Office of the Washington State Auditor
Pat McCarthy

September 26, 2019

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

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of Public Utility District No. 1 of Okanogan County for the fiscal years ended December 31, 2018 and 2017. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON

December 31, 2018 and 2017

MOSSADAMS

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Report of Independent Auditors

To the Commissioners
Public Utility District No. 1
of Okanogan County, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Public Utility District No. 1 of Okanogan County, Washington (the District), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 opinions 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of proportionate share of the net pension liability, and schedule of employer contributions be presented to supplement the 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.

Supplemental Information

The unaudited supplemental information presented has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Moss Adams LLP

Everett, Washington
May 30, 2019

The following discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of Public Utility District No. 1 of Okanogan County's (the District's) financial activity, and identify changes in the District's financial position during 2018 and 2017. Please consider the information presented here in conjunction with the financial statements as a whole, including the footnotes and other supplementary information that is provided.

The District, a municipal corporation of the state of Washington, was established in 1936 and began operations in 1945. The District is governed by a three-member board of commissioners locally elected to six-year terms. The District operates both electric and telecommunications systems that are accounted for in a single proprietary fund.

Overview of the Financial Statements

The financial statements include the management's discussion and analysis and financial statements with accompanying notes. In accordance with standards issued by the Governmental Accounting Standards Board (GASB), the District's financial statements are presented on an accrual basis of accounting, which recognizes revenues when earned and expenses when incurred, regardless of when cash is received or paid.

The basic financial statements are presented as of and for the years ended December 31, 2018 and 2017, and consist of:

Statements of net position – The statements of net position present information on the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at year-end. These statements also provide information about the nature and amounts of investments in resources (assets) and the District's obligations to its creditors (liabilities).

Statements of revenues, expenses, and changes in net position – The statements of revenues, expenses, and changes in net position account for the year's revenue and expense transactions. These statements measure the District's operations over the past year and may be used to determine whether the District has been successful in recovering its costs through rates and other charges.

Statements of cash flows – The statements of cash flows provide information on the District's cash receipts and disbursements during the year. The statements report changes in cash resulting from operations, investing, and capital and related financing activities.

The notes to the financial statements provide additional information that is an integral part of the financial statements. This information includes the disclosure of significant accounting policies, financial activities, risks, commitments, and obligations.

Selected Financial Information

	December 31, 2018	2017	2016
ASSETS			
Current and other assets	$ 33,460,685	$ 34,479,756	$ 33,711,017
Net utility plant	110,383,214	126,302,912	122,414,960
Total assets	143,843,899	160,782,668	156,125,977
DEFERRED OUTFLOWS OF RESOURCES	1,036,599	1,264,666	1,932,871
Total assets and deferred outflows of resources	$ 144,880,498	$ 162,047,334	$ 158,058,848
LIABILITIES			
Current liabilities	$ 10,439,020	$ 9,990,271	$ 10,077,835
Long-term debt	28,612,298	30,745,192	32,813,925
Other long-term liabilities	3,879,743	5,365,558	7,800,644
Total liabilities	42,931,061	46,101,021	50,692,404
DEFERRED INFLOWS OF RESOURCES	1,839,477	1,347,880	306,236
NET POSITION			
Net investment in capital assets	79,892,289	93,818,916	87,982,572
Restricted	8,357,961	8,416,188	7,832,300
Unrestricted	11,859,710	12,363,329	11,245,336
Total net position	100,109,960	114,598,433	107,060,208
Total liabilities, deferred inflows of resources, and net position	$ 144,880,498	$ 162,047,334	$ 158,058,848

Selected Financial Information (continued)

