Annual Report
2015

DELIVERING VALUE
TO OUR CUSTOMERS

Grant County
PUBLIC UTILITY DISTRICT


GROVE

COMMISSIONERS' REPORT

Grant County is experiencing a renaissance of customer growth. In an era where most utilities are struggling with how to maintain operations in the midst of flat-to-declining customer growth, Grant PUD is wrestling with the opposite problem. When the early pioneers of Grant County set in motion the future of public power in this county, they never could have imagined the results of their vision that we enjoy today.

As our average in-county customer load reaches above 500 average megawatts, great progress is underway to find new ways to integrate large customers while also preserving and protecting competitive energy prices for all customers. As Grant County continues to become a place synonymous with growth and opportunity, we are resolute in our commitment to providing one of the most competitive and reliable energy products in the nation.

While we consider innovative ways to serve the increasing power-load requirements of new customers, we cannot forget those who have been here from the start. This commitment to the heritage of our utility was reflected in late 2015 when we welcomed the opening of the new Wanapum Heritage Center to our Priest Rapids Project landscape. The Wanapum are forever woven into the DNA of this utility and the new heritage center is a memorial to our legacy of mutual trust and respect.

In addition to the Wanapum Heritage Center, we also opened our new Grant PUD Visitors Center. This facility is committed to telling the incredible story of how we balance the varied and sometimes competing interests associated with operating two dams along the Columbia River. This center is a gathering point for children and adults to better understand our complex work that is often taken for granted.

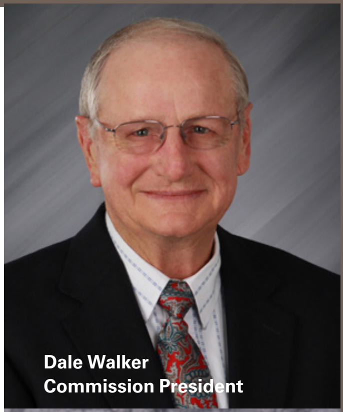
Each of these centers serve as reminders that we are fast approaching an end to relicensing related commitments. With the legal battle over Crescent Bar settled in 2015, we can look forward to work commencing on our final recreation site along the Columbia River. The completion of this work in the years ahead signals an end to the bulk of our capital projects related to our license with the Federal Energy Regulatory Commission. These investments were critical to securing our 44-year license in 2008 and yield a benefit that far outweighs the cost.

As commissioners of this utility, we are tasked with protecting the interests of those whom we represent. As your elected board, nothing underscores our current positive position like our stable credit rating. In 2015, our strong financial position and prudent direction was affirmed by rating agencies Fitch, Moody's, S&P (AA, Aa3, and AA respectively). Stable financial outcomes like these ensure that every Grant PUD customer benefits from access to low-cost borrowings. These borrowings fund critical work here at the utility and result in hitting the mark on strategic plan objectives. Keeping our credit rating at this level means that our customers' rates won't be adversely impacted by higher borrowing costs and result in higher energy prices.

It's extraordinary to reflect back on the history of this utility and the obstacles that have been met along the way. We know there will always be challenges, but in all that's ahead, we will continue to ensure that serving our customers and communities remain central to who we are and what we do.

Dale Walker, Commission President
Tom Flint, Vice President

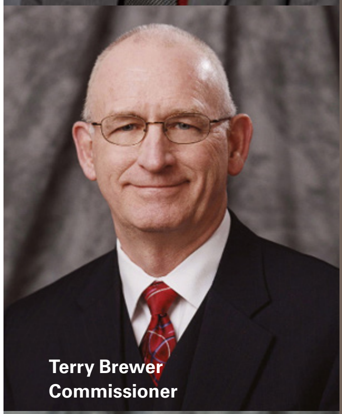
Larry Schaapman, Secretary
Terry Brewer, Commissioner
Bob Bernd, Commissioner



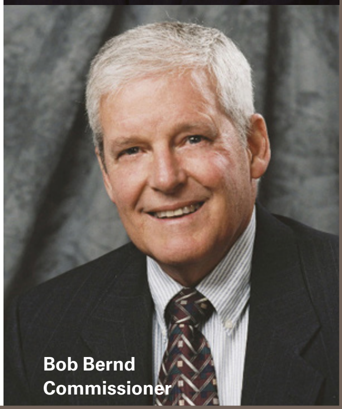
Dale Walker
Commission President

Tom Flint
Commission Vice President

Larry Schaapman
Commission Secretary



Terry Brewer
Commissioner



Bob Bernd
Commissioner

MANAGER LETTER


Tony Webb, General Manager

Achieving our mission of efficiently generating and delivering energy is inherently connected to delivering exceptional customer value. No matter where we are in the 78-year history of our organization and no matter what changes in our industry, we measure our success by the benefit we create for customers. I am pleased to say that in 2015 we not only performed well for the year, we also made great strides toward preparing for the future.

As we creatively work to solve challenges, we also find new ways to build customer value. Changes associated with energy efficiency, aging infrastructure, political uncertainty, load growth, and low wholesale energy prices each carry their own set of obstacles. Fortunately we have a team of innovative professionals dedicated to making a difference in a mission that matters. In 2015, these employees demonstrated an ability to see past the challenges and seize opportunities. These solutions come in the form of multi-million dollar changes to operations and capital investments, as well as subtle, incremental, day-to-day business processes.

Much of the work to maximize value accomplished by our team occurs behind the scenes. While their work may not appear flashy or lead to front-page news, the effects of their quiet, creative leadership speaks for itself. Day-to-day business decisions, such as reducing the number of printers and copiers, optimizing the inventory we maintain in our warehouses, or updating pole-attachment fees all result in tangible value for customers. Decisions like these are the fundamentals that fuel our pursuit toward delivering value.

Delivering benefits for current and future customers was the driving force behind our response to the Wanapum spillway fracture. We were able to overcome significant challenges in our response to raise the pool above Wanapum Dam back to normal levels and reopening the shoreline to full public access early in 2015. This response demonstrates an all-hands-on-deck approach to preserving our assets for future generations. The end result is a dam that is stronger than the day it was built and, because of our strong financial position, we did not have to raise our retail prices above a previously-stated amount.

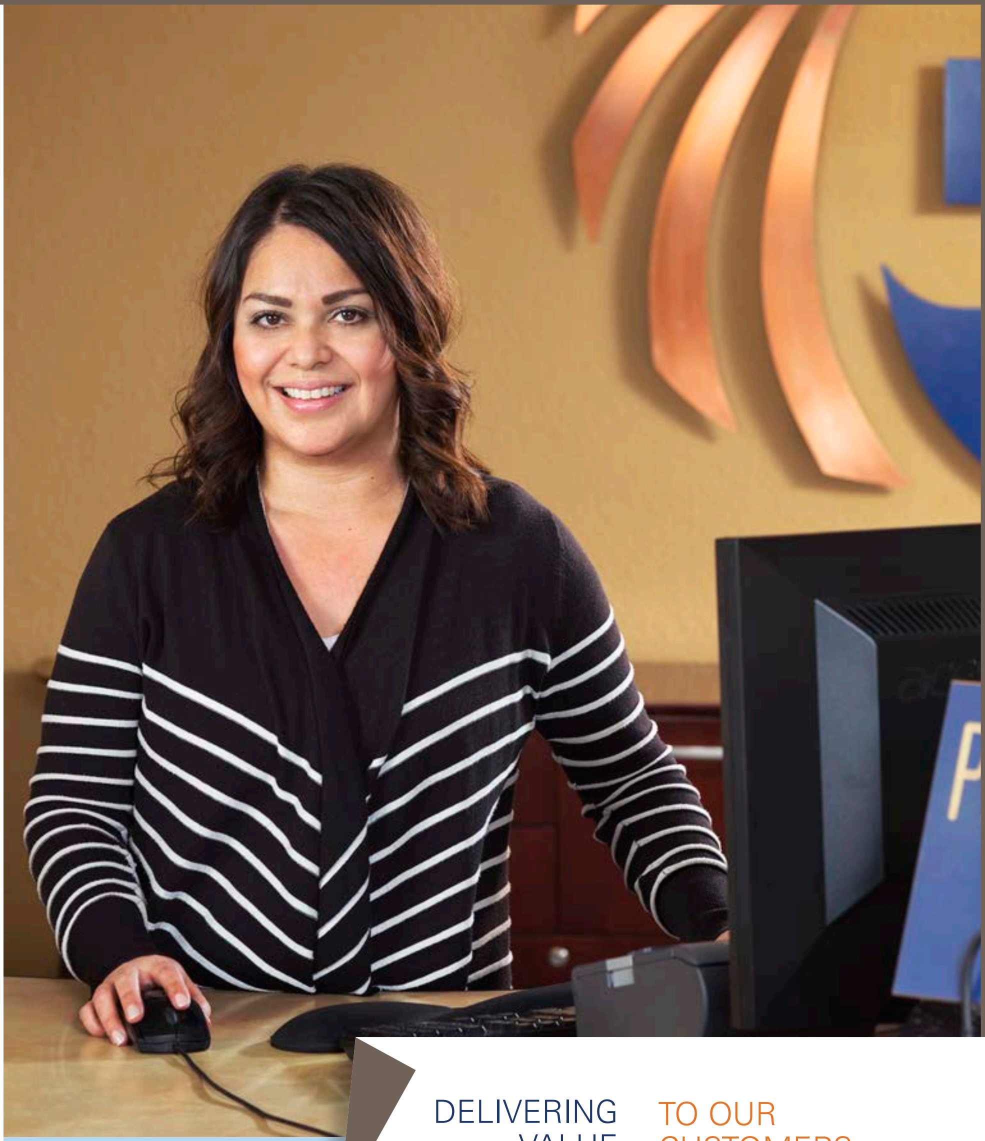
In July, customers provided feedback through a customer-satisfaction survey that affirmed our current strategic direction. The survey indicated that customer priority centers on two things: affordability and reliability. These two priorities are mirrored when considering our ongoing capital investments such as electric system upgrades and low projected price increases over the coming years.

In 2015, we executed the second phase of our journey toward small, predictable price adjustments. This direction of a 2 percent average price increase is critical to ensuring that we are able to weather unexpected storms similar to the Wanapum spillway response. With over $1.3 billion in outstanding debt, we are laser-focused on meeting financial outcomes that allow us to continue generating affordable energy while also insulating us from unexpected events.

Our 2015 accomplishments demonstrate our commitment to achieving simpler, faster and affordable customer outcomes. Quite simply, we are focused on creating a more valuable Grant PUD for you. Going forward, we will continue to do everything we can to be the valued and trusted energy provider and partner to the communities we serve.

Tony Webb
General Manager, Grant County Public Utility District

Grant County Public Utility District (PUD) was established by local residents over 75 years ago. Formed by local citizens, we are inherently connected to the communities we serve. Our customers depend on us to deliver reliable and affordable energy to Grant County residents and generate electricity that serves millions of people throughout the Pacific Northwest. A basic principle of public power is to provide the same high quality of service to customers regardless of size or geographic location. We are also dedicated to protecting the strong financial health of Grant PUD for the benefit of all customers both today and into the future.



DELIVERING VALUE TO OUR CUSTOMERS

WE STRIVE DAILY TO MAKE DECISIONS THAT FULFILL OUR CORE MISSION

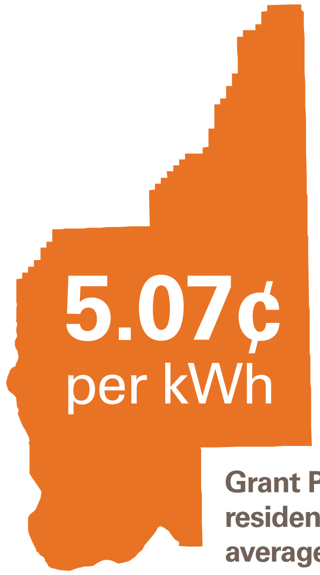
To efficiently and reliably generate and deliver energy to our customers

OUR OVERARCHING VISION IS TO ACHIEVE

Excellence in Service and Leadership

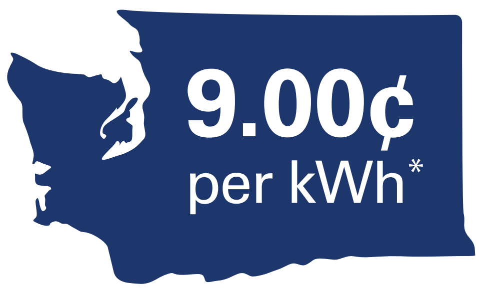
DELIVERING VALUE WITH LOW PRICES

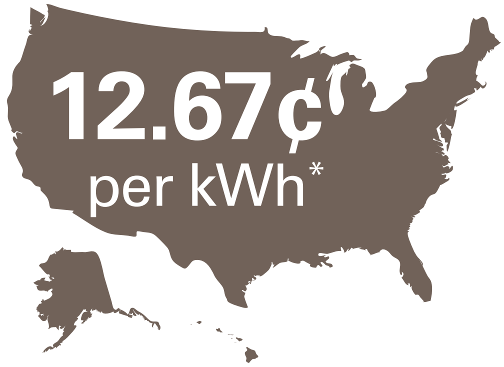
Running a power generation and delivery system is a costly endeavor, but we are committed to keeping energy prices low and operations lean. Access to affordable energy is one of the driving forces behind the vast customer growth within our service territory. To protect our current position and ensure that future generations enjoy competitive energy prices, we are focused on improving the overall financial health of the utility. In partnership with commissioners, we are executing a plan that calls for small, incremental price increases over the next decade. This approach ensures stable, predictable financial outcomes for our customers, and improves the overall financial health of the utility.



Grant PUD residential average

HOW DO WE COMPARE?





* Source: U.S. Energy Information Administration as of 03/29/16

Wouldn't it be great if you could plan for the expected price of gasoline, groceries or medicine through 2024? While it isn't possible to predict the price of many everyday commodities into the next decade, Grant PUD is in the third year of a strategy that calls for small, predictable price increases in the costs of energy. This strategy comes from the direction of our board of commissioners and reflects customer preferences outlined in our 2015 Customer Satisfaction Survey.

WHAT DOES THIS ALL MEAN? It means that the monthly average residential customer in Grant County, using 1,800 kilowatt hours of power each month, will see an increase of less than $2 a month on their power bill each year through 2024. Our current direction allows customers and investors to enjoy stable and predictable financial outcomes for years to come.

For several decades we have had a reactive rate policy, which resulted in large increases following years with no increase. Our current proactive rate strategy is for small, incremental rates phased in over time. This strategy reflects our customers' preferences outlined in our 2015 Customer Satisfaction Survey.

