

**Platte River Power Authority
Defined Benefit Plan**

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

Platte River Power Authority Defined Benefit Plan

December 31, 2017 and 2016

Contents

Independent Auditor's Report.....	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Fiduciary Net Position	6
Statements of Changes in Fiduciary Net Position	7
Notes to Financial Statements	8
Required Supplementary Information	
Schedule of Changes in Net Pension Liability and Related Ratios	27
Schedule of Employer Contributions	28
Schedule of Investment Returns	29

Independent Auditor's Report

To the Board of Directors and Retirement Committee of
Platte River Power Authority
Fort Collins, Colorado

We have audited the accompanying basic financial statements of the Platte River Power Authority Defined Benefit Plan (the Plan), which comprise the statements of fiduciary net position as of December 31, 2017 and 2016, and statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

To the Board of Directors and Retirement Committee of
Platte River Power Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Plan as of December 31, 2017 and 2016, and the changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

BKD, LLP

Denver, Colorado
June 15, 2018

Platte River Power Authority Defined Benefit Plan

Management's Discussion and Analysis

December 31, 2017 and 2016

This discussion and analysis provides an overview of the financial activities of the Platte River Power Authority Defined Benefit Plan (the Plan) for the years ended December 31, 2017 and December 31, 2016. The information presented should be read in conjunction with the basic financial statements, accompanying notes to the basic financial statements and required supplementary information.

Condensed Financial Statements

The following condensed statements of fiduciary net position and condensed statements of changes in fiduciary net position present the Plan's assets at year-end and the additions to and deductions from net position during the year.

Condensed Statements of Fiduciary Net Position

	December 31,		
	2017	2016	2015
Assets			
Cash equivalents	\$ 1,303,290	\$ 1,353,958	\$ 941,464
Receivables	31,499	75,384	35,060
Investments	104,336,986	93,103,303	88,531,525
Total assets	<u>105,671,775</u>	<u>94,532,645</u>	<u>89,508,049</u>
Liabilities			
Payables	<u>77,081</u>	<u>86,191</u>	<u>31,310</u>
Net Position Restricted for Pensions	<u>\$105,594,694</u>	<u>\$ 94,446,454</u>	<u>\$ 89,476,739</u>

The Plan's assets are invested in a broadly diversified portfolio of stocks, bonds, commodities, real estate, hedge funds, reinsurance and master limited partnerships. Total net position restricted for pensions at December 31, 2017, was \$105.6 million, an increase of \$11.1 million over 2016. The increase in 2017 was a result of an increase in the fair value of investments and employer contributions, partially offset by an increase in benefit payments. In 2016, net position restricted for pensions totaled \$94.4 million, an increase of \$4.9 million over 2015. The increase in 2016 was a result of an increase in the fair value of investments and employer contributions, offset by an increase in benefit payments. Total Plan returns, net of investment expenses, for 2017, 2016, and 2015 were 12.0%, 8.5%, and (0.7%), respectively.

Platte River Power Authority Defined Benefit Plan

Management's Discussion and Analysis

December 31, 2017 and 2016

Condensed Statements of Changes in Fiduciary Net Position

	Years Ended December 31,		
	2017	2016	2015
Additions			
Employer contributions	\$ 6,220,156	\$ 2,911,828	\$ 3,301,599
Net investment income (loss)	11,288,646	7,475,525	(623,355)
Total additions	17,508,802	10,387,353	2,678,244
Deductions			
Benefit payments	6,360,562	5,417,638	4,632,232
Net increase (decrease) in net position	11,148,240	4,969,715	(1,953,988)
Net Position Restricted for Pensions			
Beginning of year	94,446,454	89,476,739	91,430,727
End of year	\$105,594,694	\$ 94,446,454	\$ 89,476,739

Additions to net position restricted for pensions include contributions made by Platte River Power Authority (Platte River), the net increase (decrease) in the fair value of investments, and interest and dividend income generated by the Plan's investments. Platte River's total contributions for 2017 and 2016 totaled \$6.2 million and \$2.9 million, respectively. This represents an increase of \$3.3 million for 2017 and a decrease of \$0.4 million for 2016. Contributions to the Plan for 2017 and 2016 were 100% of the actuarially recommended amount.

During both 2016 and 2017, the capital markets performance favorably affected the Plan's total investments. In 2017, net investment income was \$11.3 million, an increase of \$3.8 million from 2016. In 2016, net investment income was \$7.5 million, an increase of \$8.1 million from 2015. Net investment income is a result of the change in the fair value of investments plus interest and dividend income. In 2017, the net increase in the fair value of investments was \$9.6 million, an increase of \$3.6 million from 2016. In 2016, the net increase in the fair value of investments was \$6.0 million, an increase of \$8.0 million from 2015.