	Years Ended December 31,		
	2018	2017	2016
REVENUE			
Operating			
Electric - retail	$ 44,579,946	$ 46,625,103	$ 45,153,587
Electric - wholesale	3,983,254	2,145,929	2,451,474
Telecommunications	2,978,557	2,928,695	2,682,434
Other operating revenue	1,753,999	1,829,683	1,510,428
Total operating income	53,295,756	53,529,410	51,797,923
Nonoperating			
Interest income	223,663	89,019	61,005
Other nonoperating income	433,708	548,284	4,403,171
Contributed capital	1,097,953	1,264,550	767,312
Total nonoperating income	1,755,324	1,901,853	5,231,488
Total revenue	55,051,080	55,431,263	57,029,411
EXPENSES			
Operating			
Cost of power	25,801,958	24,903,435	25,163,647
Taxes	2,848,487	2,927,535	2,795,174
Depreciation and amortization	6,245,405	5,982,909	5,906,256
Other operating expenses	14,334,502	13,642,167	12,705,931
Total operating expenses	49,230,352	47,456,046	46,571,008
Nonoperating			
Interest expense, net of AFUDC	1,155,089	399,741	857,440
Other expense	360,736	37,251	62,532
Total nonoperating	1,515,825	436,992	919,972
Total expenses	50,746,177	47,893,038	47,490,980
CHANGE IN NET POSITION	4,304,903	7,538,225	9,538,431
EXTRAORDINARY ITEM	(18,793,376)	-	-
NET POSITION, beginning of period	114,598,433	107,060,208	97,521,777
NET POSITION, end of period	$ 100,109,960	$ 114,598,433	$ 107,060,208

Financial Highlights

During 2018, the District's overall financial position stayed positive even though retail load decreased 5.1%. The decrease in retail sales was driven by decreases in residential, general service and industrial loads as a result of milder temperatures during 2018. The District did benefit from a 2.0% retail rate increase that went into effect on September 1, 2017. Wholesale energy sales increased in both volume and average price per kilowatt hour, as a result the District's wholesale revenues were up 85.6%. The District's net position increased $4,304,903 compared with an increase in net position in 2017 of $7,538,225.

The following is an analysis of key financial factors with an emphasis on changes between 2018 and 2017:

Cash and investments – The District had cash and investments totaling $23,852,650, $24,936,189, and $24,106,261 as of December 31, 2018, 2017, and 2016, respectively. The decrease in cash and investments of $1,083,539 during 2018 was due to a combination of lower than expected retail energy sales and the District's capital outlay program. As noted in Note 1 to the financial statements, investments in the amount of $10,962,462 are considered restricted as of December 31, 2018. The funds are restricted as follows: $282,962 for debt service payments, $1,944,500 for bond reserve requirements, $2,600,000 for customer deposits and compensated absences, and the remaining $6,135,000 is restricted in a rate stabilization fund.

Utility plant – Net utility plant decreased by $15,919,698, or 12.6%, during 2018, compared with an increase of $3,887,952, or 3.2%, during 2017. A summary of utility plant in service is included in Note 3 to the financial statements.

Long-term debt – As of December 31, 2018, the District had $27,615,271 in revenue bonds outstanding, compared with $29,522,805 as of December 31, 2017. During 2018, the District did not issue additional revenue bonds. The decrease in revenue bonds outstanding was a result of scheduled debt payments made during 2018.

In addition, in 2010, the District authorized a not-to-exceed $3,667,855 loan with the United States Department of Agriculture (USDA) for broadband improvements (the RUS Note) related to the American Recovery and Reinvestment Act (ARRA) award. As of December 31, 2018, the RUS Note had a balance outstanding in the amount of $2,838,635.

In 2017, the District replaced its $10,000,000 line of credit with a new line of credit with an aggregate principal amount not to exceed $20,000,000, to cover operating costs and capital outlays as the need arises. As of December 31, 2018, the entire $20,000,000 is available to the District if needed.

Net operating revenues (expenses) – The District recorded revenues from operations of $53,295,756, which were $4,065,404 more than operating expenses of $49,230,353 during 2018, in comparison with 2017, when operating revenues exceeded operating expenses by $6,073,364. In 2016, operating revenues exceeded operating expenses by $5,226,915.

Financial Highlights (continued)

Operating revenue – Revenues from the retail sale of electricity decreased by 4.4%, from $46,625,103 in 2017 to $44,579,946 during 2018, compared with an increase in retail sales in 2017 of 3.3%. The decrease during 2018 was due to a decrease in retail energy load of 5.1% that was due to milder weather during 2018.

During 2018, revenue from wholesale sales of electricity increased significantly by 85.6%, from $2,145,929 to $3,983,254. The increase in revenue from wholesale sales of electricity was due to better market prices than 2017 and additional energy to sell on the wholesale energy market due to the District's reduced 2018 retail energy load. In 2017, wholesale electricity decreased 12.5% from $2,451,474 in 2016 to $2,145,929.

In 2018, wholesale telecommunications revenue growth of 1.7% pushed revenue to $2,978,557, compared with $2,928,695 in 2017 and $2,682,434 in 2016.