DELIVERING VALUE BY MEETING OUR CUSTOMERS' NEEDS

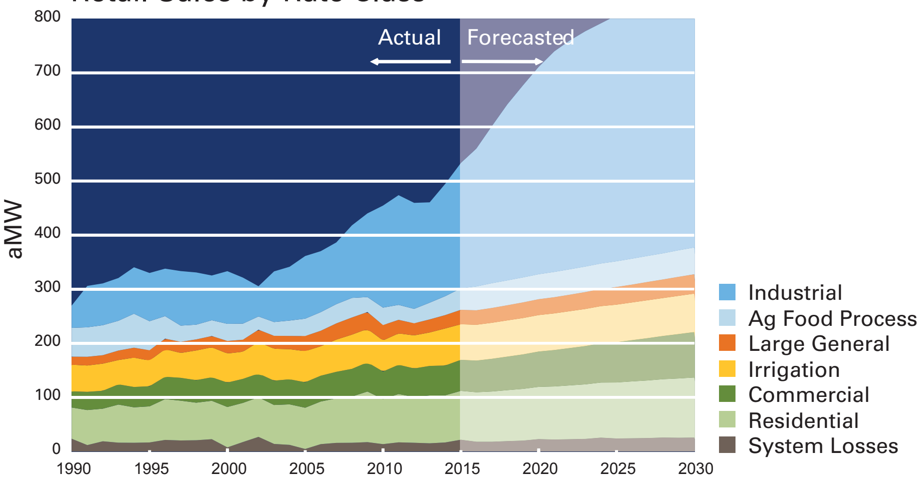
All of our customers have one thing in common — they expect low-cost power to be available whenever they need it. As the sole provider of electricity in Grant County, our job is to constantly meet our customers' expectations, no matter what their power needs may be. That effort takes around-the-clock work as well as constant planning and preparation to meet the expanding needs of all customer groups.

In just 10 years, Grant County's demand for electricity has increased from an average of 362 megawatts in 2005 to above 500 in 2015. As the rest of the U.S. struggles with flat or reduced demand for electrical energy, we are projecting that average load will continue to increase in the county to an average of 610 megawatts by the end of this decade.

VALUE FOR ALL CUSTOMERS

Because Grant County continues to be viewed as a place synonymous with growth and opportunity, we are taking a proactive approach to managing growth in a way that considers all of our customers. We are constantly engaged in financial planning to balance the impacts of growth within our customer classes, while addressing the costs of delivering a quality service and at the same time reducing our risk profile. Balancing these details, while also developing policy that considers public feedback, ensures that we will continue to keep our prices low while we improve our financial conditions.

Grant PUD 2015 Medium Load Forecast Retail Sales by Rate Class

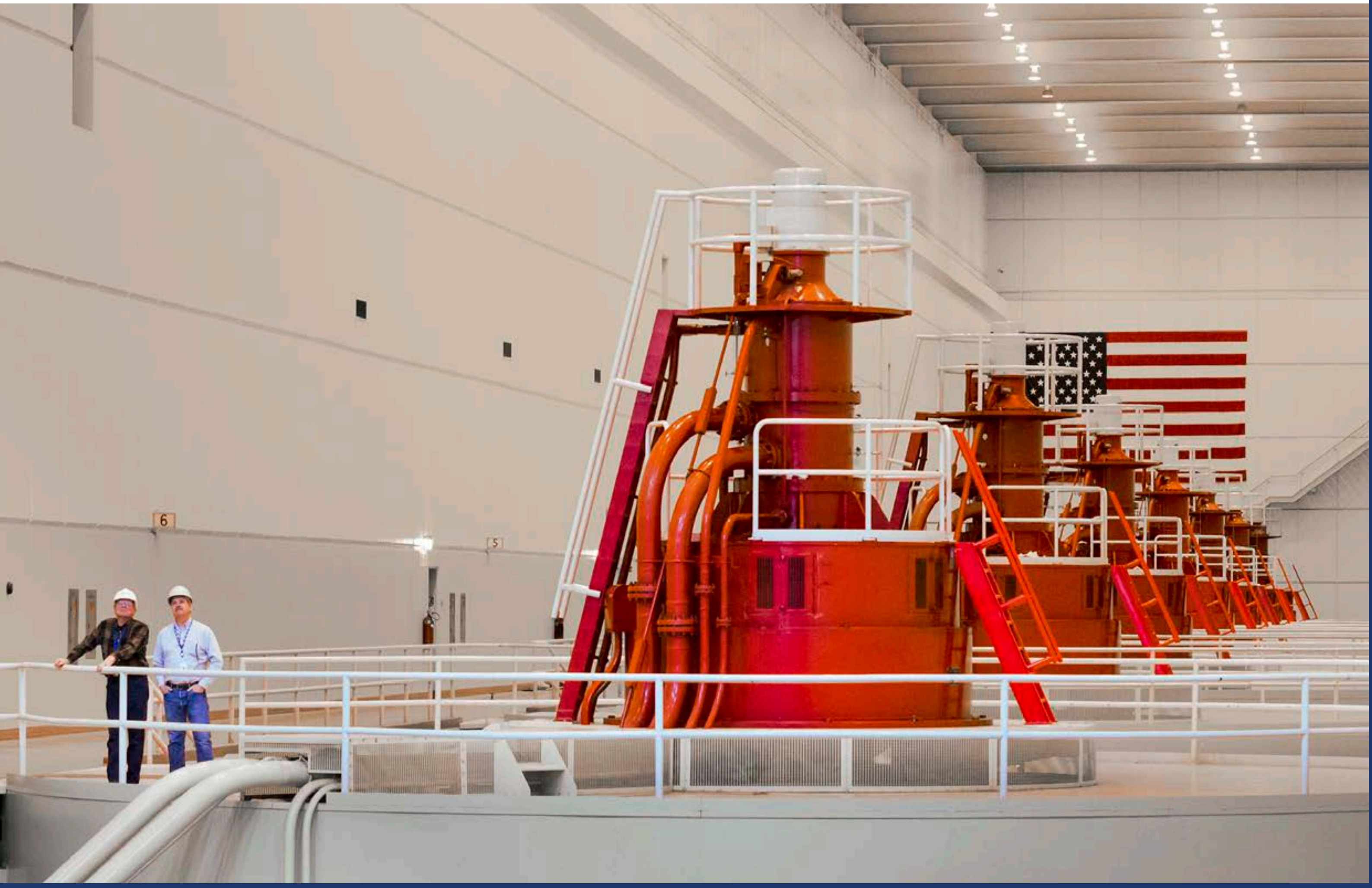


LOAD GROWTH

While growth is happening throughout all of our customer groups, including residential, small commercial, irrigation, food processing and industrial, much of the current growth is courtesy of the large industrial class. Because these large industrial customers pay above our cost to serve their needs, growth in this class has benefited other customer classes in the form of rates that are lower than they would have been absent the growth. The value of this "retail margin" from large customers provided a benefit of approximately $150 million from 2004 to 2013.

PAYING FOR ENERGY INFRASTRUCTURE

When a Grant County resident builds a new home or business, he or she pays the upfront cost of connecting the property to our existing electric system infrastructure. The same holds true for commercial and industrial customers who require additional infrastructure to serve their needs. A program known as a Contribution In Aid of Construction (CIAC) is founded on the "cause a cost, bear a cost" philosophy. Under the CIAC, large customers who need reinforcement to power lines, transmission lines, transformers or substations are required to pay their share of the cost upfront. This program ensures that the financial burden for these upgrades are born by those who will benefit from them. Mechanisms like these protect all customers in other classes.



Significant capital investment in the Priest Rapids Project and electric system, including Wanapum and Priest Rapids dams, ensures customers have access to long-term, low-cost energy throughout the rest of our federal license. Replacing assets like turbines and generators at our dams not only assures access to low-cost hydropower, it also results in more efficient operations. The new advanced turbines and generators we are installing at Wanapum Dam are 3 percent more efficient, allowing us an even greater opportunity to produce clean, renewable energy. The majority of these projects are paid for through the sale of long-term bonds. In 2015, we are projecting to have about $1.3 billion invested in plant (net of depreciation). Our strong financial reserves and planning helps to maintain favorable credit ratings. These strong ratings reduce the amount of interest we pay, alleviating the need for increased energy price adjustments for local customers. By continuing to deliver solid financial results, we fulfill our financial obligations while at the same time remain a premier provider of low-cost energy for our customers.

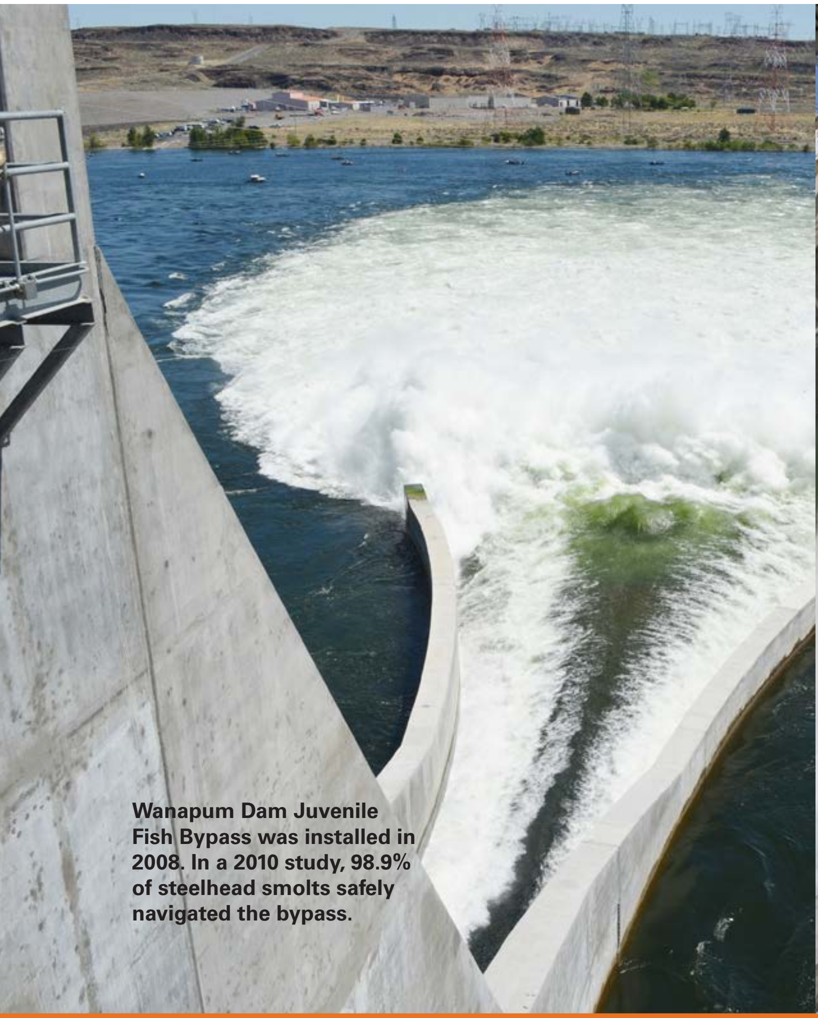
BOND RATINGS

RATING AGENCY	RATING	OUTLOOK	EFFECTIVE DATE
PRIEST RAPIDS HYDROELECTRIC PROJECT			
Fitch Ratings	AA	Stable	09/18/2015
Moody's Investor Service	Aa3	Stable	09/16/2015
Standard & Poor's Rating Services	AA	Stable	09/18/2015
ELECTRIC SYSTEM			
Fitch Ratings ES	AA	Stable	10/23/2014
Moody's Investor ES	Aa3	Stable	10/23/2014
Standard & Poor's Rating Services ES	AA	Stable	09/21/2015

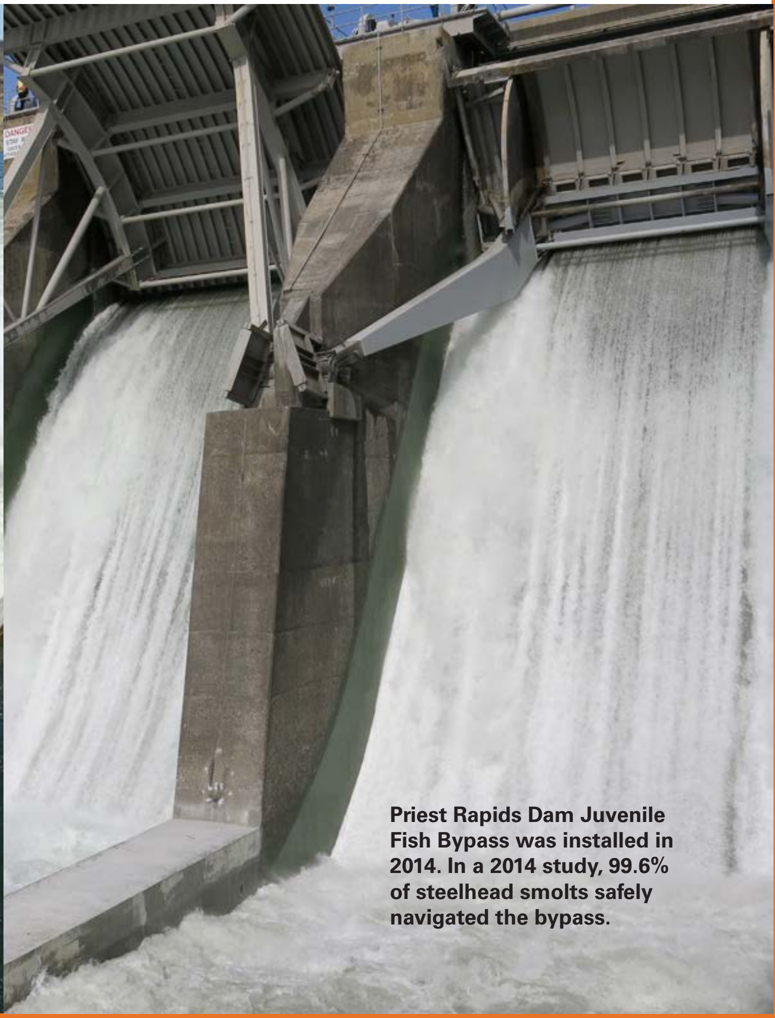
OUR HYDROPOWER SYSTEM & FISH PASSAGE EFFICIENCY

Our greatest physical asset is the Priest Rapids Project which includes Priest Rapids and Wanapum dams. They have the collective capacity to generate about 2,000 megawatts of electricity and were constructed on the Columbia River from 1956 to 1963. In 2004, we began installing new turbines and generators at Wanapum Dam. At the end of 2015, all 10 turbines and 6 generators were replaced, with the remaining to be completed by 2020. We are planning to begin a similar project at Priest Rapids Dam in 2016.

While these projects result in greater hydroelectric generation, they also reduce impacts to migrating fish. In an ongoing effort to balance customer's energy needs alongside the responsibility to care for the environment and native wildlife, we completed two major modifications at both of our dams over the past decade. To allow downstream migrating juvenile salmon and steelhead a non-turbine passage route at our dams, we designed and constructed state-of-the-art fish bypass systems. The systems at Wanapum and Priest Rapids assist in achieving survival requirements. The result of these bypass improvements to our hydro infrastructure is a greater than 96 percent survival rate for juvenile fish making their way down the river. Improvements like these are examples of how a balance of clean energy can coincide with bolstering fish passage.



Wanapum Dam Juvenile Fish Bypass was installed in 2008. In a 2010 study, 98.9% of steelhead smolts safely navigated the bypass.



Priest Rapids Dam Juvenile Fish Bypass was installed in 2014. In a 2014 study, 99.6% of steelhead smolts safely navigated the bypass.

DELIVERING VALUE BY PROVIDING FOR RECREATION AND EDUCATION

As a public utility district and the operator of the Priest Rapids Project, we recognize that we have a commitment to the community we serve that goes beyond just keeping the lights on. Our contributions include providing public access, recreation and educational opportunities for all ages and physical abilities.

