution	196,344,787	7,539,951	1,579,230	202,305,509
General Plant	56,985,968	2,285,698	214,262	59,057,405
Other	19,794	-	-	19,794
Total Depreciable	272,714,074	11,714,760	2,623,706	281,805,127
Less Accumulated Depreciation	113,966,082	10,128,889	2,304,387	121,790,584
Total Combined Plant	\$167,795,741	\$9,964,462	\$10,181,520	\$167,578,683

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District has historically accounted for accumulated depreciation as outlined by the Federal Energy Regulatory Commission (FERC). Please see the table below for detail on the change in accumulated depreciation in 2017.

Accumulated Depreciation Reconciliation

Beginning Accumulated Depreciation	113,966,082
Increases to Accumulated Depreciation	
Depreciation Expense on Statement of Revenue, Expenses, and Changes in Net Position	9,389,293
Depreciation Expense transferred to Transportation Clearing Account	704,457
Salvage	35,138
Total Increases to Accumulated Depreciation	10,128,889
Decreases to Accumulated Depreciation	
Book Cost Retired	2,304,387
Total Decreases to Accumulated Depreciation	2,304,387
Ending Accumulated Depreciation	<u>\$121,790,584</u>

In January 2016, the Board of Commissioners passed a resolution to dispose of surplus real estate including the District's former administrative headquarters, water department offices, and the water warehouse building in Port Angeles. In August 2016, the water warehouse was sold, resulting in a gain on disposal of plant of \$201 Thousand. As of December 31, 2017, the remaining property is still listed with a local realtor and recorded as non-utility property on the Statement of Net Position.

Faced with an aging legacy enterprise software system that would no longer be updated or supported, the District began the process of replacing that software with a new integrated software through National Information Solutions Cooperative (NISC) in 2015. The implementation of the software was completed in June of 2017.

NOTE 4- LEASE COMMITMENTS

Operating Leases

The District is committed under various rental leases considered operating leases for accounting purposes. The District recorded lease expense of \$82,014 for the year ended December 31, 2017. Future minimum rental commitments for rental leases are as follows:

Fiscal Year Ending December 31:	
2018	\$74,742
2019	72,342

Capital Leases

The District has entered into lease agreements for financing the acquisition of office equipment. These lease agreements qualified as capital leases for accounting purposes and were recorded as assets and as long-term liabilities at the present value of the future minimum lease payments as of the date of their inception. The District records lease payments as reductions of the long-term liability and as interest expense over the life of the lease. At the end of 2016, the District had one current lease agreement. The final payment on this agreement was made in 2017. The District had no capital leases at December 31, 2017.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - LONG-TERM DEBT

The following changes occurred in the District's long-term debt in 2017:

	Original Issue Amount	Beginning Balance 12/31/16	Additions	Reductions	Ending Balance 12/31/17	Due Within One Year
<u>Electric System</u>						
2010 Electric Revenue Bonds						
5.25% due 2011-2030	11,230,000	8,555,000	-	485,000	8,070,000	500,000
2010 Electric Refunding Bonds						
2.0% - 4.0% due 2012-2017	6,150,000	1,105,000	-	1,105,000	-	-
2014 Electric Revenue Bonds						
5.0% due 2018-2034	14,225,000	14,225,000	-	-	14,225,000	545,000
2016 Electric Refunding Bonds						
3.0% - 4.0% due 2018-2028	8,080,000	8,080,000	-	-	8,080,000	625,000
Plus : Unamortized Premium		3,404,437	-	228,620	3,175,817	
<u>Water System</u>						
2003 Water Revenue Bond						
4.36% due 2004-2018	1,075,000	186,207	-	91,178	95,029	95,029
2005 Drinking Water Loan						
1.0% due 2010-2025	3,535,000	1,632,883	-	181,432	1,451,451	181,432
2010 Drinking Water Loan						
1.0% due 2015-2034	2,047,525	921,386	-	51,188	870,198	51,188
2011 Drinking Water Loan						
1.5% due 2016-2035	2,673,267	1,777,723	-	93,564	1,684,159	93,564
2012 Drinking Water Loan						
1.0% due 2018-2036	3,073,935	554,569	168,490	36,153	686,906	36,153
Total Bonds Payable	\$ 52,089,727	\$ 40,442,205	\$ 168,490	\$ 2,272,135	\$ 38,338,560	\$ 2,127,366
Net Pension Liability		11,766,445	9,154,869	11,766,445	9,154,869	
Net OPEB Liability		1,345,888	305,606	-	1,651,494	
Compensated Absences		1,275,646	2,036,562	2,262,103	1,050,105	
Total Long Term Debt	\$ 52,089,727	\$ 54,830,184	\$ 11,665,527	\$ 16,300,683	\$ 50,195,028	\$ 2,127,366