Operating expenses – Operating expenses increased by $1,774,306, or 3.7%, from $47,456,046 in 2017 to $49,230,352 in 2018 in comparison to an increase in operating expenses during 2017 of 1.9%. The 2018 increase in operating expenses is due in large part to general increases in the consumer price index.

Rates – The District did not have any rate changes during 2018. The District does pass through increases in contracted power costs to its customers using a cost of power adjustment (COPA). The COPA was increased on December 1, 2017 from 0.56¢/kWh to 0.66¢/kWh, but was then subsequently decreased to the current rate of .54¢/kWh on February 1, 2018.

Significant Capital Assets and Long-Term Debt

The District does not anticipate issuing new debt in the future to finance projects as discussed in the following paragraphs:

In the spring of 2016, the District broke ground on a project to construct an approximately 27-mile transmission line to serve the Methow Valley. The project had been held up while the District obtained a right-of-way across land owned by the State of Washington. The project was completed during 2018 and all associated work orders were closed to plant. The District funded construction costs through rates and reserves, and did not issue additional bonds for the completion of the project.

The District continues to invest in wholesale telecommunications infrastructure. As of December 31, 2018, the District has invested a total of $15,538,121 in wholesale telecommunications plant in service, which is an increase of $21,506 over year-end 2017. The District's telecommunications network is connected to the Northwest Open Access Network, a fiber optic system that is member owned. The network is currently utilized by 8 retail service providers, supporting over 2,700 end-user customers.

Significant Capital Assets and Long-Term Debt (continued)

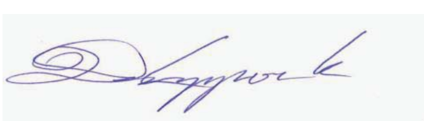
The District is the current owner of the Enloe Hydroelectric Dam, a small non-operating hydroelectric project on the Similkameen River near Oroville, Washington. On July 9, 2013, the Federal Energy Regulatory Commission (FERC) issued the District a new 50 year operating license. During 2018, the District selected a design/build partner and signed an agreement for Phase 1 of the project. Phase 1 of the project was completed during the fall of 2018 and a 30% design, construction schedule and not to exceed construction costs was developed. On November 1, 2018, the District was informed by its design/build partner that the guaranteed maximum price would be $70.4 million (plus tax and District costs during construction), more than twice initial estimates. At the District's board meeting on November 19, 2018, the Board directed staff not to pursue electrification of Enloe Dam and granted staff 120 days to assess all options for owning and managing Enloe Dam. As a result of this action the District wrote off project costs to date in the amount of $18,793,376 as an extraordinary item and transferred the licensing and engineering costs off of its books.

The District has substantially completed repairs as a result of damages caused by two years of wildfires. During 2014 the Carlton Complex Fire consumed more than 250,000 acres located in Okanogan County. The District's loss of infrastructure due to the fire was significant amounting to almost $3 million in historical costs and over $11.5 million in replacement costs. The 2015 Okanogan Complex Fires burned over 300,000 acres located in Okanogan County. The District's loss of infrastructure due to the 2015 fire was in excess of $1.6 million in historical costs and over $4.5 million in replacement costs. At the end of 2018 the majority of the repairs had been completed for both fires. The District expects to receive future reimbursements from Federal Emergency Management Agency of approximately $1.3 million for repairs that have already been completed.

Additional information is contained in the notes to the financial statements. Please refer to Note 3 – Utility Plant and Note 4 – Long-Term Debt.

Contacting the District's Financial Management

This financial report is designed to provide the District's ratepayers, investors, and other readers with a general overview of the District's finances and to show the District's accountability for money it receives. If you have questions about this report or need additional information, contact the District's Director of Finance at Public Utility District No. 1 of Okanogan County, P.O. Box 912, Okanogan, WA 98840, or phone (509) 422-3310.