Our federal license to operate the Priest Rapids Project provides us with the opportunity to own and maintain 21 recreation sites on the Columbia River. Most of these sites were recently renovated to improve amenities and public access. This work allows everyone an opportunity to enjoy camping, swimming, fishing, boating, hiking, wildlife watching and many other activities. As we care for over 12,000 acres of land, our mission is to guarantee a memorable experience for all our guests. Investing in recreation is not just a federal license requirement, it's a deliberate choice to improve the vibrancy of our communities. Providing recreation opportunities along the Columbia River plays a vital role in improving Grant County's physical, social, and economic health.

Our role in preserving and protecting the resources under our care is also reflected in our educational projects and outreach. In 2015, we opened the Wanapum Heritage Center and the Grant PUD Visitors Center. The Wanapum Heritage Center provides the Wanapum band of Native Americans with a facility that will help preserve and protect their heritage and tell the story of their beliefs, culture and values throughout our region. The Grant PUD Visitors Center tells the story of how Grant PUD balances the varied needs of: hydroelectric generation, wildlife habitat enhancement, irrigation, recreation and cultural preservation.

Priest Rapids Project received
340,000+
VISITORS in 2015

Recreation Sites 21 within the Priest Rapids Project on the Columbia River

WANAPUM HERITAGE CENTER

For more than 60 years, Grant PUD and the Wanapum have worked together to protect, preserve and perpetuate the natural and cultural resources of the Priest Rapids Project. In 2012, Grant PUD and the Wanapum broke ground on a new, 50,000 square-foot Wanapum Heritage Center. After years of design and construction, the new space opened on October 15, 2015.

Located next to the Wanapum's ancestral village and Priest Rapids Dam, this new building is instrumental in perpetuating the importance of the culture, traditions and beliefs of the Wanapum for years to come.

Hours:
Monday - Friday 8:30 a.m. to 4:30 p.m.
Saturday and Sunday 9:00 a.m. to 5:00 p.m.

GRANT PUD VISITORS CENTER

The Grant PUD Visitors Center, near Wanapum Dam, offers free fun for the whole family with plenty of hands-on activities and exhibits so visitors can learn how Grant PUD operates its dams on the Columbia River.

The many interactive features within the 2,000 square foot facility allow adults and children to travel through time as they see how the Columbia River shaped Grant County. A theater features several videos that describe how the Columbia Basin was formed and how Wanapum Dam works. Visitors can also generate their own electricity, learn about native fish in the river, and explore recreation site amenities along the Columbia River.

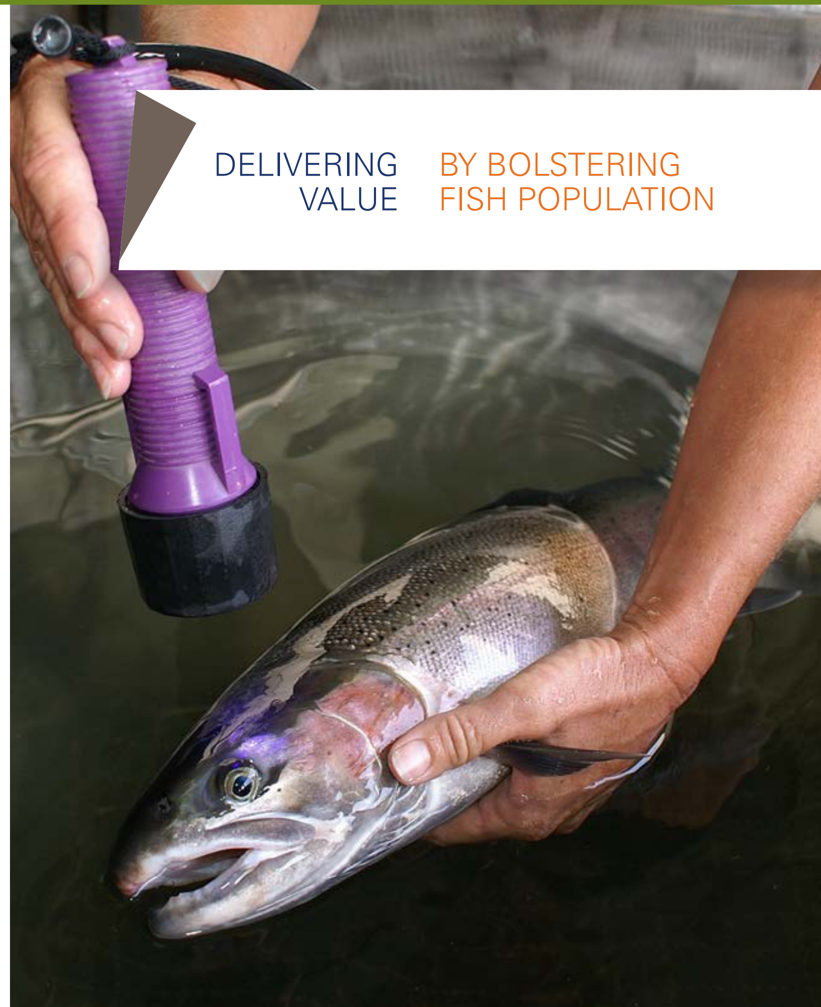
Hours:
May through October: Open daily 9:00 a.m. to 4:00 p.m
November through April: Monday - Friday 9:00 a.m. to 4:00 p.m

GRANT PUD RECREATION SITES

1. Apricot Orchard Boat Launch
2. Crescent Bar Recreation Area
3. Rattlesnake Cove Day Use Area
4. Frenchman Coulee Recreation Area
5. Rocky Coulee Recreation Area
6. Vantage Boat Launch
7. Sand Hollow Recreation Area
8. Wanapum Dam Upper Boat Launch
9. Wanapum Overlook
10. Grant PUD Visitors Center
11. Wanapum Dam Turbine Park
12. Wanapum Dam Lower Boat Launch
13. Huntzinger Fishing Pier
14. Huntzinger Boat Launch
15. Burkett Lake Recreation Area
16. Buckshot Recreation Area
17. Priest Rapids Water Trail
18. Priest Rapids Recreation Area
19. Wanapum Heritage Center
20. Priest Rapids Tailrace Fishing Access Site
21. Jackson Creek Fish Camp

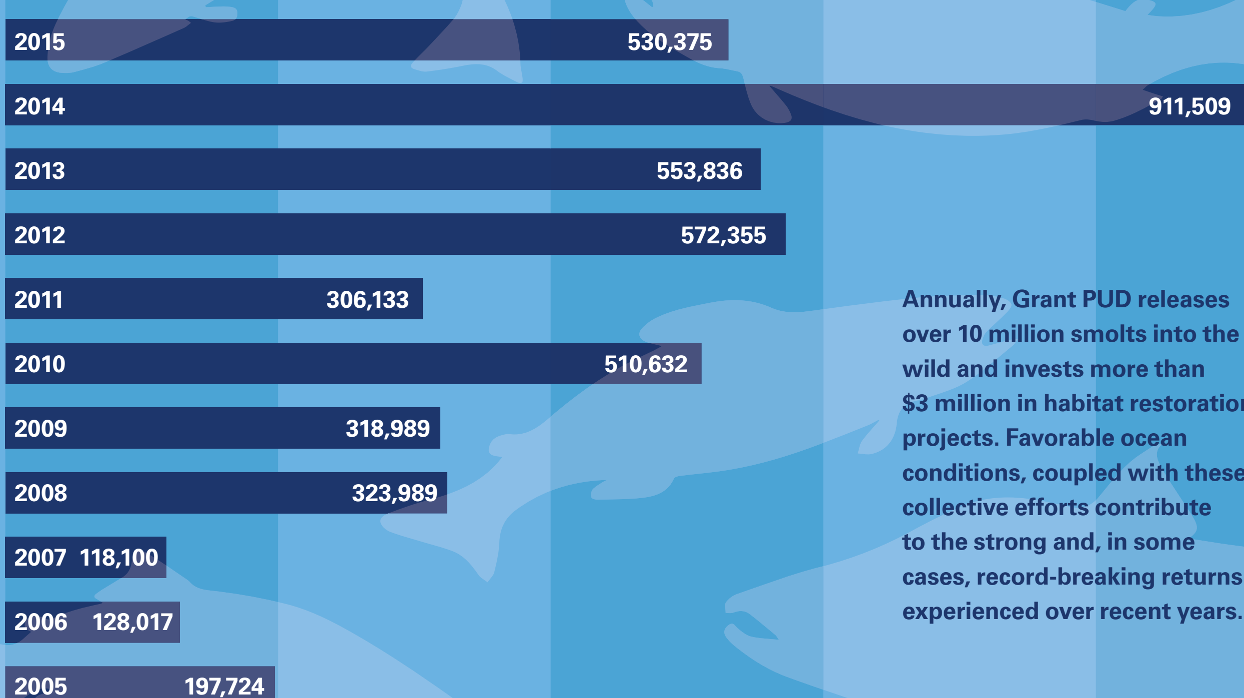
DELIVERING VALUE BY BOLSTERING FISH POPULATION

Grant PUD is one of the greatest contributors to wildlife protection and habitat conservation in the region. While generating and delivering energy is our mission, it cannot be accomplished without regard for our surroundings. Every decision we make as a utility is balanced with our desire to act as good stewards of our resources and environment. Beyond capital investments in our dams to increase fish survival, we invest in hatcheries, acclimation facilities and habitat restoration programs that extend into Penticton, British Columbia, downstream to the Hanford Reach. Annually Grant PUD releases over 10 million smolts into the wild and invests more than $3 million in habitat restoration projects. Favorable ocean conditions, coupled with these collective efforts contribute to the strong and in some cases, record-breaking, returns experienced in recent years.



Fish Counts at Priest Rapids Dam

Chinook, Sockeye, Coho and Steelhead



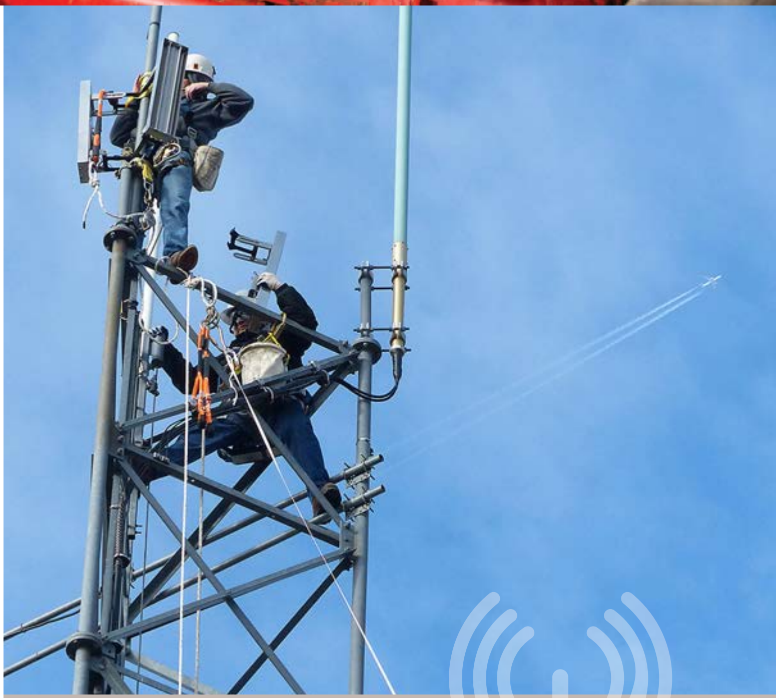
Annually, Grant PUD releases over 10 million smolts into the wild and invests more than $3 million in habitat restoration projects. Favorable ocean conditions, coupled with these collective efforts contribute to the strong and, in some cases, record-breaking returns experienced over recent years.

We have the capacity to generate more than 2,000 megawatts of electricity with our hydro-power projects and our share of the Nine Canyon Wind Farm. Every watt of power we generate is clean, renewable and carbon free. Every decision we make as a utility is balanced with our desire to act as good stewards of our resources and environment. We look for ways to go beyond the minimum standard when it comes to our efforts to enhance fish passage through our project, preserve wildlife habitat and protect cultural resources. We have invested in upgrades to our dams so fish can safely migrate past them. We have also invested in hatcheries, acclimation facilities and habitat preservation projects, as well as an avian protection program and a wildlife monitoring program. Daily, we prove that generating power and protecting our resources can be simultaneously achieved.

DELIVERING VALUE BY PROTECTING OUR RESOURCES

DELIVERING VALUE WITH OUR HIGH SPEED NETWORK

For 15 years, Grant PUD has worked to bring a wholesale high speed communications network to Grant County. We have extended a fiber-optic network to about 70 percent of the population, providing one of the fastest communication networks in the world. This network has improved the quality of life for our customers and enhanced education and business opportunities in Grant County. While we continue to connect new customers to our fiber network, we are simultaneously developing a high-speed wireless network for customers in the rural portions of the county. This network will allow us to rapidly deploy a fast, affordable and reliable communications network to many customers in under-served portions of the county. This network provides our rural community with a competitive advantage in a fast-paced, digital world.

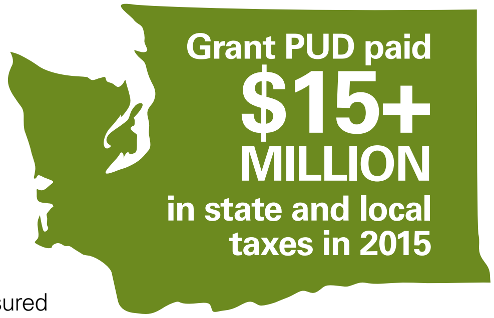


We are working to deploy a wireless network to provide customers in the rural parts of Grant County with a reliable service that provides up to

10 MEGABITS per second

DELIVERING VALUE BY CONTRIBUTING TO OUR COMMUNITY

For more than 75 years, Grant PUD has served the energy needs of rural Grant County. Like other public power utilities in the U.S., it's our connection with local communities that remains unchanged. We are consumers of the product that we deliver. Our families and neighbors are directly impacted by our work. This drives our effort to keep energy affordable and reliable.



Certain aspects of our work can't be measured in a bottom-line number on a financial statement. Some of our most significant accomplishments occur as we invest in community education with local children about electrical and water safety. Beyond education, we also provide incentive programs to help our customers become more energy efficient and save money. We have developed a reduced-rate program for both seniors and disabled residents with low incomes.

We are proud to see our employees use their free time to actively engage in programs and causes that provide for the health, welfare and improvement of our community.