Deductions from plan net position include benefit payments to retirees and beneficiaries. Benefit payments during 2017 increased \$0.9 million over 2016 due to an increase in retirees receiving benefits and lump sum distributions. In 2016, benefit payments increased \$0.8 million over 2015, also due to an increase in retirees receiving benefits and lump sum distributions.

Platte River Power Authority Defined Benefit Plan

Management's Discussion and Analysis

December 31, 2017 and 2016

Request for Information

This financial report is designed to provide a general overview of the Plan finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to David Smalley, Deputy General Manager and Chief Financial Officer, Platte River Power Authority, 2000 East Horsetooth Road, Fort Collins, Colorado 80525.

Platte River Power Authority Defined Benefit Plan

Statements of Fiduciary Net Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash equivalents	\$ 1,303,290	\$ 1,353,958
Receivables		
Due from broker for investments sold	18,538	63,227
Investment income	12,961	12,157
Total receivables	31,499	75,384
Investments		
Fixed income securities	10,037,909	9,974,773
Floating rate corporate loans	9,049,115	8,662,164
Domestic equity securities	26,346,496	24,292,616
International equity securities	15,214,785	11,790,296
Commodities	5,329,257	5,132,514
Hedge funds	14,723,748	13,800,727
Real estate funds	16,160,595	14,960,855
Reinsurance funds	2,865,670	-
Master limited partnerships	4,609,411	4,489,358
Total investments	104,336,986	93,103,303
Total assets	105,671,775	94,532,645
Liabilities		
Due to broker for investments purchased	77,081	86,191
Net Position Restricted for Pensions	\$105,594,694	\$ 94,446,454

Platte River Power Authority Defined Benefit Plan

Statements of Changes in Fiduciary Net Position

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Additions		
Employer contributions	\$ 6,220,156	\$ 2,911,828
Investment income		
Net increase in fair value of investments	9,648,898	6,048,532
Interest and dividends	1,639,748	1,426,993
	<hr/>	<hr/>
Net investment income	11,288,646	7,475,525
	<hr/>	<hr/>
Total additions	17,508,802	10,387,353
	<hr/>	<hr/>
Deductions		
Benefit payments	6,360,562	5,417,638
	<hr/>	<hr/>
Net increase in net position	11,148,240	4,969,715
	<hr/>	<hr/>
Net Position Restricted for Pensions		
Beginning of year	94,446,454	89,476,739
	<hr/>	<hr/>
End of year	\$105,594,694	\$ 94,446,454
	<hr/>	<hr/>

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Plan Description

The following brief description of the Plan is provided for general information purposes only. Participants and all others should refer to the Plan document for more complete information.

Effective June 1, 1973, Platte River adopted the Plan. Generally, the Plan is a defined-benefit, single-employer plan covering all regular employees of Platte River hired prior to September 1, 2010. The Plan is closed to new employees hired on or after that date.

The general manager of Platte River is the plan administrator. The Retirement Committee, composed of six members (two staff members and four members of the Board of Directors) meets quarterly and has responsibility for oversight of the Plan's investments. The Board of Directors, composed of eight members, is the designated governing body over the Plan and has the authority to amend the Plan as necessary. All administrative expenses of the Plan are paid by Platte River.

The Plan has received favorable determination letters, the most recent dated October 6, 2014, from the Internal Revenue Service (the IRS) for the original Plan and subsequent amendments effective through January 1, 2014. In 2015, the IRS ended the five-year amendment cycle for determination letters.

Benefits Provided

Retirement benefits are based upon years of service rendered and the final average compensation earned by the participant as defined by the Plan document. The Plan provides for 100% vesting after five years of service to all eligible employees.

The Plan provides for normal retirement at age 65. A participant may retire before age 65 after having completed 10 years of credited service and having attained at least age 55, with reduced benefits in accordance with the Plan document. For a participant who commenced employment before January 1, 2008, a special early retirement benefit is available if the participant has completed 13 years of credited service and has attained the ages of 55 through 58, or has completed 20 years of credited service and has attained the age of 55. For a participant who commenced employment on or after January 1, 2008, the participant shall qualify for special early retirement if the participant has completed 20 years of credited service and terminated employment after attaining age 55. Benefits will not be reduced if the participant elects to receive benefits on or after the seventh anniversary of the date the participant is first eligible for the special early retirement benefit. The Plan also provides for a deferred vested retirement income starting at the normal retirement date to participants who choose to leave Platte River prior to normal retirement age.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

Participants may elect to receive their benefits by selecting one of the six optional forms of payment including the following: (1) the duration of the participant's life; (2) the duration of the participant's life with a minimum of 10 years certain and any remainder paid to a beneficiary; (3) 50% joint and survivor annuity option; (4) 66-2/3% joint and survivor option with a minimum of 10 years certain and any remainder paid to a beneficiary; (5) 66-2/3% joint and survivor option without 10 years certain; or (6) an actuarially equivalent lump sum payment. Active employees who become totally and permanently disabled may qualify for a vested retirement income at age 65 or an early retirement income at ages 55 through 64 if they have met the requirements for these benefits at the time they initially became disabled. Upon the death of an active or disabled retiree, a benefit in the form of a monthly income is paid to the participant's beneficiary in accordance with the Plan's provisions.