Don Coppock
Director of Finance/Auditor

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ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and temporary investments		
Cash and cash equivalents	$ 11,706,176	$ 12,391,674
Temporary investments	1,184,012	1,582,054
Accounts receivable, less allowance for doubtful accounts of $25,000 for 2018 and 2017	3,270,998	3,302,315
Unbilled revenue	2,820,947	3,494,622
Materials and supplies	2,878,708	2,468,922
Prepayments and other	400,959	23,224
Total current assets	22,261,800	23,262,811
RESTRICTED ASSETS		
Cash and investments		
Bond reserve and debt service	2,227,462	2,227,461
Board-designated reserve and other	8,735,000	8,735,000
Total restricted assets	10,962,462	10,962,461
UTILITY PLANT, at cost		
Plant in service	193,528,528	179,169,362
Construction work in progress	2,862,352	29,142,086
	196,390,880	208,311,448
Less accumulated depreciation and amortization	86,007,666	82,008,536
Net utility plant	110,383,214	126,302,912
OTHER ASSETS		
Conservation loans and notes receivable	236,423	254,484
Total assets	143,843,899	160,782,668
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	791,012	944,133
Loss on refunding of debt	245,587	320,533
Total deferred outflows of resources	1,036,599	1,264,666
Total assets and deferred outflows of resources	$ 144,880,498	$ 162,047,334

See accompanying notes.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31, 2018	December 31, 2017
CURRENT LIABILITIES		
Accounts payable	$ 3,849,600	$ 3,728,032
Accrued compensated absences	1,819,929	1,818,106
Accrued taxes	1,235,432	1,262,488
Customer deposits	665,600	604,167
Customer prepayments	625,272	394,141
Accrued bond interest	118,973	124,000
Current portion of long-term debt	2,124,214	2,059,337
Total current liabilities	10,439,020	9,990,271
LONG-TERM DEBT		
Revenue bonds	25,647,405	27,615,271
Other long-term debt	2,672,287	2,828,181
Bond issue premium	313,235	327,527
Bond issue discount	(20,629)	(25,787)
Total long-term debt	28,612,298	30,745,192
LONG-TERM LIABILITIES		
Net pension liability	3,879,743	5,365,558
Total liabilities	42,931,061	46,101,021
DEFERRED INFLOWS OF RESOURCES		
Pension deferred inflows	1,839,477	1,347,880
NET POSITION		
Net investment in capital assets	79,892,289	93,818,916
Restricted	8,357,961	8,416,188
Unrestricted	11,859,710	12,363,329
Total net position	100,109,960	114,598,433
Total liabilities, deferred inflows of resources, and net position	$ 144,880,498	$ 162,047,334

Public Utility District No. 1 of Okanogan County, Washington
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31, 2018	2017
OPERATING REVENUES		
Electric - retail	$ 44,579,946	$ 46,625,103
Electric - wholesale	3,983,254	2,145,929
Telecommunications	2,978,557	2,928,695
Other operating revenues	1,753,999	1,829,683
Total operating revenues	53,295,756	53,529,410
OPERATING EXPENSES		
Cost of power	25,801,958	24,903,435
Transmission	204,769	116,116
Distribution	7,551,535	6,219,934
Telecommunications	1,020,591	939,635
Customer accounts	1,521,588	1,543,493
Customer service and information	701,349	875,507
Administration and general	3,334,670	3,947,482
Depreciation and amortization	6,245,405	5,982,909
Taxes	2,848,487	2,927,535
Total operating expenses	49,230,352	47,456,046
Net operating revenues	4,065,404	6,073,364
NONOPERATING REVENUES (EXPENSES)		
Interest income	223,663	89,019
Grant revenue	-	141,453
Contributed capital	1,097,953	1,264,550
Interest on long-term debt	(1,635,737)	(1,698,024)
Allowance for funds used during construction	480,648	1,298,283
(Gain)/loss on disposition of property	26,254	(37,251)
Other revenue	407,454	406,831
Other deductions	(360,736)	-
Net nonoperating revenues	239,499	1,464,861
CHANGE IN NET POSITION	4,304,903	7,538,225
EXTRAORDINARY ITEM		
Project cost write off	(18,793,376)	-
ACCUMULATED NET POSITION		
Beginning of year	114,598,433	107,060,208
End of year	$ 100,109,960	$ 114,598,433

Public Utility District No. 1 of Okanogan County, Washington
Statements of Cash Flows