POWER PRODUCTION SYSTEM STATISTICS

Priest Rapid Dam

Generation Units	10
Rated Capacity	955,600 kilowatts
Length	10,103 ft. concrete/earthfill
Rated Head	78 feet
Construction Started	July 1956
First Power Generation	October 1959

Wanapum Dam

Generation Units	10
Rated Capacity	1,148,400 kilowatts
Length	8,637 ft. concrete/earthfill
Rated Head	80 feet
Construction Started	July 1959
First Power Generation	October 1963

Nine Canyon Wind Project

12.54% of Project – Peak Capacity	12,000 kilowatts
First Power Generation	September 2003

Quincy Chute Hydroelectric Project

Rated Capacity	9,400 kilowatts
First Power Generation	October 1985

Potholes East Canal Headworks Project

Rated Capacity	6,500 kilowatts
First Power Generation	September 1990

ELECTRIC SYSTEM STATISTICS

as of December 31, 2015

Overhead Distribution Lines	2,775 miles
Underground Distribution Lines	1,032 miles
Overhead Transformers	24,095
Padmount Transformers	9,224
115kV Transmission Lines	263 miles
230kV Transmission Lines:	198 miles

Substations:

Distribution	45
Transmission	5
Transmission/Distribution	3

CUSTOMERS

as of December 31, 2015

Residential	35,470
Commercial	6,949
Irrigation	4,817
Large Commercial	110
Industrial	32
Street Light and Other	82
TOTAL	47,460

HIGH SPEED NETWORK

as of December 31, 2015

Number of customers with fiber-optic availability	29,169
Number of customers using fiber-optic service	11,324
Number of customers with wireless network availability	2,053
Number of customers using wireless service	126

CONTACT INFORMATION

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Public Utility District No. 2 of Grant County, Washington
Financial Statements
December 31, 2015 and 2014

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Public Utility District No. 2 of Grant County, Washington (the "District"), which comprise the statements of net position as of December 31, 2015 and December 31, 2014, and the related statements of revenues and expenses and changes in net position, cash flows and the related notes to the financial statements for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District at December 31, 2015 and December 31 2014, and the changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Notes 1 and 8 to the financial statements, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 and* GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The financial statements as of and for the years ended December 31, 2015 and December 31, 2014 reflect the adoption of the provisions of GASB 68 and GASB 71. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 12 and the required supplementary information, Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of the District's Contributions and Schedule of Funding Progress for Postretirement Health Benefits Program on page 60 through 61, are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Supplemental Disclosures of Telecommunication Activities in Note 11 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Disclosures of Telecommunication Activities is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 27, 2016

As of December 31, 2015, Public Utility District No. 2 of Grant County, Washington (the "District") comprises two operating systems: the Electric System and the Priest Rapids Project which consists of the Priest Rapids Hydroelectric Production Development ("Priest Rapids") and the Wanapum Development ("Wanapum"). The Priest Rapids Project is operated under Federal Energy Regulatory Commission ("FERC") License, Project No. 2114.

Presented below is a discussion and analysis of the financial activities for the years ended December 31, 2015, 2014, and 2013. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District produced a positive change in operating and non-operating results of $73.4 million, $53.5 million, and $66.7 million during 2015, 2014, and 2013 respectively. Despite the regional challenges of low wholesale power prices, the District was able to add to the financial well-being of the utility. Two key components to this success are the slice contracts and pooling agreement of the Electric System to mitigate the effect of the fluctuation in wholesale power price and water variability for generation (see "*Slice and Pooling Agreements*").

- As of March 2015, the reservoir behind Wanapum Dam was restored to normal operating level. The reservoir had been lowered due to a fracture that was discovered on the upstream side of Wanapum Dam's Spillway in February of 2014. The District, in coordination with FERC and other stakeholders, spent the remainder of 2014 and early 2015 resolving the fracture and the operational challenges it presented. Details of the fracture and the course of action the District followed are discussed in Note 12 to the financial statements.

- In September of 2015, the rating agencies of Moody's, Standard & Poor's, and Fitch all reaffirmed their ratings of all Electric System and Priest Rapids Project bonds of Aa3/stable, AA/stable, and AA/stable, respectively. These ratings have been in effect from Moody's, Standard & Poor's, and Fitch since 2010, 2013, and 2005, respectively. The rationale for the ratings included strong operations, strong liquidity, equity funding of capital projects, strong availability, low production costs, low-cost power supply, and strong financial and risk management practices. These high grade credit ratings allow the District to receive competitive interest rates in the bond market and help keep the costs down for District ratepayers and power purchasers.

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

(Source: Wall Street Journal)

- In October of 2015, the District issued $90.7 million of revenue and refunding bonds and $90 million in Clean Renewable Energy Bonds, at a net premium of $10.7 million, associated with the Priest Rapids Project. The refunding of $97 million resulted in a net present value savings of $11.1 million. The $90 million in Clean Renewable Energy Bonds will benefit rate payers because of the Federal rebate of up to 70% on interest payments over the next 25 years. These rebates are forecasted to save net of sequestration $65 million (nominal) over the next 25 years.

- The Commission continued its implementation of small, incremental rate increases. In January of 2014, 2015, and 2016, the Commission implemented 2.0% average annual rate increases to retail customers. The Commission-adopted budget and forecast has future overall annual rate increases of 2.0% for the foreseeable future. The largest driver of these rate increases is the rising cost to produce power at the Priest Rapids Project. Cost increases are related to the replacement of turbines and generators at the two dams as well as obligations to build parks, construct and operate fish hatcheries, and protect cultural resources as required in the District's federal license. Despite the production costs increases, the Priest Rapids Project remains among the lowest cost generation plants in the United States.

- Electric System Significant Capital Projects:

  The District began construction work in late 2012 to build a 35.3 mile 230 kV transmission line that spans from the Rocky Ford Substation to the Columbia Substation. This project was completed on schedule and entered service early in 2014 at a cost of $46.2 million. The benefits include significant reduction of transmission costs, an improved ability to deliver power from the District's hydroelectric projects to customers, improved transmission system reliability, and allowing the District to better serve load growth in the central county area.

- Priest Rapids Project Significant Capital Projects:

  In 2008, the District determined the final scope and design of a long-term capital improvement project for the Wanapum facilities. A contract was awarded January 5, 2009, to Alstom Hydro US, Inc. (currently doing business as Alstom Power, Inc.) for approximately $150 million to upgrade all ten generators at Wanapum Dam. The on-site construction began in June of 2010 and is scheduled through April of 2020. The existing generators are currently rated at 109.25 megavolt-amperes ("MVA"). The new upgraded generators have a nameplate rating of 128.6 MVA, an increase of 17.7%. As of June 2015, six of the 10 generators have been replaced. The schedule is to replace one generator per year. As of December 31, 2015, the cost of the remaining Wanapum generators to be replaced is estimated at $48.8 million.

  The District completed the long-term turbine upgrade project at Wanapum Dam in 2013. In October of 2013, the tenth and final turbine was commissioned and began generating power. On site work to replace the Wanapum turbines began in 2004. This effort has received global, national, and regional recognition for its engineering design, energy efficiency, and improved passage of fish.

  In addition to the Wanapum turbine and generator replacement project, the District has completed most of the design and engineering work on turbine life extension/replacement and generator rewinds for the Priest Rapids Development. Turbine modeling and hydraulic design has been completed and a contract to supply turbines was awarded to Voith Hydro, Inc. in June of 2014 in the amount of $61.6 million. Generator rehabilitation was awarded to Alstom Power, Inc. in June of 2015 in the amount of $87.9 million. Governor replacement was awarded to L&S Electric, Inc. in December of 2014 in the amount of $1.7 million. On-site work at the Priest Rapids Development is expected to begin in 2016 and be completed by 2026.

  As part of the Federal Energy Regulatory Commission (FERC) license to operate the Priest Rapids Project, the District is required to make improvements to the Crescent Bar Recreation Area to enhance public access and recreation opportunities. These improvements, which include construction of a new campground, marina, boat launch, parking area, walking trail, and day use area, are scheduled to occur over the next three years with total costs to the District estimated at $30 million.

Slice and Pooling Agreements

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

- **Slice Agreements**: The District has entered into various "slice" sales from its retained 63.3% share. The agreements sell the capacity and inflows (potential) to buyers. The buyer assumes the risk of low precipitation years; the District obtains a stable revenue from the sale. The Iberdrola agreement for 12% of PRP output was effective December 1, 2011, and terminated November 30, 2014. The District entered into an additional agreement with Iberdrola to extend the 12% slice from December 1, 2014, to June 30, 2015. In January of 2015, the District entered into an agreement with Iberdrola for a 10% slice of PRP from July 1, 2015, to June 30, 2018. The SENA agreement for 10% of PRP output was effective July 1, 2013, and terminates June 30, 2016. These agreements are paid in equal monthly installments over the lives of the agreements. The District regularly monitors its exposure with Iberdrola and SENA and retains the right to call for additional assurances at any time. The District has the right to curtail delivery in the event of non-payment.

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

  The Pooling Agreement will provide for the delivery by the District to SENA of 43.3% of the capacity and associated energy of the Priest Rapids Project through June 30, 2016, and 53.3% of the capacity and associated energy from July 1, 2016, through September 29, 2020. The Pooling Agreement greatly reduces the effect of variable water conditions at the Priest Rapids Project on revenues associated with the District's wholesale sales and purchases. Under the Pooling Agreement, SENA will have rights to the actual output of a portion of the Priest Rapids Project, which will vary with water conditions, and will provide firm power to meet the District's load forecast regardless of the actual output of the Priest Rapids Project. Over the life of the agreement, the majority of these values will be offsetting and exchanged without cash payment; there will, however, be monthly payments owed by either SENA or the District due to the seasonal differences between capacity and energy amounts and loads. In addition, certain non-hydrological performance metrics were assumed at the beginning of the contract and monthly differences in these metrics will be trued up and payment made by either SENA or the District. Upon entering the agreement, the District does not expect that there will be any significant monthly true-up payments. The amount of monthly payments over the term could vary based upon actual performance versus the estimates at the time the Pooling Agreement was executed.

PRIEST RAPIDS PROJECT

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

Priest Rapids consists of a dam and hydroelectric generating station having a nameplate rating of 956,000 kilowatts ("kW"). Priest Rapids is located on the Columbia River in Grant and Yakima Counties about 150 air miles northeast of the City of Portland, 130 air miles southeast of the City of Seattle, and 18 miles downstream of Wanapum.

Wanapum consists of a dam and hydroelectric generating station having a nameplate rating of 1,148,400 kW. Wanapum is located on the Columbia River in Grant and Kittitas Counties about 160 air miles northeast of the City of Portland, 129 air miles southeast of the City of Seattle, and 18 miles upstream of Priest Rapids.

During the year ended December 31, 2015, the Priest Rapids Project provided 8,677,766 net megawatt hours ("MWh") of electric energy at an average cost of $18.04 per MWh. During the year ended December 31, 2014, the Priest Rapids Project provided 7,755,280 net MWh of electric energy at an average cost of $21.61 per MWh. During the year ended December 31, 2013, the Priest Rapids Project provided 8,945,411 net MWh of electric energy at an average cost of $15.89 per MWh.

The timing of the runoff and spill requirements factor into the water available for generation from year to year. Runoff was 96%, 103% and 103% of average for 2015, 2014 and 2013, respectively. The fracture of the Wanapum spillway discovered in February of 2014 is estimated to have affected generation, net of encroachment, by 460,000 MWh for 2014. The resulting $18.0 million in extraordinary costs associated with the repair of the spillway and decreased generation resulted in the increased average cost per MWh. The return of Wanapum to full operation for the majority of 2015 combined with the decrease in extraordinary expenses associated with the fracture repair helped to reduce the average cost per MWh in 2015 from 2014.

OVERVIEW OF DISTRICT'S FINANCIAL STATEMENTS

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

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

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

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

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

CONDENSED COMPARATIVE FINANCIAL INFORMATION
(AMOUNTS IN THOUSANDS)

Statements of Net Position	**2015**	**2014 ***	**2013**
Assets			
Current	$ 187,141	$ 185,986	$ 266,417
Net utility plant	1,881,265	1,804,349	1,689,361
Noncurrent	402,218	374,270	238,845
Total assets	2,470,624	2,364,605	2,194,623
Deferred outflows of resources	11,522	10,313	7,334
Total assets and deferred outflows of resources	$ 2,482,146	$ 2,374,918	$ 2,201,957
Liabilities			
Current	$ 128,437	$ 146,246	$ 150,413
Noncurrent	1,430,341	1,367,732	1,201,579
Total liabilities	1,558,778	1,513,978	1,351,992
Deferred inflows of resources	7,837	18,796	-
Total liabilities and deferred inflows of resources	1,566,615	1,532,774	1,351,992
Net position			
Invested in capital assets, net of related debt	613,865	578,286	530,428
Restricted	146,705	134,619	107,456
Unrestricted	154,961	129,239	212,081
Total net position	915,531	842,144	849,965
Total liabilities, deferred inflows of resources and net position	$ 2,482,146	$ 2,374,918	$ 2,201,957

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(AMOUNTS IN THOUSANDS)	2015	2014 *	2013
Revenues and Expenses and Changes in Net Position			
Operating revenues	$ 313,169	$ 308,665	$ 290,427
Operating expenses	217,077	227,003	201,509
Net operating income	96,092	81,662	88,918
Other revenues (expenses)	(31,568)	(29,660)	(34,168)
Contributions in aid of construction	13,222	22,767	11,966
Extraordinary loss - Wanapum fracture	(4,359)	(21,269)	-
Change in net position	$ 73,387	$ 53,500	$ 66,716
Total net position - beginning of year	$ 842,144	$ 849,965	$ 783,249
Cumulative effect of change in accounting principle	-	(61,321)	-
Total net position - end of year	$ 915,531	$ 842,144	$ 849,965

* The District's 2014 Statements of Net Position and Statements of Revenues and Expenses and Changes in Net Position were updated for the impacts of the required retroactive implementation of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," which became effective for the District in 2015.

FINANCIAL ANALYSIS

The following discussion provides comparative financial information for the years ended December 31, 2015, 2014, and 2013. The year 2014 has been restated to reflect changes in accounting principles per GASB 68.

ASSETS

Total Assets have increased from 2013 to 2014 by 7% and 4% from 2014 to 2015. This mirrors the steady investment in Utility plant from year to year. Materials and supplies have decreased by 5% from 2013 to 2014 and by 2% from 2014 to 2015 due to efforts by staff to optimize inventory levels throughout the District. Customer accounts receivable, net of allowance for uncollectible accounts increased 16% from 2013 to 2014 due to an increase in wholesale power receivable in December of 2014 compared to December of 2013. From 2014 to 2015, Customer accounts receivable increased 34% because of a large Contribution in aid of construction that was recognized in late 2015 with subsequent payment in January of 2016.

Net plant increased 7% from 2013 to 2014 and 4% from 2014 to 2015. These increases reflect the investment in plant in the Electric System, the continued investments in the turbines and generators at Wanapum, and other capital improvements in both systems.

Noncurrent assets have increased 68% between 2013 and 2015. The changes in the non-current assets balance are driven primarily by unspent bond proceeds and the movement of short-term investments to long-term investments so as to maintain portfolio balance. Since these proceeds are reserved for construction of plant assets, the timing of bond issues and the subsequent transition to net plant affects the balance from year to year.

Deferred outflows of resources increased $4.2 million between 2013 and 2015. The increase was primarily due to the implementation of GASB 68 and accordingly reporting the District's proportionate share of the Public Employees' Retirement System (PERS) 1, 2 and 3 collective deferred outflows of resources. The increase related to pensions was partially offset by the monthly amortization of losses on refunding debt.