Benefits paid by the Plan are adjusted annually by the change in the consumer price index, subject to a maximum increase of 6.0% for employees who retired prior to December 6, 1991. Those employees who retired on or after December 6, 1991, receive two-thirds of the change in the consumer price index, up to a maximum of 4.0%.

Plan Membership

At December 31, participants in the Plan are as follows:

	<u>2017</u>	<u>2016</u>
Retirees and beneficiaries currently receiving benefits	141	134
Terminated vested employees not yet receiving benefits	59	53
Active plan participants	127	142
Total participants	<u>327</u>	<u>329</u>

Note 2: Summary of Significant Accounting Policies

For financial reporting purposes, management does not consider the Plan to be a component unit of Platte River, as defined in Governmental Accounting Standards Board (GASB) Statements Nos. 61 and 39, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34 and Determining Whether Certain Organizations are Component Units, respectively. Platte River meets the criteria of another stand-alone government entity. The Plan uses the accrual basis of accounting and conforms to accounting principles generally accepted in the United States of America. Benefit payments are recognized when due and payable in accordance with the terms of the Plan.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan's management to use estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from these estimates.

Plan investments are stated at fair value based on quoted market price, except for the units in the real estate fund, which are valued based on the most recent appraised value of the fund's underlying real estate assets. At December 31, 2017 and 2016, cash equivalents consisted of money market funds and collateralized bank deposit accounts.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date.

Note 3: Employer Contributions

All contributions to the Plan are made by Platte River and authorized by the Board of Directors. Employees are not permitted to make contributions to the Plan. The Plan's funding policy provides for periodic contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due. Platte River's contributions to the Plan for 2017 and 2016 of \$6,220,156 and \$2,911,828, respectively, equaled the actuarially determined requirements.

Note 4: Plan Expenses

Certain investment manager fees are deducted from investment earnings by the investment management firms. Other investment manager fees are paid directly by Platte River and are therefore, not paid from the assets of the Plan.

Additionally, Platte River pays the administrative expenses of the Plan, including actuarial fees, investment consulting fees, trustee fees, auditing expenses, and legal fees.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

Note 5: Investments

All assets of the Plan are invested in a manner consistent with the Plan document, the Plan Investment Policy Statement (IPS) and any federal, state, or the IRS laws or regulations. Under Colorado Revised Statutes, the Plan's investments are governed by the Colorado Uniform Prudent Investor Act. The IPS provides an asset allocation strategy to create a broadly diversified portfolio. The strategy is designed to reflect and be consistent with the objectives expressed in the IPS, subject to the risk tolerance of the Retirement Committee.

Plan assets are held by Wells Fargo Bank N.A. (the Trustee) under a trust agreement and invested in money market, bond, stock portfolios, commodities, reinsurance funds, real estate, hedge funds or master limited partnerships as directed by the Retirement Committee. Innovest Portfolio Solutions, LLC assists the Retirement Committee in the oversight of the investment program. Investment management firms have the responsibility of investing in a specific asset class with full discretionary investment authority subject to the policies and guidelines of the IPS.

The Retirement Committee provided authorization for the following asset targets and ranges for 2017:

Asset Class	Lower Limit	Target	Upper Limit
Domestic equities – Large cap	14%	17%	20%
Domestic equities – Mid/small cap	4%	7%	10%
International equities	7%	10%	13%
Emerging market equities	1%	4%	7%
Core fixed income	4%	7%	10%
High yield	0%	3%	6%
Floating rate corporate loans	6%	9%	12%
Commodities	3%	6%	9%
Real estate	10%	15%	20%
Liquid low correlated hedge	9%	14%	19%
Master limited partnerships	2%	5%	8%
Reinsurance	0%	3%	6%

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

The Retirement Committee provided authorization for the following asset targets and ranges for 2016:

Asset Class	Lower Limit	Target	Upper Limit
Domestic equities – Large cap	15%	18%	21%
Domestic equities – Mid/small cap	4%	7%	10%
International equities	7%	10%	13%
Emerging market equities	1%	4%	7%
Core fixed income	5%	8%	11%
High yield	0%	3%	6%
Floating rate corporate loans	6%	9%	12%
Commodities	3%	6%	9%
Real estate	10%	15%	20%
Liquid low correlated hedge	10%	15%	20%
Master limited partnerships	2%	5%	8%