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Remaining scheduled payments, as of December 31, 2017, of principal and interest on long-term debt are as follows:

Years Ending December 31	Electric System		Water System		Total
	Principal	Interest	Principal	Interest	
2018	\$ 1,670,000	\$ 1,374,050	\$ 457,366	\$ 58,471	\$ 3,559,886
2019	1,740,000	1,300,225	362,337	51,257	3,453,819
2020	1,800,000	1,223,450	362,337	47,166	3,432,952
2021	1,875,000	1,143,656	362,337	43,074	3,424,068
2022	1,945,000	1,060,644	362,337	38,983	3,406,964
2023 - 2027	10,950,000	3,900,600	1,448,821	135,362	16,434,784
2028 - 2032	8,035,000	1,428,838	904,527	67,555	10,435,919
2033 - 2036	2,360,000	119,500	527,681	13,572	3,020,753
Total	\$ 30,375,000	\$ 11,550,963	\$ 4,787,743	\$ 455,439	\$ 47,169,144

Electric and water debt payments were \$2.0 Million in principal and \$1.4 Million in interest in 2017.

As of December 31, 2017, the District has a total of \$4,721,410 in restricted assets held for payment of the District's long-term obligations, as required by its bond resolutions.

As a minimum requirement of the District's bond covenants, an operating revenue to debt service ratio of 1.25 must be maintained. As of December 31, 2017, management believes the District is in compliance with all bond covenants.

Electric Debt

In December 2010, the District issued \$6,150,000 in Electric Revenue Refunding Bonds with interest rates ranging from 2% to 4%. These bonds were used to refund the outstanding 2001 bonds and matured in 2017.

Also in December 2010, the District issued \$11,230,000 in Electric Taxable Build America Bonds with an interest rate of 5.25% maturing over the next 20 years. These bonds are treated as qualified bonds subject to a credit payable from the U.S. Treasury equal to 35% of interest payable on each interest payment date. As a result of sequestration, the 35% credit was reduced in 2017 by 6.9% to a rate of 32.58%. This money was borrowed to finance various capital additions.

In October 2014, the District issued \$14,225,000 in Electric Revenue Bonds with an interest rate of 5% maturing over the next 20 years. The money financed improvements to the electric system including the construction or additions to three buildings: the administration building, an engineering addition to the Carlsborg operations center, and a meter/substation shop.

In July 2016, the District issued \$8,080,000 in Electric Revenue Bonds with a coupon rate ranging from 3% to 4% maturing through 2028. These funds were used to refund the 2008 Electric Revenue Bonds. The refunding of the 2008 bonds resulted in a loss of \$356,015 which was recorded as a Deferred Outflow and a premium of \$1,048,570 recorded as a Noncurrent Liability on the Statement of Net Position both of which are being amortized over the life of the new bonds. The resultant net present value savings to the District of this refunding was \$770,202.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Water Debt

In October 2003, the District issued \$1,075,000 in Water System Revenue and Refunding Bonds with an interest rate of 4.36% over 15 years. Proceeds were used to finance various water system capital expenditures and refinance existing Water Revenue and Refunding Bonds.

In 2005, the District entered into a State of Washington Drinking Water State Revolving Fund Loan with the Washington State Public Works Board in the amount of \$3,535,000 at an interest rate of 1% and a term not to exceed 20 years. The final payment is due October 2025. The District closed out the loan in 2007 borrowing \$3,394,930 of the available \$3,535,000. Proceeds were used to replace an existing water treatment plant.

In March 2010, the District entered into a second loan agreement with the Washington State Public Works Board. The amount of the Drinking Water State Revolving Fund loan was \$2,068,000 at 1% interest. The loan amount was amended to \$2,047,525 in January, 2013. Upon completion of the project for which the funds were used in 2015, 50% of the principal was forgiven. The remaining balance is due in annual installments through 2034. The money was used for the construction of wells in the lower portion of the District's Fairview water system.

In 2011, the District was awarded a third Drinking Water State Revolving Fund loan from the Washington State Public Works Board. The loan amount was \$2,673,267 with an interest rate of 1.5%. The District executed this loan agreement in January 2013. Upon completion of the project in 2015, 30% of this loan's principal was forgiven. The proceeds of this loan were used for work on the wells in the lower portion of the Fairview water system.

During 2012 the District was awarded a fourth Drinking Water State Revolving Fund loan from the Washington State Public Works Board. The loan amount was \$3,073,935 with an interest rate of 1.0%. The District executed this loan agreement in February 2013. The proceeds of the loan were used to complete the construction of the two well sites in the Fairview water system and will be used for a new pipeline and control valves. In 2016, the scope of work was amended to include the replacement of temporary booster pumps with a permanent solution also within the Fairview water system. As of December 31, 2017, the District has used \$723,059 of the proceeds.