LIABILITIES

The District had approximately $1.3 billion, $1.25 billion, and $1.15 billion in bonded debt for the years ended December 31, 2015, 2014, and 2013, respectively. In October of 2015, the District issued $90.7 million of revenue and refunding bonds at a net premium of $10.7 million and $90 million in Clean Renewable Energy Bonds, associated with the Priest Rapids Project to refund certain bonds previously issued, to finance improvements at the Priest Rapids Project, to pay issuance costs, and to fund a debt service reserve. The refunding of $97 million resulted in a net present value savings of $11.1 million. The Clean Renewable Energy Bonds have an authorized 70% refund from the Federal Government on interest payments made. In October of 2014, the District issued bonds to finance capital improvements for the Priest Rapids Project. The total par value of the bond offering was $204.2 million and $119.8 million of prior bond issues were refunded. The 2014 bonds were issued at fixed interest rates at a net original issue premium of $23.8 million. In November of 2014, the District issued $50 million in Electric System revenue bonds to finance capital improvements in the Electric System. The 2014 Electric System bonds are Adjusted SIFMA Index Floating Rate Bonds (32 basis points plus SIFMA Index) with a Par Call Date of June 1, 2017. In August of 2013, the District issued bonds to finance capital improvements for the Priest Rapids Project. The total par value of the bond offering was $100.1 million. The bonds were issued at fixed interest rates at an initial offering premium of $1.2 million. In September of 2013, the District issued $67.6 million in Electric System revenue refunding bonds to retire $56.8 million of 2011-I revenue and refunding bonds. The 2013 Electric System bonds were issued at fixed interest rates at a net original issue premium of $815 thousand. This refunding allowed the District to restructure debt service to moderate retail electric rate increases in the foreseeable future.

The implementation of GASB 68 required the District to recognize its share of the unfunded liability of the Public Employees' Retirement System (PERS). 2014 Noncurrent liabilities reflect the initial implementation of GASB 68 and the District's $43 million share of the unfunded liability. In 2015, the District's share of the PERS liability increased by $9.5 million due to the changes in the actuarial valuation of the PERS collective net pension liability.

GASB 68 also required the District to recognize deferred inflows of resources related to the District's contributions to PERS. In 2014, the District recognized its share of the initial deferred inflows of resources of $18.7 million. Deferred inflows of resources decreased $10.9 million in 2015 due to the District recording its proportionate share of the decrease in collective deferred inflows for the PERS plans as provided by the Department of Retirement Systems.

NET POSITION

Net position increased by $73.4 million, decreased by $7.8 million, and increased by $66.7 million in 2015, 2014, and 2013, respectively. During 2014, the District was able to make $53.5 million positive contributions to Net position despite the loss of generation due to the Wanapum fracture repairs and related reservoir drawdown, largely due to the fact that 35% of the Electric System's share of the Priest Rapids project was sold at a fixed cost regardless of output, also supported by a $10.8 million increase in Contributions in Aid of Construction over the prior year. Because of the change in accounting principles related to the implementation of GASB 68, the change in Net position showed a net decrease of $7.8 million (See Note 1 of the financial statements). Results in 2015 benefited from reduced market purchases and increased participation in the slice and pooling agreements mentioned previously.

STATEMENT OF REVENUES AND EXPENSES

Sales to power purchasers at cost are directly tied to power costs as defined in the long-term power sales contracts (operating expenses – noncash items + debt service – interest earnings). Additional expenses related to compliance with the license and other fish and operational costs have added to the revenues required to cover the cost of production. The extraordinary costs associated with the Wanapum Fracture have resulted in a roughly $6.5 million increase in Sales to power purchasers at cost from 2013 to 2014. 2015 Sales to power purchasers at cost have returned to pre-fracture levels.

Retail energy sales and Sales to other utilities revenues, on the other hand, are reflective of the individual ebbs and flows of the economy through power consumption and market forces on wholesale power prices. The increase in operating revenues from 2013 to 2015 is the effect of the rate increases and growth in consumption especially in industrial customers. Operating expenses increased by $25.4 million between 2013 and 2014, of which $22 million of this increase was in the area of Purchased power, part of which is attributable to the need to cover lost generation resulting from the Wanapum Fracture. With the return of Wanapum to normal operations in 2015, operating expenses decreased by $10 million with the major decrease in purchased power expense.

Most components of Other Revenues (Expenses) remained flat from 2013 to 2015 with the exception of Interest and Other Income which rose substantially from 2013 to 2014 because of improved investment strategy and stronger market conditions.

Contributions In Aid of Construction ("CIAC") for 2015 and 2014 were $13.2 million and $22.8 million, respectively, with SGL Automotive, Yahoo!, Intergate Quincy, LLC, and Microsoft comprising the majority of the contributions.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014
(AMOUNTS IN THOUSANDS)

ASSETS	**2015**	**2014**
CURRENT ASSETS		
Cash	$ 261	$ 2,123
Investments	62,237	65,812
Restricted funds		
Cash	5,534	3,901
Investments	71,291	68,691
Customer accounts receivable, net of allowance for uncollectible accounts	28,769	21,369
Materials and supplies	17,418	17,835
Due from power purchasers	-	4,430
Other current assets	1,631	1,825
Total current assets	187,141	185,986
NONCURRENT ASSETS		
Investments	145,643	122,473
Restricted funds		
Cash	985	1,599
Investments	252,887	246,401
Conservation loans	665	658
Demand-side management	1,391	1,804
Preliminary expenses	647	1,335
Total other noncurrent assets	402,218	374,270
Utility plant, net of accumulated depreciation and amortization	1,881,265	1,804,349
Total noncurrent assets	2,283,483	2,178,619
TOTAL ASSETS	2,470,624	2,364,605
DEFERRED OUTFLOWS OF RESOURCES	11,522	10,313
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 2,482,146	$ 2,374,918

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014
(AMOUNTS IN THOUSANDS)

LIABILITIES AND NET POSITION	2015	2014
CURRENT LIABILITIES		
Accounts payable		
Trade	$ 26,624	$ 45,084
Wages payable	11,485	12,391
Power purchasers	1,462	-
Accrued taxes	6,713	5,739
Customer deposits	7,201	9,853
Accrued bond interest	28,415	26,687
Unearned revenue	628	1,317
Habitat liability	11,405	12,264
Other current liabilities	40	39
Current portion of licensing obligations	3,549	3,402
Current portion of long-term debt	30,915	29,470
Total current liabilities	128,437	146,246
NONCURRENT LIABILITIES		
Accrued other postemployment benefits	2,089	1,707
Long-term unearned revenue	1,071	1,179
Licensing obligations, less current portion	52,642	53,748
Pension obligations	52,761	43,215
Revenue bonds, less current portion	1,275,105	1,222,305
Unamortized bond premium, net of discount	46,673	45,578
Total noncurrent liabilities	1,430,341	1,367,732
TOTAL LIABILITIES	1,558,778	1,513,978
DEFERRED INFLOWS OF RESOURCES	7,837	18,796
Total liabilities and deferred inflows of resources	1,566,615	1,532,774
NET POSITION		
Invested in capital assets, net of related debt	613,865	578,286
Restricted	146,705	134,619
Unrestricted	154,961	129,239
Total net position	915,531	842,144
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 2,482,146	$ 2,374,918

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
DECEMBER 31, 2015 AND 2014
(AMOUNTS IN THOUSANDS)

	2015	2014
OPERATING REVENUES		
Sales to power purchasers at cost	$ 51,083	$ 61,099
Retail energy sales		
Residential	39,127	39,845
Irrigation	24,481	23,026
Commercial and industrial	108,273	95,769
Governmental and others	1,034	1,034
Sales to other utilities	82,073	81,078
Wholesale fiber optic network sales	5,338	5,101
Other	1,760	1,713
Total operating revenues	313,169	308,665
OPERATING EXPENSES		
Purchased power	27,634	52,663
Generation	27,021	25,531
Transmission	10,843	6,905
Distribution	13,904	14,625
Customer and information services	6,850	7,110
Wholesale fiber optic network operations	1,280	1,298
Administrative and general	35,241	28,919
License compliance and related agreements	21,771	22,277
Depreciation and amortization	56,985	53,896
Taxes	15,548	13,779
Total operating expenses	217,077	227,003
NET OPERATING INCOME	96,092	81,662
OTHER REVENUES (EXPENSES)		
Interest and other income	4,600	7,432
Interest on revenue bonds and other, net of capitalized interest	(47,555)	(46,125)
Federal rebates on revenue bonds	8,214	7,770
Amortization of debt discount/premium	4,450	3,078
Cost of debt issuance	(1,277)	(1,815)
Total other revenues (expenses)	(31,568)	(29,660)
CONTRIBUTIONS IN AID OF CONSTRUCTION	13,222	22,767
EXTRAORDINARY LOSS - WANAPUM FRACTURE	(4,359)	(21,269)
CHANGE IN NET POSITION	73,387	53,500
NET POSITION		
Beginning of year	842,144	849,965
Cumulative effect of change in accounting principle	-	(61,321)
Total net position - end of year	$ 915,531	$ 842,144

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(AMOUNTS IN THOUSANDS)

	TWELVE MONTHS ENDED DECEMBER 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retail energy sales	$ 165,889	$ 158,616
Cash received from sales to power purchasers at cost	78,309	44,051
Cash received from sales to other utilities	62,534	78,506
Other cash receipts	7,384	6,622
Net cash paid for customer deposits	(2,676)	(1,632)
Cash paid for purchase of power	(28,851)	(40,662)
Cash paid to contractors, suppliers, and employees	(125,494)	(99,420)
Taxes paid	(14,560)	(13,677)
Cash paid out for extraordinary loss	(4,359)	(17,947)
Net cash provided by operating activities	138,176	114,457
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on revenue bonds	(29,589)	(35,290)
Interest paid on revenue bonds	(45,819)	(47,009)
Federal interest rebates	8,214	7,770
Bond proceeds	191,515	278,000
Payment on refunded debt	(101,037)	(122,323)
Bond issuance cost	(1,277)	(1,815)
Cash received from contributions in aid of construction	12,534	14,439
Licensing obligation payments	(3,805)	(3,489)
Acquisition and construction of plant assets	(146,128)	(163,048)
Proceeds on sale of plant assets	462	423
Miscellaneous nonoperating income	830	600
Net cash used in capital and related financing activities	(114,100)	(71,742)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(1,258,242)	(603,406)
Sale proceeds of investment securities	1,281,468	539,546
Investment income proceeds	5,863	3,674
Net repurchase agreement	(54,000)	(8,000)
Net cash (paid) received for conservation loans	(8)	64
Net cash used in investing activities	(24,919)	(68,122)
NET DECREASE IN CASH	$ (843)	$ (25,407)

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(AMOUNTS IN THOUSANDS)

	TWELVE MONTHS ENDED DECEMBER 31, 2015	TWELVE MONTHS ENDED DECEMBER 31, 2014
CASH AT END OF YEAR	$ 6,780	$ 7,623
CASH AT BEGINNING OF YEAR	7,623	33,030
NET DECREASE IN CASH	$ (843)	$ (25,407)
OPERATING ACTIVITIES		
Net operating income	$ 96,092	$ 81,662
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	56,985	53,896
Accretion expense	2,826	2,843
Earned revenue from deposits	(107)	(107)
Provision for uncollectible accounts	175	(11)
Cash paid for extraordinary loss	(4,359)	(17,947)
Cash provided by (used in) changes in operating assets and liabilities:		
Change in Habitat funds held in trust	(386)	(20)
Customer accounts receivable	(7,575)	(3,576)
Materials and supplies	417	1,045
Other current assets	193	(103)
Trade and wages payables	(6,954)	5,234
Payable to power purchasers	5,892	(5,135)
Deferred outflows - Pension	(2,307)	(2,697)
Deferred inflows - Pension	(10,959)	18,796
Pension obligation	9,545	(18,106)
Accrued taxes	975	112
Customer deposits	(2,658)	(1,665)
Accrued other postemployment benefits	381	236
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 138,176	$ 114,457

Supplemental Disclosure (Amounts in Thousands)	2015	2014
Changes in construction costs included in accounts payable	$ (15,252)	$ (7,976)

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

1. ORGANIZATION AND ACCOUNTING POLICIES

Public Utility District No. 2 of Grant County, Washington (the "District") is composed of two operating systems: the Electric System and the Priest Rapids Project. The Priest Rapids Project is operated under Federal Energy Regulatory Commission ("FERC") License, Project No. 2114. The District also maintains a Service System to provide administrative services to the operating systems. Internal transactions, including revenues and expenses between the District's reporting segments and the Service System, have been eliminated in the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America. The District is required by its financing arrangements to maintain separate accounts and to report separately on each operating system. See Note 13. The financing arrangements require maintenance of certain funds and application of accounting procedures prescribed by the State of Washington, which generally conform to those prescribed by FERC and accounting principles generally accepted in the United States of America. The accompanying financial statements are those of the District, which generates, transmits, and distributes electric energy and wholesale fiber optic network services within Grant County, Washington.

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

During 2015, GASB issued Statement No. 72, "Fair Value Measurement and Application," Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68," Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," Statement No. 77, "Tax Abatement Disclosures," Statement No. 78 "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" and Statement No. 79, "Certain External Investment Pools and Pool Participants." These Statements are all effective for fiscal years beginning after 2015. The District is still evaluating these Statements but does not expect implementation of them to have a material impact to the District's financial results.

In June 2015, GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans other than Pension Plans" and Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions." The primary objective of these statements is to improve both the usefulness of information about postemployment benefits other than pensions (OPEB) included in the external financial reports of state and local OPEB plans and the accounting and financial reporting by state and local governments for OPEB. The statements replace Statement No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,” Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans” and Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.” These statements establish standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit OPEB, these statements identify the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined OPEB are also addressed. Statements No. 74 and No. 75 are effective for fiscal years 2017 and 2018, respectively. The District is currently evaluating the financial statement impact of adopting these statements.

Change in Accounting Principle - Pensions

In June 2012, GASB issued Statement No. 68, “Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27.” The primary objective of Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information about pensions are also addressed. This statement, as well as GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68,” was effective for the District beginning in fiscal year 2015.

The District’s 2014 Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position were restated for the impacts of the required retroactive implementation of GASB Statement No. 68. Prior to implementation of this statement, employers participating in a cost-sharing pension plan recognized annual pension expense substantially equal to their contractually required contributions to the plan. Upon the adoption of GASB Statement No. 68, employers must recognize their proportionate share of the plans’ collective net pension liability, pension expense and deferred inflows of resources and deferred outflows of resources. Implementation of Statement No. 68 had no impact on the District’s cash flows.

The impacts of restating the District's 2014 financial statements are presented in the following tables:

Impacts to the Districts Statement of Net Position

(amounts in thousands)	**Restated 2014 Balance**	**2014 Balance as Previously Reported**
Utility plant, net of accumulated depreciation and amortization	$ 1,804,349	$ 1,804,711
DEFERRED OUTFLOWS OF RESOURCES	2,697	7,616
LIABILITIES		
Pension obligations	43,215	-
Total Liabilities	1,513,978	1,470,763
DEFERRED INFLOWS OF RESOURCES	18,796	-
NET POSITION	842,144	901,820

Impacts to the District's Statement of Revenues, Expenses and Changes in Net Position

(amounts in thousands)	**Restated 2014 Results**	**2014 Results as Previously Reported**
OPERATING EXPENSES		
Administrative and General	$ 28,919	$ 30,564
Total operating expenses	227,003	228,648
CHANGE IN NET POSITION	53,500	51,855

Revision

During 2015, management determined it had not eliminated the intersystem purchase of bonds and the associated interest paid and interest income received in its 2014 Statements of Cash Flows. This error decreased *net cash used in capital and related financing activities* by $45.3 million and it increased *net cash used in investing activities* by an offsetting $45.3M; therefore, there was no change in the total *net decrease in cash* for 2014. The District assessed the materiality of these errors and concluded that they were not material to the prior period financial statements for the year ended December 31, 2014. In accordance with accounting standards, the amounts have been revised in the Statements of Cash Flows. Also, Note 13 presents a prior period condensed schedule of cash flows by segment and has also been corrected as a result of this revision. Refer to the applicable tables below that present the effects of the revision to the 2014 Statement of Cash Flows and 2014 segment information in Note 13.