The investment mix was as follows at December 31:

Asset Class	2017 Allocation Percentage	2016 Allocation Percentage
Domestic equities – Large cap	18%	18%
Domestic equities – Mid/small cap	8%	8%
International equities	10%	9%
Emerging market equities	4%	4%
Core fixed income	7%	8%
High yield	3%	3%
Floating rate corporate loans	9%	9%
Commodities	5%	5%
Real estate	15%	16%
Liquid low correlated hedge	14%	15%
Master limited partnerships	4%	5%
Reinsurance	3%	0%

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

Concentrations

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. Investments in any one organization that represent 5% or more of the Plan's fiduciary net position (excluding investments issued or explicitly guaranteed by the U.S. government and mutual funds) are separately identified below.

	2017	2016
Wells Fargo/Blackrock S&P 500 Fund	\$ 5,144,990	\$ 5,866,397
Wellington Opportunistic Growth Fund	6,832,126	5,470,641
Credit Suisse Commodity Return Strategy	5,329,257	5,132,514
Blackstone Offshore Partners NT Fund	14,723,748	13,800,727
Principal U.S. Property Account	16,160,595	14,960,855

Rate of Return

For the years ended December 31, 2017 and 2016, the money-weighted rate of return on Plan investments, net of Plan investment expense, was 12.0% and 8.5%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investment Risks

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan's assets are held in trust and the custodial relationship is defined in the Plan documents. At December 31, 2017 and 2016, the Plan did not identify any investments subject to custodial credit risk.

The Plan's investments are subject to interest rate risk, credit risk, foreign currency risk and hedge fund-of-funds risk as follows.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

As of December 31, 2017, the Plan had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1 or Undefined	1-5	6-10	More than 10
Cash equivalents	\$ 1,303,290	\$ 1,303,290	\$ —	\$ —	\$ —
Core fixed income	6,982,065	814,108	2,822,151	2,369,713	976,093
High yield bond fund	3,055,844	246,606	1,762,000	858,387	188,851
Floating rate corporate loans	9,049,115	368,300	3,534,584	5,129,943	16,288
Domestic equity mutual funds	26,346,496	26,346,496	—	—	—
International equity mutual funds	15,214,785	15,163,309	44,376	7,100	—
Commodities	5,329,257	1,366,421	3,826,407	136,429	—
Reinsurance ^(A)	2,865,670	2,215,163	633,313	14,328	2,866
Hedge funds	14,723,748	14,723,748	—	—	—
Real estate funds	16,160,595	16,160,595	—	—	—
Master limited partnerships	4,609,411	4,609,411	—	—	—
Total cash and investments	\$ 105,640,276	\$ 83,317,447	\$ 12,622,831	\$ 8,515,900	\$ 1,184,098

(A) Reinsurance investment maturities reported as of 10/31/17, 12/31/17 valuation information is not available.

As of December 31, 2016, the Plan had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1 or Undefined	1-5	6-10	More than 10
Cash equivalents	\$ 1,353,958	\$ 1,353,958	\$ —	\$ —	\$ —
Core fixed income	7,091,563	475,135	2,514,668	3,020,297	1,081,463
High yield bond fund	2,883,210	156,847	1,123,299	1,436,126	166,938
Floating rate corporate loans	8,662,164	800,384	4,659,378	3,198,071	4,331
Domestic equity mutual funds	24,292,616	24,292,616	—	—	—
International equity mutual funds	11,790,296	11,788,583	—	1,713	—
Commodities	5,132,514	1,608,896	3,416,013	107,605	—
Reinsurance	—	—	—	—	—
Hedge funds	13,800,727	13,800,727	—	—	—
Real estate funds	14,960,855	14,960,855	—	—	—
Master limited partnerships	4,489,358	4,489,358	—	—	—
Total cash and investments	\$94,457,261	\$73,727,359	\$11,713,358	\$7,763,812	\$1,252,732

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Plan's fixed income assets are invested in a core fixed income mutual fund managed by Metropolitan West Asset Management (MetWest), a high yield bond mutual fund managed by JP Morgan, and collateral backing commodity linked instruments managed by Credit Suisse Asset Management. As interest rates rise, the value of a fixed income bond fund is likely to decrease. Securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Given the long-term nature of the Plan, the IPS does not place maturity restrictions on its bond funds. By prospectus, the duration of the Plan's core fixed income allocation is two to eight years under normal conditions. Alternatively, duration of the Plan's high yield and commodity collateral are not limited by prospectus, but are intended to remain within a reasonable range of the Barclays U.S. High Yield – 2% Issuer Capped Index (high yield bonds) and normally one year or less (commodities), respectively.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Plan's core fixed income mutual fund portfolio objective, under normal conditions, is to invest at least 80% of its net assets in investment grade fixed income or unrated securities determined by MetWest to be of comparable quality. Up to 20% of the fund's net assets may be invested in securities rated below investment grade. The Plan's commodity mutual fund manages the underlying cash collateral in a conservative investment strategy designed to provide exposure to high quality, short duration fixed income instruments. The cash portfolio contains U.S. Treasury or U.S. Agency debt. The portfolio's duration is less than one year. The Plan's high yield bond and floating rate corporate loan mutual fund portfolios are principally invested in credits rated below investment grade (<BBB) quality, with discretion to allocate up to 20% of the portfolio in higher quality debt instruments. As of December 31, 2017, the Plan's average credit quality for core fixed income, commodity collateral, high yield bond, and floating rate corporate loan allocations was BBB, AA, B, and B, respectively.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

