

TMH-21

REVISED

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The Water System is required to maintain a reserve account of not less than the maximum annual interest requirement in any calendar year for the 2006 and 2002 Series bonds. At December 31, 2008 and 2007, the PUD maintained the reserve requirement of \$999,000 in the Water System. At December 31, 2008 and 2007, the fair value of the Water System's long-term debt was \$21.8 and \$22.9 million, respectively. The fair value of the Water System's long-term debt is estimated based on quoted market prices for the same or similar issues. The carrying amounts for the Washington State Public Works Trust Fund loans, the State of Washington Drinking Water Revolving Fund loan and the note payable to Bayshore Forest Products approximate fair value since such loans are exclusive and have no market.

## NOTE 5

### Retirement and Deferred Compensation Plans

#### Retirement Plan

Substantially all PUD full-time and qualifying part-time employees participate in the Washington Public Employees' Retirement System (PERS) administered by the Washington State Department of Retirement Systems (DRS). Copies of DRS' annual financial report may be obtained by writing to: Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504.

#### Plan Description

PERS is a cost-sharing multiple-employer retirement system, which includes three plans. Plan 1 and Plan 2 are defined benefit programs, while Plan 3 is a combination defined benefit and defined contribution program. Retirement benefits are financed from employee and employer contributions and investment earnings. Participants who joined the system by September 30, 1977 are Plan 1 members. Those joining thereafter were enrolled in Plan 2. Beginning September 1, 2002, participants have the option of choosing between Plan 2 and Plan 3.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, at age 60 with five years of service or at age 55

with 25 years of service. The annual pension benefit is 2% of the average final compensation per year of service, capped at 60 percent. If qualified, after reaching age 66, a cost-of-living allowance is granted based on years of service credit and is capped at 3% annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at age 65 with five years of service. Plan 2 members who retire prior to age 65 receive reduced benefits. The annual pension benefit is 2% of the average final compensation per year of service. There is no cap on the years of service credit, and a cost-of-living allowance is granted, capped at 3% annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. Plan 3 retirement benefits are vested after an employee completes 5 or 10 years of service, based upon age requirements. Plan 3 members may retire at age 65, or at age 55 with 10 years of service. Plan 3 members who retire prior to age 65 receive reduced benefits. The annual pension benefit is 1% of the average final compensation per year of service. There is no cap on the years of service credit, and a cost-of-living allowance is granted, capped at 3% annually.

#### Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates needed to fully amortize the total costs of the plan. Employee contribution rates for Plan 1 are established by statute at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund the Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the state law. The methods used to determine the contribution requirements are established under state statute.

The required contribution rates expressed as a percentage of current covered payroll, as of December 31, 2008, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	8.31%	8.31%	8.31%
Employee	6.00%	5.45%	.5%-15%

Both the PUD and the employees made the required contributions. The PUD's required contributions for the years ended December 31, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
	(In thousands)		
2008	\$ 223	\$ 4,608	\$ 764
2007	220	3,318	487

### Post-Employment Healthcare Plan

The PUD administers retiree self-insured medical and vision insurance and Health Reimbursement Arrangement (HRA) benefits for eligible retirees and their dependents. Retiree benefit provisions are established by Commission resolution.

In general, the PUD pays a contribution toward the retiree's PUD group health plan premiums or to a Health Reimbursement Arrangement (HRA). For retirees and their dependents under age 65 who elect a PUD group medical plan, the PUD contribution is based on 75% of the premium for the most commonly elected retiree health plan during the prior year. Retirees and their dependents under age 65 who waive PUD group medical plan coverage receive a \$180 monthly contribution into their HRA. When a retiree or dependent becomes eligible for Medicare at age 65, the retiree is no longer eligible for the group medical plan; however, the PUD contributes \$180 a month to the retiree's HRA. In 2008 and 2007 the PUD contributed \$2.1 million to the plans. Plan members receiving benefits contributed \$0.5 and \$0.4 million in 2008 and 2007, respectively.

The PUD's annual Post-Employment Healthcare Benefit (PEHB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and amortize any unfunded liabilities (or funding excess) over a 30-year period. The following table shows the components of the PUD's annual PEHB cost for the year ended December 31, 2008, the amount actually contributed to the plan and the changes in the PUD's net PEHB obligation (dollar amounts in thousands):

	Electric	Generation	Water
Annual required contribution (ARC)	\$ 4,912	\$ 71	\$ 163
Contributions made	(1,994)	(29)	(66)
Increase in net PEHB obligation	2,918	42	97
Net PEHB obligation – beginning of year	2,322	39	74
<b>Net PEHB obligation – end of year</b>	<b>\$ 5,240</b>	<b>\$ 81</b>	<b>\$ 171</b>

In 2008, the PUD made a \$1 million contribution to the net PEHB obligation. In addition, the Board of Commissioners approved an additional \$1.3 million contribution to the net PEHB obligation in 2009 beyond the annual current retiree costs.

As of January 1, 2009, the unfunded actuarial accrued liability (UAAL) was \$52.1 million. The annual payroll of active employees covered by the plan was \$75.8 million.

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as

understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial assumptions include a rate of return on investments of 5.5%. The medical trend rate is estimated to gradually decrease from 10.5% in 2008 to 5.0% in 2019 and remain level thereafter.

#### Deferred Compensation Plans

The PUD has an Internal Revenue Code Section 457 deferred compensation program, covering eligible employees as defined in the plan document. Participants may contribute and defer, up to defined limits, a portion of their current year's salary. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. All plan assets are held in trust for the exclusive benefit of participants and their beneficiaries and as such are not included on the PUD's financial statements.

The PUD adopted a 401(k) Savings Plan (the Plan) effective May 1, 1985. Participation in the Plan is offered

to eligible employees of the PUD as defined in the plan document. The Plan is a defined contribution plan, which provides that participants may make voluntary salary deferral contributions, on a pretax basis, up to a maximum amount as indexed for cost-of-living adjustments. The PUD makes matching contributions in an amount equal to 25% of the first 3% of a participant's compensation contributed as a salary deferral. The PUD made matching contributions of \$393,000 and \$381,000 in 2008 and 2007, respectively.

#### NOTE 6 Related Party Transactions

The Generation System sells power to the Electric System at the cost of power produced including debt service and any other cash transactions. The Generation System sold \$54.6 million of power in 2008 and \$45.0 million of power in 2007 to the Electric System.

The Electric, Generation and Water Systems enter into various transactions to prudently and efficiently allocate resources and costs while treating each system as a stand-alone entity. Amounts due the Electric System from the Generation System for routine intercompany transactions at December 31 totaled \$809,000 in 2008 and \$177,000 in 2007. The amount due the Generation System from the Electric System for routine intercompany transactions at December 31 totaled \$3.3 million in 2008 and \$738,000 in 2007. Amounts due the Electric System from the Water System for routine intercompany transactions amounted to \$356,000 and \$344,000 at December 31, 2008 and 2007, respectively.

The Electric and Generation Systems periodically enter into loan transactions between the systems for various purposes including to defease Generation System Revenue bonds, to fund a portion of the Everett Cogeneration Project construction, and to fund the