The following are selected line items from the Company's Statements of Cash Flows illustrating the effect of these corrections on the amounts previously reported in the District's 2014 Financial Statements:

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(AMOUNTS IN THOUSANDS)

	As Reported	Adjustment	As Revised
CASHFLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest paid on revenue bonds	$ (47,211)	$ 202	$ (47,009)
Bond proceeds	323,500	(45,500)	278,000
Net cash used in capital and related financing activities	(26,444)	(45,298)	(71,742)
CASHFLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities	(648,906)	45,500	(603,406)
Investment income proceeds	3,876	(202)	3,674
Net Cash used in investing activities	(113,420)	45,298	(68,122)

NOTE 13 - SEGMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(AMOUNTS IN THOUSANDS)

CONDENSED SCHEDULE OF CASH FLOWS

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	As Reported Other	Adjustment to Other	Revised Other	As Reported Total	Revised Total
	no revision	no revision					
Net cash provided by (used in) capital and related financing activities	8,555	(41,320)	6,321	(45,298)	(38,977)	(26,444)	(71,742)
Net cash used by investing activities	(67,170)	(25,598)	(20,652)	45,298	24,646	(113,420)	(68,122)

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

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

Allowance for Uncollectible Accounts – Management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts due from specific customers for which collection is in question. Such estimates are developed based on historical experience. For 2015 and 2014, the allowance for uncollectible accounts was $409,000 and $234,000, respectively.

Contributions in Aid of Construction – A portion of the District's utility plant is financed through contributions from customers in accordance with the District's line extension policy. Additionally, a portion of utility plant may be financed through contributions from other sources, such as other governmental organizations. The District recognizes capital contributions from these sources as non-operating revenue at the point at which it becomes nonrefundable. The District recognized $13.2 million and $22.8 million of contributions in aid of construction for the years ended December 31, 2015 and 2014, respectively.

Capitalized Interest – Interest costs incurred to finance major construction projects are capitalized as part of the cost of the project. The composite interest rate for calculating capitalized interest was 4.26% and 4.23% for 2015 and 2014, respectively. Interest capitalized during 2015 and 2014 was $12.2 million and $11.3 million, respectively.

Utility Plant – Utility plant assets are recorded at cost including an allocation of internal payroll and other administrative and general costs associated with construction of the assets. Depreciation is determined by the straight-line method over the estimated life of the asset. The District's asset lives used for computing depreciation range from five to 100 years, with a composite rate of 2.19% and 2.27% for 2015 and 2014, respectively. When utility plant assets are retired, their original cost, together with removal costs, less salvage, are charged to accumulated depreciation.

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

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

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

Investments – All investments are presented at fair value. Fair values are based on quoted market prices for those investments. Discounts and premiums on investment s are amortized as adjustments to interest income over the remaining term of the investments using the constant yield method.

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

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

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

Due from (to) Power Purchasers – This balance represents actual power costs in excess (deficit) of estimated power costs received by the Priest Rapids Project from power purchasers to be collected from, or due to, the power purchasers.

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

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

Unearned Revenue – Contributions In Aid of Construction that are refundable are recorded as unearned revenue. Additionally, the District has two long-term exchange contracts under which the District received collective prepayments of $2 million that are being amortized into revenue on a straight-line basis over the life of these agreements.

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

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

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

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

- *Unrestricted* – This component of net position consists of net assets and liabilities that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

The District self-insures for general and auto liability for amounts below an excess liability policy, and the District carries aircraft, foreign and employment policies below excess liability policies. The District is involved in litigation with results that are uncertain but the risk to the District at this time is considered immaterial.

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

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

Energy Risk Management –The District's power marketing activities are limited to sales and purchases to meet surplus and deficits of expected forecasted load at the best available price. To mitigate risk associated with power marketing activities, the District established the Risk Oversight Committee and adopted the Energy Risk Management Policies and Procedures to provide greater ongoing monitoring and review of power transactions. The Energy Risk Management Policy and Procedures outlines the parameters for transactions, trader and counterparty exposure, and serves as a formal communication to all District employees performing power marketing functions. The District believes that the Energy Risk Management Policy and Procedures, coupled with the Risk Oversight Committee, limits the risk of any substantial financial loss resulting from the District's power supply management activities. The District expects to undertake very few energy transactions during the term of the SENA Pooling Agreement.

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

2. CASH AND INVESTMENTS

The District's cash deposits at December 31, 2015 and 2014 were either entirely covered by federal depository insurance or protected against loss by being on deposit with financial institutions recognized as qualified public depositories of the State of Washington under the Revised Code of Washington ("RCW") Chapter 39. Subject to specific bond resolution limitations, management is permitted to invest as provided under the laws of the State of Washington.

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

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

(amounts in thousands)	**2015**	**2014**
Unrestricted assets:		
Unrestricted funds:		
Revenue and Service System funds	$ 83,838	$ 67,538
Board designated funds:		
Electric System Reserve and Contingency fund	123,243	121,783
Self-Insurance Reserve fund	1,060	1,087
Total board designated funds	124,303	122,870
Total unrestricted funds	208,141	190,408
Restricted:		
Construction funds	131,834	134,759
Bond Sinking funds	113,564	100,605
Debt Service Reserve funds	59,808	58,960
Renewal, Replacement and Contingency fund	12,016	11,952
Habitat funds	11,732	12,586
Quincy Chute Renewal and Replacement fund	1,743	1,730
Total restricted funds	330,697	320,592
Total	$ 538,838	$ 511,000

Interest Rate Risk – The District has adopted a formal investment policy and an investment oversight committee which monitors its investment position limitations as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The District has adopted a formal investment policy that specifies minimal credit rating acceptability criteria of potential investment issuers as well as both a wholesale and retail electric power customer credit risk management program as a means of managing the District's exposure to credit risk.

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

The District's investments at December 31, 2015 and 2014, as identified on the Statements of Net Position, are shown below by investment type. All investments are either issued or registered in the name of the District or are held by the District or by the District's agent in the District's name. The difference between the totals shown in the previous table and table below is accrued interest of $2.6 million and $1.7 million for 2015 and 2014, respectively.

During 2015 and 2014, the District realized $6.3 million and $4.0 million of interest earnings and realized gains from investments, respectively. The unrealized net gain/loss on investments held at December 31, 2015 and 2014, was a $2.6 million net loss and a $2.6 million net gain, respectively.

Investments are made in investment types authorized by the RCW. The types are 1) Obligations of the U.S. Government and its agencies, 2) Repurchase agreements collateralized by U.S. Government obligations, 3) Money market funds that have holdings of or are backed by U.S. Government obligations and 4) Municipal bonds. Investments by type at December were as follows:

(amounts in thousands)	**2015**	**2014**
U.S. Treasuries	$ 205,842	$ 133,735
Municipal Bonds	133,586	50,292
U.S. Agencies	107,564	224,133
Repurchase Agreements	68,000	14,000
Commercial Paper	14,482	29,325
Money Market Funds	-	50,216
Total investments	529,474	501,701
Cash	6,780	7,623
Total cash and investments	$ 536,254	$ 509,324

The investment oversight committee actively monitors portfolio composition and seeks to ensure prudent diversification is maintained. The following are the concentrations of risk greater than 5%, in either year. The credit ratings listed are from Standard and Poor's as of December 31, 2015. TSY refers to U.S. Treasury securities and N/R means not rated.

	Credit Rating	**2015**	**2014**
U.S. Treasuries	TSY	38%	27%
Federal National Mortgage Assoc.	AA+	8%	10%
Federal Home Loan Mortgage Corp.	AA+	2%	6%
Money Market Funds	N/R	0%	10%
Federal Home Loan Bank	AA+	4%	20%
Federal Farm Credit Bank	AA+	4%	7%

3. UTILITY PLANT

Utility plant of the District as of December 31, 2015 and December 31, 2014 is summarized as follows:

(amounts in thousands)

	Balance 2014	Additions	Retirements/ Transfers	Balance 2015
Distribution facilities	$ 472,631	$ 21,735	$ (286)	$ 494,080
Transmission facilities	228,683	12,435	(275)	240,843
Hydro facilities				
Power plant structures	74,845	126	(1,744)	73,227
Reservoirs, dams, waterways	410,252	83,945	1,744	495,941
Power plant equipment	543,586	25,057	(1,139)	567,504
General facilities				
Quincy Chute (Note 6)	17,771	-	-	17,771
Potholes East Canal (Note 6)	16,450	-	-	16,450
Other generation	30	-	-	30
General plant	351,970	56,739	-	408,709
FERC License	119,335	20	-	119,355
Other intangible assets	24,670	3,099	-	27,769
Total	2,260,223	203,156	(1,700)	2,461,679
Accumulated depreciation and amortization	(815,038)	(57,113)	1,700	(870,451)
Subtotal	1,445,185	146,043	-	1,591,228
Land and land rights	24,618	-	-	24,618
Construction in progress	334,546	132,365	(201,492)	265,419
Total net utility plant	$ 1,804,349	$ 278,408	$ (201,492)	$ 1,881,265

(amounts in thousands)

	Balance 2013	Additions	Retirements/ Transfers	Balance 2014
Distribution facilities	$ 462,045	$ 10,742	$ (156)	$ 472,631
Transmission facilities	170,215	59,293	(825)	228,683
Hydro facilities				
Power plant structures	61,140	17,026	(3,321)	74,845
Reservoirs, dams, waterways	410,252	-	-	410,252
Power plant equipment	508,779	36,087	(1,280)	543,586
General facilities				
Quincy Chute (Note 6)	17,771	-	-	17,771
Potholes East Canal (Note 6)	16,450	-	-	16,450
Other generation	30	-	-	30
General plant	308,196	43,774	-	351,970
FERC License	119,335	-		119,335
Other intangible assets	19,508	5,162	-	24,670
Total	2,093,721	172,084	(5,582)	2,260,223
Accumulated depreciation and amortization	(763,664)	(53,634)	2,260	(815,038)
Subtotal	1,330,057	118,450	(3,322)	1,445,185
Land and land rights	24,618	-	-	24,618
Construction in progress	334,686	167,310	(167,450)	334,546
Total net utility plant	$ 1,689,361	$ 285,760	$ (170,772)	$ 1,804,349

4. LICENSING

The Priest Rapids Project is operated under a 44-year FERC license that expires in 2052. Costs associated with the relicensing efforts, totaling $56.1 million, were recorded as an intangible asset included in Utility plant and are being amortized over the term of the license.

Under the license, the District is committed to numerous obligations related to fish and habitat protection which require payments to other organizations using funds provided by the District. The present value of these obligations totaled $56.1 million as of December 31, 2015, of which approximately $3.5 million is expected to be paid within one year. The present value of the obligations was $57.1 million as of December 31, 2014. These amounts are included in the FERC license balance and are reflected as liabilities in the statement of net position. The elements of these obligating payments, comprising the Salmon and Steelhead Agreement, Part A (Hatchery Renovation) and Part B (Resident Fish Monitoring and Trout Purchase), are further discussed in Note 7.

5. REVENUE BONDS

In October of 2015, the District issued $90.7 million of revenue and refunding bonds at a net premium of $10.7 million and $90 million in Clean Renewable Energy Bonds, associated with the Priest Rapids Project to refund certain bonds previously issued, to finance improvements at the Priest Rapids Project, to pay issuance costs, and to fund a debt service reserve. The refunding of $97 million resulted in a net present value savings of $11.1 million. The Clean Renewable Energy Bonds have an authorized 70% refund from the Federal Government on interest payments made. In October of 2014, the District issued $204.2 million of revenue and refunding bonds at a premium of $23.8 million, associated with the Priest Rapids Project, to finance improvements at the Priest Rapids Project, to refund certain bonds previously issued, to pay issuance costs, and to fund debt service reserved. The refunded portion of $119.8 million will yield a net present value savings of $15.4 million. In November of 2014, the District issued $50 million of revenue bonds to finance improvement of the Electric System. The District realized a $489 thousand and $1.7 million current refunding loss associated with unamortized discounts/premiums for 2015 and 2014, respectively.

The 2014 bond issue of the Electric system accrues interest based on a variable SIFMA INDEX. All other outstanding District bond issues are fixed rate obligations. All District bond issues are secured by a pledge of the net revenues of the District and are on parity with each other. See Note 13.

The District's outstanding revenue bonds as of December 31 were as follows:

(amounts in thousands)	2015	2014
Electric System, interest rates of .33% to 5.0%, maturing through 2044	$ 194,795	$ 195,745
Priest Rapids Project, interest rates of 1.49% to 5.83%, maturing through 2044	1,111,225	1,056,030
Total revenue bonds outstanding	$ 1,306,020	$ 1,251,775

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

(amounts in thousands)	**Principal**	**Interest**	**Total**
2016	$ 30,915	$ 59,111	$ 90,026
2017	32,075	60,561	92,636
2018	31,610	59,182	90,792
2019	43,590	57,417	101,007
2020	45,655	55,262	100,917
2021 - 2025	189,655	244,523	434,178
2026 - 2030	264,410	185,688	450,098
2031 - 2035	247,165	122,557	369,722
2036 - 2040	319,865	65,334	385,199
2041 - 2044	101,080	6,176	107,256
Total	$ 1,306,020	$ 915,811	$ 2,221,831

For the years ending December 31, 2015 and 2014, the District is in compliance with all debt covenants related to the outstanding bonds, which includes a minimum debt service coverage of 1.15x and 1.25x for the Priest Rapids Project bonds and Electric System bonds, respectively.

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

(amounts in thousands)	Balance 2014	Additions	Reductions	Balance 2015	Due Within One Year
Revenue bonds payable	$ 1,251,775	$ 180,720	$ (126,475)	$ 1,306,020	$ 30,915
Unamortized premiums and discounts, net	45,578	10,675	(9,580)	46,673	-
Total	$ 1,297,353	$ 191,395	$ (136,055)	$ 1,352,693	$ 30,915

(amounts in thousands)	Balance 2013	Additions	Reductions	Balance 2014	Due Within One Year
Revenue bonds payable	$ 1,152,740	$ 254,165	$ (155,130)	$ 1,251,775	$ 29,470
Unamortized premiums and discounts, net	27,021	23,835	(5,278)	$ 45,578	-
Total	$ 1,179,761	$ 278,000	$ (160,408)	$ 1,297,353	$ 29,470

6. POWER PURCHASER COMMITMENTS

Priest Rapids Project

Under the Priest Rapids Power Sales Contracts, the amount of net power costs incurred by the District in serving its load changes on an annual basis in relation to its firm power requirements. The District incurred 67% and 64% of Priest Rapids Project power costs with power purchasers funding 33% and 36% for 2015 and 2014, respectively. Each purchaser is obligated to pay its share of the cost (excluding depreciation and amortization) of producing and delivering power, plus 115% of its share of the amounts required for debt service payments.