	Years Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 54,080,242	$ 53,374,106
Payments to suppliers and employees	(44,286,099)	(42,184,917)
Net change in cash from operating activities	9,794,143	11,189,189
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net	(9,453,564)	(9,908,112)
Cash contributions in aid of construction	1,097,953	1,264,550
Proceeds from grants	-	142,353
Scheduled payments on debt and refundings	(2,058,883)	(2,014,202)
Interest paid on debt, net of capitalized interest and refunded interest on Build America Bonds	(686,851)	67,130
Net change in cash from capital and related financing activities	(11,101,345)	(10,448,281)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(10,880,542)	(13,946,535)
Sales and maturities of investments	11,278,583	12,957,026
Interest on investments	223,663	89,019
Net change in cash from investing activities	621,704	(900,490)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(685,498)	(159,582)
CASH AND CASH EQUIVALENTS		
Beginning of year	12,391,674	12,551,256
End of year	$ 11,706,176	$ 12,391,674
RECONCILIATION OF NET OPERATING REVENUES TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating revenues	$ 4,065,404	$ 6,073,364
Adjustments to reconcile net operating revenues to net cash from operating activities		
Depreciation and amortization	6,245,405	5,982,909
Pension outflows / inflows	(841,097)	(800,182)
Cash from changes in operating assets and liabilities		
Receivables	31,317	(77,037)
Unbilled revenue	673,675	(4,844)
Materials and supplies	(409,786)	102,922
Prepayments and other	(146,604)	(101,904)
Other assets	18,061	(8,264)
Accounts payable	121,568	159,797
Accrued compensation, benefits, customer deposits, prepayments, and taxes	36,200	(137,572)
NET CHANGE IN CASH FROM OPERATING ACTIVITIES	$ 9,794,143	$ 11,189,189
SUPPLEMENTAL DISCLOSURES		
Gain (loss) on disposition of property	$ 26,254	$ (37,251)
Cash paid for interest on borrowings	$ (1,574,953)	$ (1,637,084)
Cash received as refund on interest on Build America Bonds	$ 407,454	$ 405,931
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Project costs write off and other deduction	$ (19,154,112)	$ -

Note 1 – Summary of Significant Accounting Policies

Organization – Public Utility District No. 1 of Okanogan County (the District) is a municipal corporation governed by an elected three-member board of commissioners. The District owns, operates, and maintains an electric distribution system incorporating both electrical and telecommunications facilities and equipment. Financial information for both divisions is presented as a single proprietary fund.

Reporting entity – For financial reporting purposes, the District includes activities over which it exercises oversight responsibility. As required by generally accepted accounting principles (GAAP), management has considered all potential component units in defining the reporting entity. The District has no component units.

Basis of accounting and presentation – The accounting policies of the District conform to GAAP as applicable to proprietary funds of governmental units. The District adheres to the accounting standards and pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for governmental entities and uses the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.

New accounting standards – In June 2015, the GASB issued Statement No. 75, *Financial Reporting for Postemployment Benefits Other Than Pensions*, to improve the usefulness of information about postemployment benefits other than pensions included in the financial statements. This statement is effective for financial statements for fiscal years beginning after June 15, 2017. The District has noted the applicability of this statement to its 2018 financial statements but, as of December 31, 2018, it no longer has any OPEB liability to report (see Note 6).

In March 2016, the GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses issues regarding the presentation of payroll-related measures, classification of payments made by employers to satisfy employee contribution requirements, and deviations from guidance in an Actuarial Standard of Practice. The District adopted this statement in 2017.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses valuation and disclosure of asset retirement obligations. The statement is effective for financial statements for fiscal years beginning after June 15, 2018. The District is evaluating the impact of this statement on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which clarifies when a government entity has a fiduciary responsibility and is required to present fiduciary fund financial statements. The statement is effective for financial statements for fiscal years beginning after December 15, 2018. The District is evaluating the impact of this statement on its financial statements.

In January 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which addresses the defeasance of debt using a government entities' existing resources. The statement is effective for financial statements for fiscal years beginning after June 15, 2017. The District adopted this statement in 2018 with no financial statement impact.

Note 1 – Summary of Significant Accounting Policies (continued)

In June 2017, the GASB issued Statement No. 87, *Leases*, which establishes revised standards on lease accounting and financial reporting. The statement is effective for financial statements for fiscal years beginning after December 15, 2019. The District is evaluating the impact of this statement on its financial statements.

Cash and cash equivalents – The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments and restricted assets – The District records investments at fair value in accordance with GASB 72. The District's investment portfolio consists both of fully insured, interest-bearing institutional deposits with terms of one year or less and Federal loan and mortgage securities where fair value can deviate from face/par value. For information on fair market value at year-end 2018, see Note 2.