In 2016, the District submitted an application for a fifth Drinking Water State Revolving Fund loan in the amount of \$649,935. The loan was approved in February 2017 with an interest rate of 1.5%. The loan will be used to fund additional construction management on two projects within the Fairview water system: the Deer Park Road Pumping project and the Olympic Highway Pipeline Upgrade project. As of December 31, 2017, no loan proceeds had been used as construction on these projects had not begun.

NOTE 6 - PENSION PLANS

The following table represents the District's aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year ended December 31, 2017.

Aggregate Pension Amounts - All Plans	
Pension liability	\$ 9,154,869
Deferred outflows of resources	1,296,186
Deferred inflows of resources	1,470,355
Pension expense (credit)	818,650

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

State Sponsored Pension Plans

All District full time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), 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 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

Public Employees' Retirement System (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 3 is a defined benefit plan with a defined contribution component.

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

Contributions

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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%

PERS Plan Contributions	
PERS 1	33,845
PERS Plan 1 UAAL	587,329
PERS 2/3	822,057
TOTAL	\$ 1,443,231

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:** 7.50%

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout the member's lifetime.

Changes in Assumptions and Methods: Actuarial results that OSA provided reflect the following changes in assumptions and methods:

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

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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%. Also provided are the District's proportionate share of the net pension liability sensitivity if calculated using a discount rate 1% lower (6.5%) or 1% higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$5,894,055	\$4,838,366	\$3,923,914
PERS 2/3	\$11,629,111	\$4,316,503	(\$1,675,094)

Pension Plan Fiduciary Net Position

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

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

At December 31, 2017, the district reported a total pension liability of \$9,154,869 for its proportionate share of the net pension liabilities.

Pension Liability	
PERS 1	4,838,366
PERS 2/3	4,316,503
TOTAL	\$ 9,154,869

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	0.103275%	0.101966%	-0.001309%
PERS 2/3	0.123539%	0.124233%	0.000694%

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 Non-employer Allocations*.

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.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Pension Expense

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

Pension Expense	
PERS 1	231,973
PERS 2/3	586,677
TOTAL	\$ 818,650

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 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan:	\$ -	\$ 180,554
Contributions subsequent to the measurement date:	317,918	-
Total:	\$ 317,918	\$ 180,554

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience:	\$ 437,364	\$ 141,963
Net difference between projected and actual investment earnings on pension plan:	-	1,150,676
Changes of Assumptions:	45,849	-
Changes in proportion and differences between contributions and proportionate share of contributions:	47,799	(2,838)
Contributions subsequent to the measurement date:	447,256	-
Total:	\$ 978,268	\$ 1,289,801

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	Year ended December 31:	PERS 2/3
2018	\$ (122,043)	2018	\$ (390,616)
2019	38,531	2019	48,215
2020	(8,946)	2020	(85,556)
2021	(88,096)	2021	(330,832)
Thereafter	-	Thereafter	-
Total:	\$ (180,554)	Total:	\$ (758,789)

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OTHER POST-EMPLOYMENT BENEFITS

Eligibility

District employees are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plans 1, 2 and 3 of the PERS:

- Age 65 with 5 years of service
- Age 55 with 20 years of service

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement. Survivors of members who die are not eligible for medical benefits.

Medical and Dental Benefits

Upon retirement, the District permits members to receive medical benefits. The table below shows what retirees paid for Medical, Vision and Dental coverage (no aging factors were applied):

Coverage	2017 Monthly Medical, Vision & Dental Coverage Rate	
Retiree < 65 Only	\$	728.35
Retiree & Spouse <65		1,474.20
Medicare Eligible Individual		565.27

Funding Policy

The District funds its post-retirement health care benefits using a pay-as-you-go model such that funding occurs as participating retirees and their qualified dependents incur actual health care costs.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2008. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Determination of Annual Required Contribution	2017	2016
Normal Cost at year end	\$85,352	\$122,994
Amortization of UAAL	86,622	107,784
Annual Required Contribution (ARC)	171,974	230,778
Determination of Net OPEB Obligation		
Annual Required Contribution	171,974	230,778
Interest on prior year Net OPEB Obligation	53,836	49,094
Adjustment to ARC	70,142	42,054
Annual OPEB Cost	295,952	321,926
Employer Credit (Contributions)	9,654	42,088
Increase in Net OPEB Obligation	305,606	364,014
Net OPEB Obligation – beginning of year	1,345,888	981,874
Net OPEB Obligation – end of year	\$1,651,494	\$1,345,888

The District's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2017 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2017	\$295,952	18.00%	\$1,651,494

Funded Status and Funding Progress

As of January 1, 2017, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was \$1.6 million, and the actuarial value of assets was \$0, resulting in a UAAL of \$1.6 million.