Bonneville Power Administration (BPA)

The District is a statutory preference customer of BPA. The District signed a BPA preference contract during 2008 to serve its Grand Coulee load of approximately 5 average megawatts ("aMW") that expires September 30, 2028. The District has purchased from BPA the transmission required to deliver the power associated with this load through September 30, 2028. In 2009, the District entered into a five-year agreement for 150 MW of Long-Term Firm (LTF) transmission, and this agreement expired on December 31, 2015. This 150 MW of transmission is no longer needed due to the completion of the new Columbia/Rocky Ford 230 kV line in February 2014. The District has 12 MW of transmission for the delivery of power from the Nine Canyon Wind Project with a term expiring on October 1, 2030. In 2011, the District entered into a 2-year contract with BPA for 250 MW of transmission that expired on September 30, 2013, and is no longer needed due to the completion of the new Columbia/Rocky Ford 230 kV line in February 2014.

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

Estimated BPA Contractual Payments

(amounts in thousands)

2016	$	949
2017		969
2018		1,059
2019		1,423
2020		2,543

Nine Canyon Wind Power Purchase Agreement

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

The District is one of nine public agencies participating in the original project power purchase agreement for Phase I of the Project. The District's purchaser share of Phase I of the project output was 25% of output up to a maximum of 12 MW. Since the District did not participate in either Phase II or Phase III of the Project, its share of the combined Project is 12.54%. In exchange for the output, the District pays its proportionate share of certain Project costs and its 25% share of Phase I debt service.

Scheduled debt service requirements, inclusive of principal and interest, for the District's 25% share of the bonds as well as certain other Project costs are estimated at $2.1 million annually.

Yakama Nation Agreement

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

A primary consideration for the agreement is an allocation of the benefit from the Priest Rapids Project to the Yakama Nation. The financial equivalent of 15 aMW was paid during 2010-2015 less the associated power costs. The net payments to the Yakama Nation totaled $468,733 and $2,288,984 during 2015 and 2014, respectively. Per the agreement, the financial benefit will be 10 aMW net of cost of production from 2016 to the remainder of the agreement. The agreement expires at the end of the FERC license term (2052). The projected annual cost for this agreement is listed in the table below.

Estimated Yakama Nation Contractual Payments

(amounts in thousands)

* 2016	$	-
2017		395
2018		565
2019		688
2020		804
2021		801

* Payments under the agreement are made monthly. If the cost of productions at the Priest Rapids Project exceeds market prices for a given month, the District does not bill the Yakama Nation, but carries the credit to the following month. The projected aggregate of the monthly payments under this agreement net to $0 for 2016.

Other Sources

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

7. NONPOWER COMMITMENTS

Capital Projects

The District has contractual commitments relating to several Electric System capital improvement projects including fiber design/build, mobile radio replacement, electrical system upgrades, multiple transformer purchases, power cable purchases, and substation and distribution line construction projects over the next few years totaling approximately $29.8 million as of December 31, 2015.

The District's improvement programs for the Priest Rapids Project include restoration or replacement of generators, construction and upgrades to project support buildings, construction of a fish bypass project, construction and renovation of hatcheries, construction of recreation facilities, supplying GSU transformers and supplying trunnion cylindrical bearings for spillway gates. The District intends to, or has committed by contract to, fulfill these programs, which are projected to be substantially complete by 2026. The contractually committed amount on future Priest Rapids Project work to be performed on these major capital programs is approximately $238.3 million as of December 31, 2015.

Other Commitments

In 2006, the District entered into a Salmon and Steelhead Settlement Agreement with the United States Department of Interior, the U.S. Fish and Wildlife Service, the National Marine Fisheries Service of the National Oceanic and Atmospheric Administration (NOAA), the Washington Department of Fish and Wildlife, the Yakama Nation, and the Confederated Tribes of the Colville Reservation for the purpose of resolving all issues between the District and the other signatories related to anadromous salmonid fish species. This agreement is intended to constitute a comprehensive and long-term adaptive management program for the protection, mitigation, and enhancement of anadromous fish (both listed and not listed species under the Endangered Species Act) which pass or may be affected by the Priest Rapids Project.

Under the Salmon and Steelhead Settlement Agreement, the District is obligated to establish a habitat conservation account and a no-net-impact fund (referred herein as "Habitat funds") into which the District deposits payments for further distribution in accordance with the requirements of the Salmon and Steelhead Agreement. The purpose of the Habitat funds are two-fold; (1) to establish and shepherd a habitat restoration program that promotes the rebuilding of self-sustaining and harvestable populations of anadromous species and to mitigate for a portion (2%) of unavoidable losses resulting from the Priest Rapids Project operations and (2) to provide near-term compensation for annual survivals that are less than the survival objectives in the performance standards for the Priest Rapids Project for spring Chinook, steelhead, summer Chinook, and sockeye. The parties that oversee the distribution of these funds include the signatories to the Priest Rapids Salmon and Steelhead Settlement Agreement (U.S. Fish and Wildlife Service, NOAA Fisheries, Washington Department of Fish and Wildlife, Confederated Colville Tribes, Yakama Nation, and the District).

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

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

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

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

To remain in compliance under Part A ("Hatchery Renovation"), the District is required to provide funds (not to exceed $1.5 million) to renovate the existing Columbia Basin Hatchery facility to ensure stable operations at current capacity for the term of the license. Current capacity is 60,000-70,000 pounds of trout annually, which shall be credited to the District as mitigation for reduced recreational fishing opportunities occurring on native resident fish species. Under Part B ("Resident Fish Monitoring and Trout Purchase"), the District is obligated to establish and administer a fund for resident fish monitoring and fish purchase. Funds from Part B are specifically directed toward the monitoring of native resident fish species within the Priest Rapids Project area. The District is required to make contributions to the fund annually on or before February 15 of each year in the amount of $100,000 per year, based upon 2003 dollars and annually adjusted for inflation.

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

The District's total contributions to these Habitat funds for the years ended December 31, 2015, and December 31, 2014, equaled $3.5 million and $3.5 million, respectively. These contributions reduced the Licensing obligations, as discussed in Note 4.

The following table shows the District's estimate of the remaining fixed contributions to the Habitat funds as of December 31, 2015, representing required contributions through the New License term.

Estimated Fixed Habitat Funding Commitments

(amounts in thousands)

2016	$	3,616
2017		3,684
2018		3,753
2019		3,824
2020		1,734
2021 and thereafter		73,211
Total	$	89,822

Northwest Open Access Network, Inc. D.B.A. NoaNet – The District withdrew its membership in NoaNet in July of 2014, but remains a participant with respect to certain debt of NoaNet. NoaNet, a Washington nonprofit mutual corporation, was established in 2000 and is currently comprised of 9 Washington State Public Utility Districts and Energy Northwest. NoaNet provides a broadband communications backbone, over Public Benefit Fibers leased from BPA, throughout the State of Washington to assist its members in the efficient management of load, conservation, and acquisition of electric energy as well as other purposes.

In 2001, NoaNet issued $27 million in bonds to finance, among other things, the acquisition and construction of necessary facilities and systems. In 2011, NoaNet issued $13,165,000 to refund most of the NoaNet 2001 bonds. The Electric System has guaranteed the repayment of up to approximately $1.43 million of NoaNet's remaining 2011 bonds (which amount includes a potential 25% step up if another member defaults) plus accrued interest. As of December 2016, these bonds should be completely paid. In addition, NoaNet has an outstanding $5 million loan with a commercial lender in order to finance capital expenditures and network upgrades. The District has guaranteed the repayment of up to 17.57% of the outstanding balance to the extent NoaNet's revenues are insufficient to pay the loans. This loan must be repaid in full by December of 2017. No contributions by the District were required for 2014 or 2015.

The NoaNet financial report is the responsibility of NoaNet. The independent auditor for the District has not audited or examined any information in the financial report, and accordingly, does not express an opinion or any other form of assurance with respect thereto.

8. PENSION / RETIREMENT PLANS

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and 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 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

The District's actual contributions to the plan were $2,503,192 and $2,542,675 for the years ended December 31, 2015 and 2014, respectively.

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and 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 (Unfunded Actuarial Accrued Liability) and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

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

* For employees participating in JBM, the contribution rate was 15.30%

The District's actual contributions to the plan were $3,025,799 and $2,983,779 for the years ended December 31, 2015 and 2014, respectively.

Actuarial Assumptions

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

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

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

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 Basic Minimum COLA.

- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.

- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.

- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of NPL

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

(amounts in thousands)	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 34,687	$ 28,490	$ 23,162
PERS 2/3	70,968	24,271	(11,484)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015 and 2014, respectively, the District reported a total pension liability of $52,760,651 and $43,215,285 for its proportionate share of the net pension liabilities as follows:

Liability (amounts in thousands)	2015	2014
PERS 1	$ 28,490	$ 28,938
PERS 2/3	24,271	14,277
Total	$ 52,761	$ 43,215

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

	Proportionate Share 6/30/2014	**Proportionate Share 6/30/2015**	**Change in Proportion**
PERS 1	0.574446%	0.544648%	-0.029798%
PERS 2/3	0.706321%	0.679264%	-0.027057%

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

The collective net pension liability was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the years ended December 31, 2015, respectively, the District recognized pension expense as follows:

Pension Expense (amounts in thousands)	**2015**	**2014**
PERS 1	$ (49)	$ 1,422
PERS 2/3	3,042	2,242
Total	$ 2,993	$ 3,664

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015 and 2014, the District recognized deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(amounts in thousands)	**2015**		**2014**	
PERS Plan 1	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	1,512	-	3,619
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to measurement date	48	-	46	-
Total	$ 48	$ 1,512	$ 46	$ 3,619

(amounts in thousands)	2015		2014	
PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	2,580	6,479	-	15,134
Changes of assumptions	39	(154)	-	43
Changes in proportion and differences between contributions and proportionate share of contributions	(870)	-	(126)	-
Contributions subsequent to measurement date	3,207	-	2,777	-
Total	$ 4,956	$ 6,325	$ 2,651	$ 15,177

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, 2016.

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

Plan Description

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

Funding Policy

The District pays a percentage of the medical premiums based upon years of service of the retirees. At the age of 59½, the retiree is eligible for a subsidy of 3% of their premium cost for each year of service up to 30 years (years x 3% x retiree premium). The subsidy cannot be more than the premium amount paid for active employees and is effective until the retiree turns 65. For the years ended December 31, 2015 and

2014, the District paid approximately $188,000 and $226,000 in retiree subsidies, respectively.

Annual OPEB Cost and Net Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution ("ARC") of the employer. The District's ARC and related information is based upon an actuarial valuation as required by GASB Statement No. 45. As of year-end, the net OPEB obligation represents the cumulative difference in ARC and payments made through the plan since actuarial accounting began in 2007. The following table shows the components of the District's annual OPEB cost for the years ended December 31, 2015 and 2014:

(amounts in thousands)	**2015**	**2014**
Normal cost with interest	$ 375	$ 194
Amortization amount with interest	194	268
Annual required contribution	$ 569	$ 462
Annual OPEB cost	$ 569	$ 462
Less: benefit payments	(188)	(227)
Increase in net OPEB obligation	381	235
Net OPEB obligation at beginning of year	1,707	1,472
Net OPEB obligation at end of year	$ 2,088	$ 1,707

Funded Status and Funding Progress

As of December 31, 2015 and 2014, the District's Actuarial Accrued Liability ("AAL") was $5.8 million and $4.5 million, respectively, all of which was unfunded. The District has no plans at this time to fund the obligation using an irrevocable trust. The AAL is being amortized over a 30-year period and the increase in net OPEB obligation is accrued each year and is split between the District systems, based on current labor allocations. For 2015 and 2014, the covered payroll (annual payroll of active employees covered by the plan) was $56.0 million and $54.7 million, respectively, and the ratio of the unfunded obligation to the covered payroll was 10.3% and 8.2%, respectively.

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

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the valuation and the sharing of benefit costs between the employer and plan members in effect at the time of the valuation which was December 31, 2015. The Entry Age Normal method is used to develop an Annual Required Contribution and an Actuarial Accrued Liability. The UAAL amortization was changed to a level percentage of payroll over 30 years instead of a level dollar.

The following are the significant assumptions related to the plan's actuarial liability:

Retirement age for active employees – Based on assumptions used by the Office of the State Actuary in Olympia, Washington but adjusted to reflect expected future rates of retirement based on current experience of the District.

Mortality – Rates of mortality are the same that were used for PERS participants in the June 30, 2015, actuarial valuation published by the Office of the State Actuary.

Medical trends – Premium increases of 4.3% in 2016, rising to 7.7% in 2017, and declining percentages in future years. It is assumed that the monthly premium and maximum employer subsidy amounts will increase at a slower rate than future claims in the immediate future.

Discount rate – The discount rate of 3.5% was used in the valuation to reflect expected investment returns. This rate is used because the Plan is "unfunded" and the District's assets would be used to pay benefits.

10. CONTINGENCIES

On July 28, 2015 the District's Board of Commissioners approved a settlement that resolves the dispute with Crescent Bar Island residents concerning the use of real property on District land. The settlement would allow 80 percent of the Crescent Bar area previously under lease to be made fully available to the public. The residents will be allowed to remain on the island through at least 2047 under new leases, which will be subject to FERC approval. The agreement would require the residents to pay fair-market rent to the District retroactive to 2012 and would also require them to pay for necessary wastewater treatment capital upgrades and fire-safety infrastructure. The settlement does not require any financial payment from the District to the Crescent Bar Island residents.

The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material impact on its financial position, results of operations, or cash flows.

11. SUPPLEMENTAL DISCLOSURE OF TELECOMMUNICATION ACTIVITIES

The District is installing a wholesale fiber optic network in its service area. As of December 31, 2015, the build out is 69% complete. This fiber optic network is interconnected with multiple regional and national telecommunications carriers, including NoaNet's fiber optic network. The wholesale fiber optic network is available to retail providers of Internet, telephone, and video services. The District has also recently implemented a wholesale wireless network which is available to retail wireless providers.

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

(amounts in thousands)	**2015**	**2014**
Operating revenues		
Wholesale fiber services	$ 4,972	$ 4,702
Dark fiber revenue	349	399
Wireless fiber revenue	17	-
Wholesale fiber optic network sales	$ 5,338	$ 5,101
Operating expenses		
Administrative and general	$ 443	$ 476
Repairs and maintenance	837	812
Depreciation	6,483	5,863
Total operating expenses	$ 7,763	$ 7,151
Nonoperating revenues		
Contributions in aid of construction	$ 313	$ 396
Utility plant		
Additions to utility plant	$ 7,082	$ 10,025
Utility plant, net of accumulated depreciation	$ 89,185	$ 87,772

12. EXTRAORDINARY LOSS – WANAPUM FRACTURE

On February 27, 2014, a horizontal fracture was discovered on the upstream side of Wanapum Dam's Spillway Monolith Number 4. The fracture ran the length of the 65-foot-wide monolith and was two inches tall at its widest point. A spillway monolith, and its associated pier, is the structure that supports the spillway gates. There are 13 spillway monoliths and 12 spillway gates at Wanapum Dam. Each monolith is independent of the others. Eleven of the monoliths are 65 feet wide and the two end ones are half monoliths. Wanapum Dam is 8,637 feet wide.

After consulting FERC, the District began to draw down the elevation of the Wanapum reservoir by 26 feet to reduce pressure on the monolith. A survey of the structure on March 4, 2014, showed that the fracture had closed and the monolith was stable. An examination of the upstream face of the dam found no other fractures similar to the fracture found on Monolith No. 4.