In accordance with board resolutions and bond covenants, a number of separate funds have been established, and cash and investments held in these funds are restricted for special uses as follows:

	2018	2017
Rate stabilization fund	$ 6,135,000	$ 6,135,000
Employee compensated absences fund	2,000,000	2,000,000
Customer deposit fund	600,000	600,000
Sinking funds - 2010 bonds	215,976	216,141
Sinking funds - 2016 bonds	66,986	66,820
Bond reserve fund	1,944,500	1,944,500
	$ 10,962,462	$ 10,962,461

Accounts receivable and allowance for doubtful accounts – The District renders billings for electrical consumption, sales, and services and for wholesale power and telecommunications sales and services on a monthly basis. Management reviews accounts receivable for collectibility on a regular basis, and an allowance for uncollectible accounts is established based on evaluation of specific accounts and historical experience. If the account is determined to be uncollectible, it is turned over to the local credit bureau for collection.

Materials and supplies – Materials and supplies provide for additions, maintenance, and repairs to the utility plant and are valued at weighted-average cost.

Utility plant and depreciation – See Note 3 for asset capitalization, depreciation, and retirement policies.

Unamortized loss on refunding of debt – The difference between the cost to refund outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds, using the straight-line method and recorded as deferred outflow of resources.

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated absences – The District accrues unpaid personal leave benefit amounts as earned. Accrued personal leave is payable in full upon resignation, termination, retirement, or death.

Net position – Net position consists of the following:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, less outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component consists of net position on which constraints are placed as to its use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or through enabling legislation. Balances currently classified as restricted by enabling legislation include the rate stabilization fund, employee compensated absences fund, customer deposit fund, bond principal and interest (net of accrued interest) due in the upcoming year, and the debt service reserve fund.

Unrestricted – Unrestricted net position components are those that do not meet the definition of "restricted" or "net investment in capital assets."

Revenue recognition – The District recognizes revenue as earned on a monthly basis based on rates established by the District's board of commissioners. Because the customer meters are read and billed at various times during each month, the District estimates unbilled revenues for energy delivered to customers between their last respective cycle billing date and December 31, and it records that amount as unbilled revenue for the current year.

Revenues and expenses – The District distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses are derived directly from the provision of wholesale and retail electrical generation, transmission, and distribution sales and service and from providing wholesale telecommunications sales and service. Revenues and expenses ancillary to these purposes are treated as nonoperating.

Contributed capital – Contributions in aid of construction are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer. These payments are recognized in nonoperating revenue as contributed capital when the associated facilities are constructed or acquired.

Accounting estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 those estimates.

Note 1 – Summary of Significant Accounting Policies (continued)

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 of the plan are reported at fair value by the plan.

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 issues; Environmental Protection Agency regulations; federal government regulations or orders; deregulation of the electrical industry; concentration risk in the form of Wells Hydroelectric Project (Note 11); and, market risks inherent in buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

Reclassifications – Certain reclassifications have been made to balances reported in prior-year financial statements to conform to the current-year presentation.

Note 2 – Deposits and Investments

The District held the following cash and investments at December 31:

	2018	2017
Cash and Temporary Investments		
Cash Deposits	$ 11,706,176	$ 12,391,674
Money Market Accounts	500,000	500,000
Local Government Investment Pool	684,012	1,082,054
Total Cash and Temporary Investments	$ 12,890,188	$ 13,973,728
Restricted Cash and Investments		
Restricted Cash		
Money Market Accounts	$ 3,850,000	$ 3,850,000
Local Government Investment Pool	2,227,462	2,227,461
Bank Certificates of Deposit	2,785,000	2,285,000
Total Restricted Cash	8,862,462	8,362,461
Restricted Investments		
U.S. Treasuries	2,100,000	2,600,000
Total Restricted Investments	2,100,000	2,600,000
Total Restricted Cash and Investments	$ 10,962,462	$ 10,962,461

Note 2 – Deposits and Investments (continued)

Custodial credit risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments. All District deposits and investments are either insured, registered, or held by the District or its agents in the District's name and are intended to be held until maturity.

Credit risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. As required by state law, all investments of District funds are obligations of the U.S. government, bankers' acceptances, deposits in the Washington State Treasurer's Local Government Investment Pool, or deposits with Washington State banks and savings and loan institutions. All deposits are either entirely covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District manages this risk by laddering investments and maintaining a variety of investments.