Actuarial valuations involve 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 trend of healthcare costs. Amounts determined regarding the funded status of the plan and the 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.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The January 1, 2017, actuarial valuation used the Entry Age Normal actuarial cost method. The actuarial assumptions used included a 4.00% discount rate which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits.

The UAAL is amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2017 was 21 years.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Summary of Changes

The Actuarial Accrued Liability for retiree medical benefits went from \$2.4 million at the previous valuation date of January 1, 2014 to a present value of \$1.6 million at the January 1, 2017 valuation date. This decrease in liability since the last valuation was primarily due to a shift in the election of benefits toward “dental-only” benefits.

NOTE 8 - SELF INSURANCE

The District is a member of the Public Utility Risk Management Services (PURMS) Self-Insurance fund. PURMS is a public entity risk pool organized December 30, 1976, pursuant to the provisions of the Revised Code of Washington, Chapter 54.16.200, and interlocal government agreements. The program’s general objectives are to formulate, develop, and administer, on behalf of the member public utilities, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

PURMS consists of 19 members. The risks shared by the members are defined in the Self Insurance Agreement. PURMS consists of three pools for liability, property, and health and welfare coverage. The pools operate independently of one another and all members do not participate in all pools. The District participates in the liability, property, and health and welfare pools.

The pools are governed by a Board of Directors comprised of one designated representative from each participating member. The administrator and elected Administrative Committee conduct the business of the pools.

The pools are fully funded by its current and former members. Members that withdraw from the fund are still responsible for their share of the assessments for occurrences while they were members. Likewise terminated members continue to receive coverage for the time they were members.

Each of PURMS’ Risk Pools is audited annually by the State Auditor’s Office. In addition, as required by State regulations, PURMS provides quarterly financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools, and bi-annually, the State Risk Manager performs its own audit of PURMS’ Risk Pools. Finally, on an annual basis, PURMS engages the services of the accounting firm of Moss Adams to perform a claims audit for each of the Risk Pools.

Settled claims for these risks have not exceeded coverage in any of the past three years.

Liability Risk Pool

The liability risk pool has a \$1 million liability coverage limit per occurrence. In addition, the fund maintains \$35 million of excess general liability insurance and \$35 million of professional liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$25 million is also maintained over the first layer of \$35 million. The fund maintains \$35 million in directors and officer’s liability coverage with a retention of \$500,000.

Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level or at any time during the year that the actual reserves drop to \$500,000 less than the designated level. In 2017, the District paid \$149,030 in interim assessments. The current designated reserve level is \$3 million.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Property Risk Pool

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

The designated property pool reserve balance is \$750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below \$500,000. The District paid \$75,825 during 2017 in interim assessments.

Health & Welfare Risk Pool

The District participates in the PURMS Health and Welfare Risk Pool. PURMS provides health and welfare insurance coverage for the employees of each of its members participating in the Health & Welfare Risk Pool (“H&W Pool”) in accordance with the terms of the Health & Welfare Coverage of the SIA (“H&W Coverage”) and the terms of each member’s respective Coverage Booklet provided to its employees.

The H&W Pool’s operations are financed by assessments of its participants. Each month, each participant of the H&W Pool is assessed for: (a) the cost the H&W Pool incurred during the preceding month for the H&W Claims for such member’s employees (“H&W Claims Costs”); and (b) for such member’s share of Shared H&W Costs. “Shared H&W Costs” consist of administrative expenses incurred by the H&W Pool, premiums for Stop-Loss Insurance, PPO Charges and Shared H&W Claims.

The exposure of each participant is limited by two different pairs of stop-loss points. For 2017, the Individual Stop Loss Point was \$275,000 per employee and the Aggregate Stop Loss Point was \$21,545,880 for the combined claims costs of the employees of all participants of the H&W Pool. No settlements exceeded insurance coverage for each of the previous three years.

PURMS Notification to Risk Pool Members of their Respective Potential Future Assessment Shares of the “Claim Reserves Receivable”

Commencing with the year ended December 31, 2016, it is PURMS’ policy to inform the members of its risk pools of their respective shares of the actuarially-based “Claims Reserves Receivable” for the risk pools in which they participate determined in accordance with a 10 year look-back period. Following are the calculated amounts as of December 31, 2017 for the District in their respective risk pools:

Liability Pool	\$295,500
Property Pool	\$34,973
Health & Welfare Pool	\$249,402

Unemployment

The District is self-insured for unemployment insurance and reimburses the State of Washington for any claims paid. There were \$6,895 in unemployment claims paid in 2017.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - CONSERVATION PROGRAMS

As defined by the Energy Independence Act (EIA), the District is a large utility in Washington State and is therefore subject to the requirements of the EIA. The EIA requires qualifying utilities to conduct a Conservation Potential Assessment (CPA) evaluating all of the technically and economically feasible energy savings potential within the utility's service territory over a ten-year period. The utility then has to establish an energy savings target equal to one-fifth (1/5) of the ten-year potential and achieve energy savings greater than or equal to the target over the following two-year period. If the target is not achieved, the utility would be subject to fines. The savings shortfall rolls over to the following biennium and should be satisfied in addition to the new established energy savings target. This process is repeated every even numbered year.