The Plan has exposure to foreign currency risk through its floating rate corporate loan and international equity allocations. The Eaton Vance Floating Rate fund may allocate up to 25% to non-dollar credits. As for the Plan's international equity allocations, the mutual fund portfolios invest primarily in foreign denominated securities and typically do not hedge currency risk. Non-dollar allocations for Eaton Vance Floating Rate were 4.94% and 2.67% as of December 31, 2017 and 2016, respectively. The Plan's investment in international equity mutual funds, as of December 31, 2017 and 2016, was \$15.2 million and \$11.8 million, respectively.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

The Plan's exposure to foreign currency risk in U.S. dollars as of December 31, 2017(A), is disclosed in the following table:

Currency	Total	International Stocks	Fixed Income
Australian dollar	\$ 183,187	\$ 183,187	\$ —
Brazilian real	490,822	490,822	—
British pound	1,549,593	1,518,826	30,767
Canadian dollar	465,802	454,943	10,859
Chilean peso	67,097	67,097	—
Chinese yuan renminbi	367,439	367,439	—
Colombian peso	2,549	2,549	—
Czech koruna	2,549	2,549	—
Danish krone	176,786	176,786	—
European euro	2,687,617	2,282,217	405,400
Hong Kong dollar	1,295,292	1,295,292	—
Hungarian forint	49,681	49,681	—
Indian rupee	1,121,340	1,121,340	—
Indonesian rupiah	268,308	268,308	—
Israeli new shekel	9,876	9,876	—
Japanese yen	1,742,057	1,742,057	—
Malaysian ringgit	75,087	75,087	—
Mexican peso	112,817	112,817	—
New Zealand dollar	33,499	33,499	—
Norwegian krone	104,472	104,472	—
Philippine peso	227,897	227,897	—
Polish zloty	59,105	59,105	—
Russian ruble	77,533	77,533	—
Singapore dollar	103,394	103,394	—
South African rand	287,288	287,288	—
South Korean won	867,648	867,648	—
Swedish krona	159,876	159,876	—
Swiss franc	457,822	457,822	—
Taiwan dollar	504,549	504,549	—
Thai baht	247,614	247,614	—
Turkish new lira	145,350	145,350	—
	<u>\$ 13,943,946</u>	<u>\$ 13,496,920</u>	<u>\$ 447,026</u>

(A) Foreign currency exposure through the reinsurance fund reported as of 10/31/2017. Foreign currency exposure from the reinsurance fund is as follows: \$18 Australian Dollar, \$20,496 European Euro, \$5,775 Swiss Franc.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

The Plan's exposure to foreign currency risk in U.S. dollars as of December 31, 2016, is disclosed in the following table:

Currency	Total	International Stocks	Fixed Income
Australian dollar	\$ 287,022	\$ 287,022	\$ —
Brazilian real	374,161	374,161	—
British pound	1,411,080	1,347,846	63,234
Canadian dollar	353,502	345,706	7,796
Chilean peso	35,202	35,202	—
Chinese yuan renminbi	64,544	64,544	—
Colombian peso	1,949	1,949	—
Czech koruna	1,462	1,462	—
Danish krone	193,936	193,936	—
European euro	1,957,288	1,797,038	160,250
Hong Kong dollar	865,136	865,136	—
Hungarian forint	46,251	46,251	—
Indian rupee	910,575	910,575	—
Indonesian rupiah	198,916	198,916	—
Israeli new shekel	8,038	8,038	—
Japanese yen	1,344,749	1,344,749	—
Malaysian ringgit	73,058	73,058	—
Mexican peso	162,110	162,110	—
New Zealand dollar	27,576	27,576	—
Norwegian krone	116,183	116,183	—
Philippine peso	192,837	192,837	—
Polish zloty	56,808	56,808	—
Russian ruble	107,101	107,101	—
Singapore dollar	51,907	51,907	—
South African rand	299,709	299,709	—
South Korean won	508,990	508,990	—
Swedish krona	152,055	152,055	—
Swiss franc	343,424	343,424	—
Taiwan dollar	380,389	380,389	—
Thai baht	237,124	237,124	—
Turkish new lira	185,641	185,641	—
	<u>\$ 10,948,723</u>	<u>\$ 10,717,443</u>	<u>\$ 231,280</u>