Investments – The District holds investments that are measured at fair value as of December 31, 2018. The District categorized its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments in an external government investment pool, such as the Local Government Investment Pool (LGIP), are not subject to reporting within the level hierarchy.

The following tables show the District's investments measured at fair value as of December 31, 2018 and 2017:

	Total as of December 31, 2018	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				
U.S. agency securities				
Federal Home Loan Bank	$ 600,000	$ -	$ 600,000	$ -
Federal Home Loan Mortgage Corporation	400,000	-	400,000	-
Resolution Funding Corporation	600,000	-	600,000	-
Federal National Mortgage Corporation	500,000	-	500,000	-
Total	$ 2,100,000	$ -	$ 2,100,000	$ -

Note 2 – Deposits and Investments (continued)

	Total as of December 31, 2017	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				
U.S. agency securities				
Federal Home Loan Bank	$ 1,200,000	$ -	$ 1,200,000	$ -
Federal Home Loan Mortgage Corporation	900,000	-	900,000	-
Federal Farm Credit Bank	500,000	-	500,000	-
Total	$ 2,600,000	$ -	$ 2,600,000	$ -

Note 3 – Utility Plant

Utility plant in service and other capital assets are recorded at cost when the historical cost is known. When historical cost is not known, assets are recorded at estimated fair value. Costs include labor, materials, overhead, capitalized interest, and related indirect costs. The District capitalizes assets with cost in excess of $5,000. Depreciation expense is computed using the straight-line method employing useful lives of 4 to 50 years. Repairs are charged to operating expenses.

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

Preliminary costs incurred for proposed projects are deferred pending construction of the asset and included in construction work in process. Costs relating to projects ultimately constructed are transferred to utility plant, whereas charges that relate to abandoned projects are expensed.

During two consecutive years (2014 and 2015), the District sustained significant infrastructure damage due to wildfire. The District is still in the process of replacing the damaged infrastructure, including electrical distribution and transmission plant. Work orders pertaining to the 2014 losses were completed and closed to plant during 2016 and no further expenditures or recoveries are expected pertaining thereto. Loss recoveries amounting to $141,453 were received in 2017 from the Federal Emergency Management Agency (FEMA) and the state of Washington pertaining to the 2015 fires, no recoveries were received in 2018. A loss recovery of $283,685 was received in January 2019, subsequent to the date of the financial statements contained herein.

Note 3 – Utility Plant (continued)

Capital asset activity for the years ended December 31, 2018 and 2017, was as follows:

	Balance January 1, 2018	Additions	Retirements and Transfers	Balance December 31, 2018
Intangible plant	$ 92,297	$ 16,481,030	$ (16,481,030)	$ 92,297
Generation plant	588,394	-	-	588,394
Transmission plant	5,946,744	19,130,123	-	25,076,867
Distribution plant	110,878,954	7,326,425	(947,728)	117,257,651
General plant	32,720,663	2,309,374	(687,383)	34,342,654
Telecommunications plant	15,516,615	679,829	(658,323)	15,538,121
Acquisition adjustment	632,544	-	-	632,544
Unclassified plant in service	12,793,151	-	(12,793,151)	-
	179,169,362	45,926,781	(31,567,615)	193,528,528
Construction work in progress	29,142,086	4,761,806	(31,041,540)	2,862,352
Total utility plant	208,311,448	50,688,587	(62,609,155)	196,390,880
Accumulated depreciation	(82,008,536)	(6,490,076)	2,490,946	(86,007,666)
Net utility plant	$ 126,302,912	$ 44,198,511	$ (60,118,209)	$ 110,383,214

	Balance January 1, 2017	Additions	Retirements and Transfers	Balance December 31, 2017
Intangible plant	$ 92,297	$ -	$ -	$ 92,297
Generation plant	588,394	-	-	588,394
Transmission plant	5,780,690	217,035	(50,981)	5,946,744
Distribution plant	106,793,675	5,351,762	(1,266,483)	110,878,954
General plant	32,548,950	1,110,527	(938,814)	32,720,663
Telecommunications plant	15,280,947	621,717	(386,049)	15,516,615
Acquisition adjustment	632,544	-	-	632,544
Unclassified plant in service	-	12,793,151	-	12,793,151
	161,717,497	20,094,192	(2,642,327)	179,169,362
Construction work in progress	39,361,941	8,449,250	(18,669,105)	29,142,086
Total utility plant	201,079,438	28,543,442	(21,311,432)	208,311,448
Accumulated depreciation	(78,664,478)	(5,247,067)	1,903,009	(82,008,536)
Net utility plant	$ 122,414,960	$ 23,296,375	$ (19,408,423)	$ 126,302,912

Plant-in-service balances presented above include non-depreciable land of $1,126,051 as of December 31, 2018 and 2017, respectively.