In December, 2015, the District adopted a conservation target of 7,008 MWh for the 2016/17 biennium. During 2016 and 2017, the District achieved 13,247 MWh of energy savings which was well over the two-year target. On November 17, 2017, the District adopted a new target of 9,198 MWh for the 2018/19 biennium.

The District has an agreement with the Bonneville Power Administration (BPA) to participate in the Energy Efficiency Incentive (EEI) program. The EEI is a credit that is available to BPA regional wholesale power customers that take action to further conservation. Customer incentives paid by the District are reimbursed by the BPA upon submission of qualifying invoices and documentation. The determined amount by the BPA for the District's EEI budget for FY 2016-2017 was \$1,616,620. In 2017, the amount received in incentives from the BPA was \$1,433,767. The District's energy savings program related expenditures totaled \$1,192,185 for 2017. The determined amount for the District's EEI budget for FY 2018-2019 is \$1,540,650.

NOTE 10 - PURCHASED POWER AND WATER CONTRACTS

Bonneville Power Administration (BPA)

In 2009, the District executed a Load Following Regional Dialog Power Sales Agreement with BPA for the period beginning October 1, 2011 and expiring September 30, 2028. This contract works within BPA's Tiered Rate Methodology providing firm power necessary to meet the District's loads less generating resources.

Under this contract, the District has a contract-defined right to purchase an amount of power at "Tier 1" cost-based rates, also called the High Water Mark (HWM). BPA will conduct a study every two years to determine the rate period high water mark (RHWM) for each utility, distributing a percentage based allocation of their Tier 1 system. The District will still have the right to have BPA meet their net requirement load (the District's load minus its own resources), but BPA will meet net requirement load above the HWM at "Tier 2" market-based rates.

On September 30, 2011, the District notified BPA of its election to have all the Above-RHWM load for FY's 2012-2014 and FY's 2015-2019 served with Firm Requirements Power purchased from BPA at the Tier 2 Short Term and Vintage Rates, respectively. The District intends to serve its Above-RHWM load for FY 2012-2019 with a combination of its share and acquired shares of Packwood Hydro and BPA Tier 2 power purchases. Tier 2 rates will be set to cover the full cost of the additional power BPA buys to meet those additional loads.

BPA finalized the last biannual study to determine the RHWM on September 30, 2017, which showed that the District's forecasted energy needs had decreased for the FY 2018-2019 period. When a utility has excess Tier 2 resources, BPA will remarket the excess energy on behalf of the utility. The Tier 2 energy

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

needs for FY 2018-2019 were initially based on an energy forecast performed in 2012, with the related purchases made by BPA obligating the District on October 31, 2013.

Annual Amounts Priced at Tier 2 Rates (aMW)			
<u>BPA Fiscal Year</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Tier 2 Short Term Obligation	1.117	0.000	0.000
Rate per MWh	\$32.01	\$27.20	\$24.97
VR-1 2014 Obligation	1.000	1.000	1.000
Rate per MWh	\$49.08	\$51.40	\$53.02
VR-1 2016 Obligation	1.000	1.000	2.000
Rate per MWh	\$43.18	\$46.50	\$48.02
Remarketing Tier 2	0.000	0.826	1.330
Remarketing Value	\$29.63	\$25.20	\$23.00

In September 2016, the District elected to purchase Tier 2 power at the Short Term rate for the 3rd purchase period election (2020-2024) under the BPA contract. This was based on an estimate of the Above-RHWM load exposure which is determined from both assumptions on future RHWM's and a forecast of the total retail load for FY's 2020-2024.

The District purchases Resource Support Services (RSS) from BPA contracted through the FY 2019 rate period to facilitate the integration of its Packwood Hydro generating resource.

Federal law requires Bonneville to recover all of its costs through the rates it charges its customers. Bonneville makes various filings with FERC to confirm that rates are sufficient to cover costs. Under Bonneville's adopted power and transmission rate provisions, its rates are subject to revision in order to enable Bonneville to recover its actual costs of service. The rate provisions for the Load-Following Service Product include a cost recovery adjustment clause (CRAC) and a dividend distribution clause (DDC).

The Bonneville Power Administration responded to three 2007 Ninth Circuit court rulings regarding the 2000 Residential Exchange Program Settlement Agreements and their treatment in the 2002 wholesale power rates. BPA's decision was to return past overcharges to the region's consumer-owned utilities and re-establish Residential Exchange Program benefits to most of the region's investor-owned utilities. The District received power bill credits of \$941,541 in 2017 recorded as a reduction in power purchase cost.