Following an 11-week investigation, it was determined that a mathematical error during the pre-construction design of Wanapum Dam was the primary contributing factor to the fracture. When engineers recalculated the original design formulas, they found that additional concrete or reinforced steel should have been included in the construction of Monolith No. 4 and all of the other 12 monoliths on Wanapum Dam. No other mathematical errors were discovered by the experts performing the investigation.

Repair work began within 8 weeks of the discovery of the fracture. The District has repaired the fracture in Monolith No. 4 and anchored all 13 monoliths. Anchoring included installing additional steel reinforcements from the top of the monoliths, through the concrete, and into bedrock below the dam. As of April 1, 2015, all anchors have been installed.

Repairs and additional capital work were completed before the summer recreation season of 2015. During the repair, Wanapum Dam continued to operate and the District continued to meet its obligations with regard to fish passage, flood-control, irrigation, cultural resource protection, public safety, and electric generation. Recreational activities were modified to reflect water elevation and safety and culture concerns. At its lowest levels, Wanapum Dam was capable of generating electricity at between 50 to 60 percent of capacity. As of March 21, 2015, the water level behind Wanapum Dam was restored to a normal operating range of 560 to 571.5 feet above sea level.

The financial impact of the fracture has been manageable for the District. An Extraordinary loss of $21.3 million was recognized in 2014 of which $18.0 million is associated with repairs and additional operating costs associated with the fracture. The remaining $3.3 million relates to a non-cash permanent write down of the original spillway cost to comply with Governmental Accounting Standards Board Statement No. 42 related to asset impairment. During 2015, the remaining repairs were completed at a cost of $4.4 million. The District concluded that expenses incurred related to restoration of the fracture were not a part of the normal life cycle of the dam and therefore met the definition of an extraordinary item as the event was both unusual and infrequent in nature. Incremental capital requirements are driven almost exclusively by the structural improvement costs, most of which are comprised of the anchoring of the dam with additional steel reinforcements. Gross incremental capital costs to repair the fracture and to correct the design error throughout the structure are estimated to be $62.4 million. The District continues to work with its insurers on potential recovery of a portion of the loss.

13. SEGMENTS

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

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS
DECEMBER 31, 2015

CONDENSED STATEMENT OF NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
ASSETS				
Total current assets	$ 113,854	$ 85,585	$ (12,298)	$ 187,141
Net utility plant	557,598	1,323,667	-	1,881,265
Noncurrent	244,487	231,013	(73,282)	402,218
TOTAL ASSETS	915,939	1,640,265	(85,580)	2,470,624
Deferred outflows of resources	2,288	9,234	-	11,522
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 918,227	$ 1,649,499	$ (85,580)	$ 2,482,146
LIABILITIES				
Current	$ 26,045	$ 105,171	$ (2,779)	$ 128,437
Noncurrent	226,014	1,287,098	(82,771)	1,430,341
TOTAL LIABILITIES	252,059	1,392,269	(85,550)	1,558,778
Deferred Inflows of resources	3,205	4,632	-	7,837
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	255,264	1,396,901	(85,550)	1,566,615
NET POSITION				
Invested in capital assets, net of related debt	362,497	167,577	83,791	613,865
Restricted	20,055	125,561	1,089	146,705
Unrestricted	280,411	(40,540)	(84,910)	154,961
TOTAL NET POSITION	662,963	252,598	(30)	915,531
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 918,227	$ 1,649,499	$ (85,580)	$ 2,482,146

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

NOTE 13 - SEGMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
OPERATING REVENUES	$ 262,086	$ 156,587	$ (105,504)	$ 313,169
OPERATING EXPENSES				
Depreciation and amortization	32,242	24,743	-	56,985
Other operating expenses	191,072	74,524	(105,504)	160,092
Total operating expenses	223,314	99,267	(105,504)	217,077
NET OPERATING INCOME	38,772	57,320	-	96,092
OTHER REVENUES (EXPENSES)				
Interest and other income	4,349	2,190	(1,939)	4,600
Interest on revenue bonds and other, net of capitalized interest	(6,206)	(43,283)	1,934	(47,555)
Federal rebates on revenue bonds	-	8,214	-	8,214
Amortization of debt discount/premium	1,163	3,296	(9)	4,450
Cost of debt issuance	(7)	(1,270)	-	(1,277)
Total other revenues (expenses)	(701)	(30,853)	(14)	(31,568)
CONTRIBUTIONS IN AID OF CONSTRUCTION	13,222	-	-	13,222
EXTRAORDINARY LOSS - WANAPUM FRACTURE	-	(4,359)	-	(4,359)
CHANGE IN NET POSITION	51,293	22,108	(14)	73,387
NET POSITION				
Beginning of year	611,670	230,490	(16)	842,144
End of year	$ 662,963	$ 252,598	$ (30)	$ 915,531

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

CONDENSED SCHEDULE OF CASH FLOWS

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
Net cash provided by operating activities	$ 45,487	$ 106,081	$ (13,392)	$ 138,176
Net cash used in capital and related financing activities	(34,923)	(46,618)	(32,559)	(114,100)
Net cash (used in) provided by investing activities	(13,308)	(55,830)	44,219	(24,919)
NET DECREASE IN CASH	$ (2,744)	$ 3,633	$ (1,732)	$ (843)
CASH AT END OF YEAR	$ 923	$ 6,378	$ (521)	$ 6,780
CASH AT BEGINNING OF YEAR	3,667	2,745	1,211	7,623
NET DECREASE IN CASH	$ (2,744)	$ 3,633	$ (1,732)	$ (843)

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

NOTE 13 - SEGMENTS
DECEMBER 31, 2014

CONDENSED STATEMENT OF NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
ASSETS				
Total current assets	$ 99,992	$ 78,894	$ 7,100	$ 185,986
Net utility plant	548,328	1,256,021	-	1,804,349
Noncurrent	223,305	192,144	(41,179)	374,270
TOTAL ASSETS	871,625	1,527,059	(34,079)	2,364,605
Deferred outflows of resources	1,631	8,682	-	10,313
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 873,256	$ 1,535,741	$ (34,079)	$ 2,374,918
LIABILITIES				
Current	$ 30,554	$ 104,365	$ 11,327	$ 146,246
Noncurrent	223,400	1,189,722	(45,390)	1,367,732
TOTAL LIABILITIES	253,954	1,294,087	(34,063)	1,513,978
Deferred inflows of resources	7,632	11,164	-	18,796
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	261,586	1,305,251	(34,063)	1,532,774
NET POSITION				
Invested in capital assets, net of related debt	382,634	150,152	45,500	578,286
Restricted	20,939	113,790	(110)	134,619
Unrestricted	208,097	(33,452)	(45,406)	129,239
TOTAL NET POSITION	611,670	230,490	(16)	842,144
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 873,256	$ 1,535,741	$ (34,079)	$ 2,374,918

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

NOTE 13 - SEGMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
OPERATING REVENUES	$ 247,566	$ 167,588	$ (106,489)	$ 308,665
OPERATING EXPENSES				
Depreciation and amortization	30,713	23,183	-	53,896
Other operating expenses	211,740	67,856	(106,489)	173,107
Total operating expenses	242,453	91,039	(106,489)	227,003
NET OPERATING INCOME	5,113	76,549	-	81,662
OTHER REVENUES (EXPENSES)				
Interest and other income	3,091	4,559	(218)	7,432
Interest on revenue bonds and other, net of capitalized interest	(5,196)	(41,131)	202	(46,125)
Federal rebates on revenue bonds	-	7,770	-	7,770
Amortization of debt expense, discount, and premium	940	2,138	-	3,078
Cost of debt issuance	(357)	(1,458)	-	(1,815)
Total other revenues (expenses)	(1,522)	(28,122)	(16)	(29,660)
CONTRIBUTIONS IN AID OF CONSTRUCTION	22,767	-	-	22,767
EXTRAORDINARY LOSS - WANAPUM FRACTURE	-	(21,269)	-	(21,269)
CHANGE IN NET POSITION	26,358	27,158	(16)	53,500
NET POSITION				
Beginning of year	585,312	203,332	-	788,644
End of year	$ 611,670	$ 230,490	$ (16)	$ 842,144

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

NOTE 13 - SEGMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

CONDENSED SCHEDULE OF CASH FLOWS

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
Net cash provided by operating activities	$ 44,467	$ 61,717	$ 8,273	$ 114,457
Net cash provided by (used in) capital and related financing activities	8,555	(41,320)	(38,977)	(71,742)
Net cash (used in) provided by investing activities	(67,170)	(25,598)	24,646	(68,122)
NET DECREASE IN CASH	$ (14,148)	$ (5,201)	$ (6,058)	$ (25,407)
CASH AT END OF YEAR	$ 3,667	$ 2,745	$ 1,211	$ 7,623
CASH AT BEGINNING OF YEAR	17,815	7,946	7,269	33,030
NET DECREASE IN CASH	$ (14,148)	$ (5,201)	$ (6,058)	$ (25,407)

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

Schedule of Proportionate shares of the Net Pension Liability
(amounts in thousands)

	PERS 1		PERS 2/3	
Measurement Date Ended June 30	**2015**	**2014**	**2015**	**2014**
Proportion of the net pension liability (asset)	0.544648%	0.574446%	0.679264%	0.706321%
Proportionate share of the net pension liability (asset)	$ 28,490	$ 28,938	$ 24,271	$ 14,277
Covered-employee payroll	956	1,277	60,273	60,446
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	2980.13%	2266.09%	40.27%	23.62%

Schedule of District's Contributions

(amounts in thousands)

PERS 1

Fiscal Year Ended June 30	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Contractually Required Contribution	$ 86	$ 114	$ 112	$ 163	$ 128	$ 164	$ 267	$ 211	$ 185	$ 109
Contributions in Relation to the Contractually Required Contribution Subtotal	(86)	(114)	(112)	(163)	(128)	(164)	(267)	(211)	(185)	(109)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 956	$ 1,277	$ 1,586	$ 2,382	$ 2,578	$ 3,398	$ 3,693	$ 3,889	$ 4,768	$ 5,241
Contributions as a Percentage of Covered Employee Payroll	9.00%	8.93%	7.06%	6.84%	4.97%	4.83%	7.23%	5.43%	3.88%	2.08%

PERS 2/3

Fiscal Year Ended June 30	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Contractually Required Contribution	$ 3,026	$ 2,984	$ 2,756	$ 3,923	$ 3,001	$ 2,934	$ 4,200	$ 2,824	$ 1,952	$ 917
Contributions in Relation to the Contractually Required Contribution Subtotal	(3,026)	(2,984)	(2,756)	(3,923)	(3,001)	(2,934)	(4,200)	(2,824)	(1,952)	(917)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 60,273	$ 60,446	$ 58,703	$ 55,948	$ 58,289	$ 55,851	$ 52,138	$ 47,568	$ 45,655	$ 41,457
Contributions as a Percentage of Covered Employee Payroll	5.02%	4.94%	4.69%	7.01%	5.15%	5.25%	8.06%	5.94%	4.28%	2.21%
PERS Plan 1 UAAL*	$ 2,417	$ 2,428	$ 1,383	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Notes to Schedules

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

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

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015

Schedule of Funding Progress for Postretirement Health Benefits Program

(amounts in thousands)

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio
12/31/2009	$ -	$ 5,182	$ 5,182	0%
12/31/2011	-	4,168	4,168	0%
12/31/2013	-	4,127	4,127	0%
12/31/2015	-	5,808	5,808	0%

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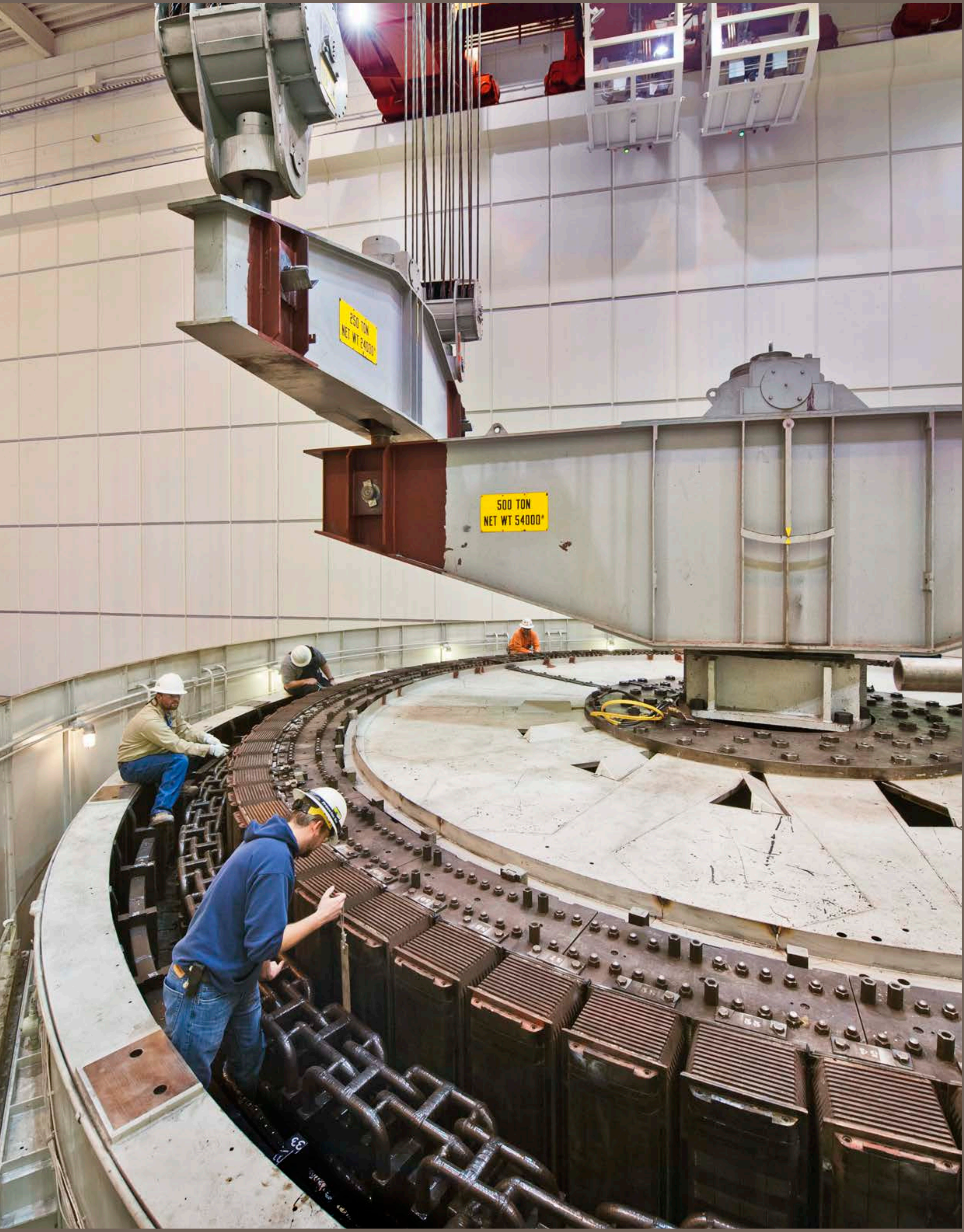
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