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

Hedge Fund-of-Funds Risk

The hedge fund investments in the Plan are subject to various risk factors arising from the investment activities of the fund-of-fund managers, including market, credit, liquidity, and foreign currency risk. The portfolio funds owned by the hedge fund transact in short sales and various domestic and international derivative investments, including forward foreign currency contracts, futures, and written and purchased options and swaps, which expose the portfolio funds to counterparty risk.

Reinsurance Funds Risk

The reinsurance investments in the Plan are subject to risks that include natural catastrophes such as hurricane, tornado, or earthquake, as well as non-natural catastrophes such as aviation or shipping disasters. A catastrophic event of a particular magnitude and in a particular geography could cause the investments to lose all or a significant portion of their principal. Reinsurance investments are also subject to underwriting risk of the ceding entity and risks related to imperfect risk models. The investments are also subject to illiquidity risk, as the majority of the investments are illiquid and despite the current expectation that the fund will repurchase 5% of shares each quarter, the fund may elect not to repurchase shares. Other risks include valuation risk, moral hazard risk, reinsurance industry risk, leverage risk, derivative risk, foreign investing risk, and currency risk.

Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- | | |
|----------------|--|
| Level 1 | Quoted prices in active markets for identical assets |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets |
| Level 3 | Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets |

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

December 31, 2017	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Cash equivalents	\$ 1,303,290	\$1,303,290	\$ —	\$ —
Core fixed income	6,982,065	6,982,065	—	—
High yield bond fund	3,055,844	3,055,844	—	—
Floating rate corporate loans	9,049,115	9,049,115	—	—
Domestic equity mutual funds	26,346,496	14,369,380	11,977,116	—
International equity mutual funds	15,214,785	15,214,785	—	—
Commodities	5,329,257	5,329,257	—	—
Reinsurance	2,865,670	2,865,670	—	—
Real estate funds	16,160,595	—	—	16,160,595
Master limited partnerships	4,609,411	4,609,411	—	—
Total investments by fair value level	\$90,916,528	\$62,778,817	\$11,977,116	\$16,160,595
Investments measured at the net asset value (NAV) ^(A)				
Hedge funds	14,723,748			
Total investments measured at NAV	\$14,723,748	\$ —	\$ —	\$ —

(A) Certain investments that are measured using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

December 31, 2016	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Cash equivalents	\$ 1,353,958	\$ 1,353,958	\$ —	\$ —
Core fixed income	7,091,563	7,091,563	—	—
High yield bond fund	2,883,210	2,883,210	—	—
Floating rate corporate loans	8,662,164	8,662,164	—	—
Domestic equity mutual funds	24,292,616	12,955,579	11,337,037	—
International equity mutual funds	11,790,296	11,790,296	—	—
Commodities	5,132,514	5,132,514	—	—
Real estate funds	14,960,855	—	—	14,960,855
Master limited partnerships	4,489,358	4,489,358	—	—
Total investments by fair value level	\$80,656,534	\$ 54,358,642	\$11,337,037	\$14,960,855
Investments measured at the net asset value (NAV) ^(A)				
Hedge funds	13,800,727			
Total investments measured at NAV	\$13,800,727	\$ —	\$ —	\$ —

(A) Certain investments that are measured using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the following tables for inputs and valuation techniques used for Level 3 securities.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

As a practical expedient, a government can use the Net Asset Value (NAV) per share for investments in a nongovernmental entity that does not have a readily determinable fair value. The NAV is not permitted for valuation if it is probable the government will sell the investment at a different price. Investments measured at NAV would be excluded from the fair value hierarchy (Level 1, 2 or 3). The valuation method for investments measured at the NAV per share (or its equivalent) is presented below.

December 31, 2017

Hedge Funds	Value	Redemption Frequency	Redemption Notice Period
Multi-category	\$ 4,984,900	Monthly- Non-Redeemable	20 days – Non-Redeemable
Equity	3,655,136	Monthly- Non-Redeemable	5 days – Non-Redeemable
Credit-driven	2,776,681	Monthly- Non-Redeemable	30 days – Non-Redeemable
Relative value	1,331,120	Monthly- Quarterly	30 days – 120 days
Interest rate driven	1,032,643	Quarterly	90 days – 95 days
Managed futures	473,634	Daily – Monthly	2 days – 17 days
Commodities	283,067	Monthly- Non-Redeemable	95 days – Non-Redeemable
Global macro	186,567	Monthly- Non-Redeemable	60 days – Non-Redeemable
Total Hedge Funds	<u>\$ 14,723,748</u>		