The District also entered into contract with BPA for network transmission service effective May 31, 1997, which provides adequate transmission capacity to meet the District's annual system peak load. The transmission contract expires on September 30, 2031.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Water

The District is a party to a "Wholesale Water Contract" with the City of Port Angeles (City) through August 16, 2036. The rates are tied to the City's Residential Rate Structure. Gales Addition Reservoir is 89% of the cost per 100 cubic feet under the City's residential rate and the Baker Street Intertie is 85% of the cost per 100 cubic feet under the City's residential rate. Water rates for 2017 were as follows:

Gales Addition Reservoir (High Zone) Jan 2017 – Dec 2017 billing cycle	\$2.1284/100 cubic feet/month
Baker Street Intertie (Low Zone) Jan 2017 – Dec 2017 billing cycle	\$2.0328/100 cubic feet/month

The District's purchased water expense under this contract was \$314,327 in 2017.

NOTE 11 - ASSOCIATION WITH ENERGY NORTHWEST

Energy Northwest (formerly Washington Public Power Supply System [WPPSS]) is a Washington municipal corporation which has acted as a joint operating agency for various power supply initiatives in the Northwest. The District was a member until August 1984 when it withdrew its membership. The District rejoined Energy Northwest and became a member in May 2008.

The District has remained contractually interested in the following projects:

Energy Northwest Nuclear Projects No. 1, 2, and 3

The District has entered into "net billing agreements" with Energy Northwest and BPA. Under terms of these agreements, the District has purchased a maximum of 1.157%, 1.769%, and 1.001% of the capability of Energy Northwest's Nuclear Projects Nos. 1 and 2 and Energy Northwest's 70% ownership share of its Nuclear Project No. 3, respectively, and has sold this capability to BPA. BPA is unconditionally obligated to pay the District, and the District is unconditionally obligated to pay Energy Northwest, the pro rata share of the total annual costs of each project. This includes the debt service on revenue bonds issued to finance the project whether the projects are completed, operable or operating and notwithstanding the suspension, reduction, or curtailment of the projects' output. The District's respective shares may be increased by not more than 25% upon default of other public agency participants.

Packwood Lake Hydroelectric Project

The District is a 7% participant in Energy Northwest's 27.5 MW Packwood Project, located in the Cascade Mountains south of Mount Rainier. In 2011, the District signed agreements with Kittitas, Ferry, Skamania, and Wahkiakum PUD's acquiring their share of the project output and increasing its total share to 10.25%. The District will bring its share of output to load. The District's cost for the share of output for participation in Packwood was \$278,948 for 2017.

The Project's 50-year license has expired and the Project has satisfied all of the requirements for relicensing with the FERC and is waiting for final issuance. The Packwood Agreement with Energy Northwest obligates participants to pay annual costs and receive actual project output.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 – PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. (NoaNet)

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

In July 2001, NoaNet issued \$27 million in Telecommunications Network Revenue bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations, and maintenance. The bonds became due beginning in December 2003 through December 2016 with interest due semi-annually.

In December 2014, NoaNet established a \$13 million variable rate, junior lien, non-revolving line of credit and transferred the balances of two previous lines of credit to the new note. As of May 1, 2015, NoaNet began utilizing the sweep feature of the note whereby excess operating cash balances were automatically transferred to pay down the note balance. During March 2017, NoaNet secured a \$10,200,000 term loan to refinance the 2015 line of credit. Also in March 2017, NoaNet secured a \$5,000,000 line of credit for capital expenditures and a \$2,000,000 line of credit to be used to fund short term operating expenditures.

NoaNet has outstanding notes payable totaling \$12,235,210 as of December 31, 2017. The District approved repayment agreements for each note, where NoaNet may assess its members for their percentage share of the principle and interest to the extent NoaNet does not have sufficient funds to pay.

NoaNet recorded a change in net position (excluding member assessments) of (\$6,791,730) (unaudited) for 2017. In accordance with Accounting Principles Board Opinion No. 18 *The Equity Method of Accounting for Investments in Common Stock*, as well as a position statement issued by the Washington State Auditor concerning the appropriate accounting treatment for NoaNet, a proportionate share of these losses has not been recorded by the District since NoaNet had a net position of \$68,053,411 (unaudited) as of December 31, 2017. The District also reports no investment or liability balances related to NoaNet membership.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, 21507 42nd Avenue, SeaTac, WA 98198.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – TELECOMMUNICATION SERVICES

The District has installed a fiber optic system in its service area for use by the electric utility. The District has connected its fiber optic system with NoaNet's fiber optic communications network and makes excess capacity available to retail internet service providers. The District recorded broadband revenues of \$365,792 for the year ended December 31, 2017. The District recorded operations and maintenance expenses for broadband of \$116,202 in 2017. The District has a total capital investment of \$5,219,110 as of December 31, 2017, including \$76,841 invested during 2017.

Broadband operations and capital activity for 2017 were as follows:

For Year Ending December 31, 2017	
Operating Revenue	
Wholesale fiber services to ISP's	197,858
Retail fiber services	167,344
Installation charges	590
Total Operating Revenues	\$ 365,792
Operating Expenses	
Operating expenses	20,989
Administrative and general	95,213
Total Operating Expenses	\$ 116,202
Capital Investment	
Current year change in plant	\$ 76,841
Cumulative plant	\$5,219,110

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The District is guarantor on weatherization loans made by two local financial institutions to District customers for eligible improvements included in the District's conservation plan. The total outstanding balance on these loans as of December 31, 2017, was \$6,386. There were no defaults on these loans in 2017.

NOTE 15 – SUBSEQUENT EVENTS

The Board of Commissioners passed a resolution in January 2018 for an average 4.8% increase in electric rates effective for all bills rendered on or after April 1, 2018 and an average 7% increase in water and wastewater rates effective for all bills rendered on or after February 1, 2018.

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 16 – SEGMENT INFORMATION

The following condensed financial information is provided by electric, water, and sewer operating segments for the year ended December 31, 2017:

Condensed Statement of Net Position by Segment					
Assets	Electric System	Water System	Sewer System	Interfund Eliminations	Total
Current Assets	\$ 37,361,577	\$ 5,780,304	\$151,491	\$ (492,720)	\$ 42,800,652
Capital Assets, net	145,156,094	23,173,265	475,841		168,805,200
Other Assets	3,707,769	131,803	-	(99,060)	3,740,512
Total Assets	186,225,440	29,085,372	627,332	(591,780)	215,346,364
Deferred Outflows of Resources	1,445,476	162,548	-	-	1,608,024
Total Assets and Deferred Outflows of Resources	\$187,670,916	\$29,247,920	\$627,332	\$ (591,780)	\$216,954,388
Liabilities					
Current Liabilities	\$ 12,023,466	\$ 842,191	\$ 2,976	\$ (504,180)	\$ 12,364,453
Noncurrent Liabilities	40,744,525	6,913,289	580	(87,600)	47,570,794
Total Liabilities	52,767,991	7,755,480	3,556	(591,780)	59,935,247
Deferred Inflows of Resources	1,344,862	125,493	-	-	1,470,355
Net Position					
Net Investment in Capital Assets	111,303,018	18,333,142	475,841	-	130,112,001
Restricted for:					
Debt Service	4,291,862	75,963	-	-	4,367,825
Rural Economic Development Fund	544,384	-	-	-	544,384
Unrestricted	17,418,799	2,957,842	147,935	-	20,524,576
Total Net Position	133,558,063	21,366,947	623,776	-	155,548,786
Total Liabilities, Deferred Inflows of Resources and Net Position	\$187,670,916	\$29,247,920	\$627,332	\$ (591,780)	\$216,954,388

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Condensed Statement of Revenue, Expenses and Changes in Net Position by Segment

	Electric System	Water System	Sewer System	Interfund Eliminations	Total
Operating revenues	\$ 60,972,938	\$ 3,870,055	\$ 54,051	\$ (166,395)	\$ 64,730,649
Operating expenses					
Purchased resources	27,317,810	314,327	-	-	27,632,137
Operating and maintenance	19,077,341	1,789,010	49,892	(166,395)	20,749,848
Taxes	2,977,618	197,395	-	-	3,175,013
Depreciation	8,546,651	814,980	27,662	-	9,389,293
Operating expenses	57,919,420	3,115,712	77,554	(166,395)	60,946,291
Net Operating Income	3,053,518	754,343	(23,503)	-	3,784,358
Non-operating Revenues and Expenses					
Other non-operating income (expense)	708,201	(4,086)	844	(2,426)	702,533
Interest expense	(1,213,976)	(59,767)	-	2,426	(1,271,317)
Total Non-operating Income (Expense)	(505,775)	(63,853)	844	-	(568,784)
Capital Contributions	1,350,593	304,369	3,875	-	1,658,837
Change in Net Position	3,898,336	994,859	(18,784)	-	4,874,411
Net Position, January 1	129,659,727	20,372,088	642,560	-	150,674,375
NET POSITION, December 31	\$133,558,063	\$21,366,947	\$623,776	\$ -	\$155,548,786

PUD #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Condensed Statement of Cash Flows by Segment