December 31, 2016

Hedge Funds	Value	Redemption Frequency	Redemption Notice Period
Multi-category	\$ 4,672,400	Monthly- Non-Redeemable	5 days – Non-Redeemable
Equity	3,425,999	Monthly- Non-Redeemable	5 days – Non-Redeemable
Credit-driven	2,602,613	Monthly- Non-Redeemable	30 days – Non-Redeemable
Relative value	1,247,673	Monthly- Quarterly	30 days – 120 days
Interest rate driven	967,907	Quarterly	95 days
Managed futures	443,942	Daily – Monthly	3 days – 18 days
Commodities	265,322	Monthly- Non-Redeemable	60 days – Non-Redeemable
Global macro	174,871	Monthly- Non-Redeemable	60 days – Non-Redeemable
Total Hedge Funds	<u>\$ 13,800,727</u>		

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

Note 6: Net Pension Liability of Platte River

The components of the net pension liability of Platte River at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Total pension liability	\$118,701,824	\$113,850,636
Plan fiduciary net position	105,594,694	94,446,454
Platte River's net pension liability	<u>\$ 13,107,130</u>	<u>\$ 19,404,182</u>
Plan fiduciary net position as a percentage of the total pension liability	88.96%	82.96%

Actuarial Assumptions

The total pension liability for the years ended December 31, 2017 and 2016 was determined by an actuarial valuation as of January 1, 2018 and January 1, 2017, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.0%
Investment rate of return	7.5%
Cost of living	1.5%

Mortality rates for the years ended December 31, 2017 and 2016 were based on the RP-2014 table for males and females combined with the modified MP-2014 projection scale.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

The actuarial assumption for the long-term expected rate of return on Plan investments is established in the IPS approved by the Retirement Committee. The basis for establishing a rate uses a method in which best-estimate ranges of expected future rates of return net of investment expense are developed for each major asset class. The estimates for each major asset class that is included in the Plan's target asset allocation as of December 31, 2017 and 2016 are summarized in the following table:

Asset Class	Target Allocation as of 12/31/17	Target Allocation as of 12/31/16	2017 Long-term Expected Rate of Return	2016 Long-term Expected Rate of Return
Domestic equities – Large cap	17%	18%	6.75%	7.25%
Domestic equities – Mid/small cap	7%	7%	7.75%	7.75%
International equities	10%	10%	8.00%	8.50%
Emerging market equities	4%	4%	9.50%	10.00%
Core fixed income	7%	8%	2.75%	2.50%
High yield	3%	3%	4.50%	4.00%
Floating rate corporate loans	9%	9%	5.25%	5.25%
Commodities	6%	6%	4.50%	5.00%
Real estate	15%	15%	7.00%	7.50%
Liquid low correlated hedge	14%	15%	5.00%	5.50%
Master limited partnerships	5%	5%	6.00%	6.25%
Reinsurance	3%	NA	6.00%	5.75%

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for the years ended December 31, 2017 and 2016. To determine the projection of cash flows, the following assumptions were made: employer contributions are made throughout the year and, on average, at midyear; benefit payments are assumed to be made uniformly throughout the year and, on average, at mid-year; and annuity payments are payable monthly at the beginning of the month and lump sum payments are payable on date of decrement. Based on those assumptions, the Plan's 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 on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The net pension liability of Platte River at December 31, 2017 and 2016, calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate, is as follows:

		2017	2016
	Discount Rate	Net Pension Liability	Net Pension Liability
1% Decrease	6.5%	\$ 24,218,203	\$ 30,224,106
Current discount rate	7.5%	13,107,130	19,404,182
1% Increase	8.5%	3,509,523	10,073,981

Note 7: Plan Termination

Platte River reserves the right to discontinue its contributions at any time and to terminate the Plan, although it has not expressed any intention to do so. Discontinuance of contributions does not constitute a formal termination of the Plan. In the event that the Plan is formally terminated by Platte River, the net position of the Plan will be distributed in the following order of priority:

- a. The minimum required amount to retired or terminated participants whose retirement income payments commenced at least three years prior to the date of termination.
- b. Each other active, retired, or terminated participant who, at least three years prior to termination date, had become eligible for benefits.
- c. Remaining assets are allocated between participants and beneficiaries in an amount equal to the excess of the amount required to provide the actuarial equivalent single sum value.

Platte River is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA) and, therefore, is not subject to the pension benefit guaranty provisions of ERISA. Benefits under this Plan are not insured by the Pension Benefit Guaranty Corporation.

Platte River Power Authority Defined Benefit Plan

Notes to Financial Statements

December 31, 2017 and 2016

Note 8: Related-Party Transactions

Certain Plan investments are shares of mutual funds managed by Wells Fargo, the Trustee of the Plan. Platte River pays certain expenses of the Plan and performs certain administrative functions at no cost to the Plan.

Note 9: Uncertainties and Risks

Investments are subject to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the value of investments could occur in the near term and that such changes could materially affect the amounts reported in the statements of fiduciary net position.

Plan contributions are made and Platte River's net pension liability are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

The Plan is exposed to various risks of loss related to torts. Fiduciary Liability insurance coverage is purchased for claims arising from such matters. There have been no significant decreases in insurance coverage.

Required Supplementary Information

Platte River Power Authority Defined Benefit Plan

Schedule of Changes in Net Pension Liability and Related Ratios

Last Five Calendar Years
(Dollar amounts in thousands)

	2017	2016	2015	2014	2013
Total pension liability					
Service cost	\$ 1,616	\$ 1,728	\$ 1,839	\$ 1,885	\$ 1,949
Interest	8,421	8,176	7,665	7,343	7,005
Changes of benefit terms	—	—	2,397	—	(135)
Differences between expected and actual experience	1,175	(620)	931	(180)	86
Changes of assumptions	—	—	3,661	(574)	(726)
Benefit payments	(6,361)	(5,418)	(4,632)	(4,287)	(3,886)
Net change in total pension liability	4,851	3,866	11,861	4,187	4,293
Total pension liability—beginning	113,851	109,985	98,124	93,937	89,644
Total pension liability—ending (a)	<u>\$ 118,702</u>	<u>\$ 113,851</u>	<u>\$ 109,985</u>	<u>\$ 98,124</u>	<u>\$ 93,937</u>
Plan fiduciary net position					
Contributions – employer	\$ 6,220	\$ 2,912	\$ 3,302	\$ 3,905	\$ 4,544
Net investment income	11,289	7,476	(624)	4,658	12,011
Benefit payments	(6,360)	(5,418)	(4,632)	(4,287)	(3,886)
Net change in Plan fiduciary net position	11,149	4,970	(1,954)	4,276	12,669
Plan fiduciary net position—beginning	94,446	89,477	91,431	87,155	74,486
Plan fiduciary net position—ending (b)	<u>\$ 105,595</u>	<u>\$ 94,446</u>	<u>\$ 89,477</u>	<u>\$ 91,431</u>	<u>\$ 87,155</u>
Net pension liability—ending (a) – (b)	<u>\$ 13,107</u>	<u>\$ 19,404</u>	<u>\$ 20,508</u>	<u>\$ 6,693</u>	<u>\$ 6,782</u>
Plan fiduciary net position as a percentage of the total pension liability	88.96%	82.96%	81.35%	93.18%	92.78%
Estimated covered employee payroll	\$ 16,215	\$ 16,874	\$ 17,305	\$ 17,951	\$ 18,614
Net pension liability as a percentage of estimated covered employee payroll	80.83%	114.99%	118.51%	37.29%	36.43%

Note to Schedule

Historical information is not available for the years 2008 through 2012; additional years will be displayed as they become available.

Platte River Power Authority Defined Benefit Plan

Schedule of Employer Contributions

Last 10 Calendar Years
(Dollar amounts in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 6,220	\$ 2,912	\$ 3,302	\$ 3,905	\$ 4,544	\$ 3,561	\$ 4,390	\$ 7,736	\$ 2,867	\$ 2,673
Contribution in relation to the actuarially determined contribution	6,220	2,912	3,302	3,905	4,544	3,561	4,390	7,736	2,866	2,673
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>							
Estimated covered employee payroll	\$16,215	\$16,874	\$17,305	\$17,951	\$ 18,614	\$18,766	\$18,728	\$17,714	\$18,521	\$16,320
Contributions as a percentage of covered employee payroll	38.36%	17.26%	19.08%	21.75%	24.41%	18.98%	23.44%	43.67%	15.47%	16.38%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of January 1, two years prior to the end of the calendar year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability, entry age normal
Amortization method	5-year, level dollar, open period
Asset valuation method	4-year smoothed market
Salary increases	2.9%, average
Increases in retiree benefits – in payment pensioners	2.25% if benefits commenced prior to 1/1/92, 1.5% if benefits commenced after 12/31/1991 for 2016 and 2017; 3.0% and 2.0%, respectively for 2011–2015; 3.75% and 2.5%, respectively for 2008-2010
Investment rate of return	7.5% for 2016 and 2017; 8.0% for 2008 – 2015

Platte River Power Authority Defined Benefit Plan

Schedule of Investment Returns

Last 10 Calendar Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Annual money-weighted rate of return, net of investment expense	12.0%	8.5%	(0.7%)	5.4%	16.1%	13.7%	(1.5%)	12.5%	18.4%	(24.2%)