	Electric System	Water System	Sewer System	Interfund Eliminations	Total
Cash Flows from Operating Activities	\$ 9,610,060	\$ 1,233,613	\$ 1,124	\$ -	\$ 10,844,797
Cash Flows from Financing Activities	(10,321,563)	(823,297)	(3,632)	2,426	(11,146,066)
Cash Flows from Investing Activities	(10,849,433)	26,761	844	(2,426)	(10,824,254)
Net Increase (Decrease) in Cash	(11,560,936)	437,077	(1,664)	-	(11,125,523)
Cash and Cash Equivalents, Beginning of the Year	23,200,454	4,404,945	145,885		27,751,284
Less Restricted Cash	(5,188,790)	(77,004)	-		(5,265,794)
Cash and Cash Equivalents, End of the Year	\$ 6,450,728	\$ 4,765,018	\$144,221		\$ 11,359,967

Supplemental Disclosure of Noncash Activities

Customer Installed Capital Contributions	\$ 108,837	\$ 65,922		\$ 174,759
Decrease in Fair Value of Investments	18,795			18,795
Deferred Outflow-Pension	1,133,638	162,548		1,296,186
Deferred Inflow-Pension	1,344,862	125,493		1,470,355

PUD #1 OF CLALLAM COUNTY

REQUIRED SUPPLEMENTAL INFORMATION

OPEB Retiree Medical Benefits Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
1/1/2008	\$ -	\$ 2,277,212	\$ 2,277,212	0.00%	\$ 8,183,800	27.83%
1/1/2011	-	3,100,235	3,100,235	0.00%	9,867,647	31.42%
1/1/2014	-	2,419,742	2,419,742	0.00%	10,826,568	22.35%
1/1/2017	-	1,598,186	1,598,186	0.00%	12,259,662	13.04%

PUD #1 OF CLALLAM COUNTY

REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30th (Last 10 Fiscal Years)

	2017	2016	2015	2014
Employer's proportion of the net pension liability:	0.101966%	0.103275%	0.102581%	0.104573%
Employer's proportionate share of the net pension liability:	\$ 4,838,366	\$ 5,546,354	\$ 5,365,940	\$ 5,267,914
Employer's covered employee payroll:	\$ 12,537,175	\$11,996,769	\$11,325,360	\$ 11,153,818
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll:	38.59%	46.23%	47.38%	47.23%
Plan fiduciary net position as a percentage of the total pension liability:	61.24%	57.03%	59.10%	61.19%

PERS 2/3

As of June 30th (Last 10 Fiscal Years)

	2017	2016	2015	2014
Employer's proportion of the net pension liability:	0.124233%	0.123539%	0.122737%	0.122887%
Employer's proportionate share of the net pension liability:	\$ 4,316,503	\$ 6,220,091	\$4,385,463	\$2,483,990
Employer's covered employee payroll:	\$ 12,170,290	\$11,573,312	\$10,863,483	\$10,632,142
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll:	35.47%	53.75%	40.37%	23.36%
Plan fiduciary net position as a percentage of the total pension liability:	90.97%	85.82%	89.20%	93.29%

Notes to Schedule:

Until a full 10-year trend is compiled, governments are only required to present information for those years that information is available.

PUD #1 OF CLALLAM COUNTY

REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)

Schedule of Employer Contributions				
PERS 1				
As of December 31st (Last 10 Fiscal Years)				
	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 621,174	\$ 599,504	\$ 537,101	\$ 506,167
Contributions in relation to the statutorily or contractually required contributions	621,174	599,504	537,101	506,167
Contribution deficiency (excess)	-	-	-	-
Covered payroll	\$ 12,347,732	\$ 12,247,603	\$ 11,737,932	\$ 10,996,146
Contributions as a percentage of covered employee payroll	5.03%	4.89%	4.58%	4.60%

PERS 2/3				
As of December 31st (Last 10 Fiscal Years)				
	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 822,057	\$ 763,048	\$ 656,190	\$ 514,521
Contributions in relation to the statutorily or contractually required contributions	822,057	763,048	656,190	514,521
Contribution deficiency (excess)	-	-	-	-
Covered payroll	\$ 11,987,494	\$ 11,904,039	\$ 11,257,908	\$ 10,652,582
Contributions as a percentage of covered employee payroll	6.86%	6.41%	5.83%	4.83%

Notes to Schedule:

Until a full 10-year trend is compiled, governments are only required to present information for those years that information is available.

PUD #1 OF CLALLAM COUNTY

DIRECTORY OF PUBLIC OFFICIALS

Elected Commissioners

President

H. Ted Simpson

Term of Office Expires

December 31, 2018

Vice-President

Will E. Purser

December 31, 2022

Secretary

Hugh E. Haffner (Resigned 07/15/2018)

December 31, 2020

Appointed Officials

General Manager

Douglas W. Nass

Treasurer/Controller

David Papandrew (Retired 09/14/2018)

District Auditor

Vacant

Mailing Address

PUD No. 1 of Clallam County

Post Office Box 1000

Carlsborg, WA 98324