Note 3 – Utility Plant (continued)

At year-end 2017, the District temporarily reclassified $12,793,151 of construction work in progress pertaining to the Pateros-Twisp transmission line as Unclassified Plant in Service reflecting the substantial completion of the construction phase and the commencement of initial testing. During 2018, upon final completion of the project, the District reallocated these capital expenditures to specific unitized plant assets and began their depreciable life.

In early 2018 the District capitalized $16,328,415 of licensing and litigation costs pertaining to Enloe Dam into intangible plant assets based on the Board’s having approved a design-build agreement for the initial phase of project design and engineering. Later in the year, upon receipt of more precise project cost estimates and continued legal challenges, the project was abandoned and the licensing costs, along with an additional $2,464,961 in design-build costs residing in construction work in progress, were written off as an extraordinary item (see Note 11 for further description and history of the Enloe Dam project).

An additional $360,736 worth of labor and materials residing in construction work in progress was expensed to other operating deductions based upon the District’s decision to not pursue a new substation in the Gold Creek area of the Methow Valley. The substation was originally deemed to be an integral facet of the Pateros-Twisp transmission line that was completed in 2018 (see Note 13 for detail and history of the Pateros-Twisp transmission line).

Note 4 – Long-Term Debt

In 2003, the District issued $10,565,000 in 20-year serial bonds to finance capital construction and to refund a previous short-term debt obligation. Interest rates on the 2003 issuances range from 2.46% to 5.46%. The 2003 Series A Bonds were refunded in 2016 by another issuance and the final payments on the 2003 Series B Bonds were made in 2017.

During 2010, the District issued $9,105,000 in 10-year Series A bonds with interest rates ranging from 2.00% to 4.50%, and $23,355,000 in 30-year Series B taxable Build America Bonds with interest rates ranging between 1.095% and 6.046%. These interest rates are subject to a federal subsidy payment from the federal government, which was 32.5% of the interest rate during 2018 and 2017. From this issuance, $5,285,000 was used to defease the 2002 bonds, which were fully repaid in 2011. The remaining $27,175,000 of the new debt was earmarked for capital projects including, but not limited to, the new District headquarters facility constructed in 2010 and the Pateros-Twisp transmission line, now fully complete. This debt is subject to certain covenants.

In 2010, the District authorized a not-to-exceed $3,667,855 loan with the United States Department of Agriculture (USDA) for broadband improvements related to the American Recovery and Reinvestment Act (ARRA) award granted in 2010. During 2011, the District began drawing funds on the loan and as of December 31, 2015, a total of $3,602,640 in loan funds related to this award had been received. No further draws have been made since. These funds are to be paid back over a 23-year period starting one year after the initial draw. This initial draw occurred on August 15, 2011. This direct cost of money loan will bear interest at the rate applicable to each advance of loan funds based on the average yield on outstanding marketable obligations of the United States, having a final maturity comparable to the final maturity of the advance. Interest rates as of December 31, 2018, ranged from 2.3223% to 3.6342%. Additional information describing this award can be found in Note 9.

Note 4 – Long-Term Debt (continued)

Late in 2016, the District made the decision to exercise the option of redeeming its outstanding 2003 Series A Parity Bonds through the issuance of a direct-placement junior-lien refunding bond. The 2016 Junior Lien Refunding Revenue Bond was placed with Key Government Finance, Inc. at an interest rate of 1.82% and will be repaid over the exact same term as the 2003 Series A Bonds that it replaced. Final installments of principal and interest are scheduled be made in 2022. The bonds carry a debt covenant requiring the District to maintain net revenues in each fiscal year that are at least equal to 1.25 times the annual debt service on all outstanding net revenue bonds.

Total long-term debt principal outstanding at December 31, 2018, is $30,443,906, for which substantially all revenues of the District are pledged as security.

The following are changes in long-term debt for the years ended December 31, 2018 and 2017:

	Balance January 1, 2018	Additions	Payments/ Amortization	Balance December 31, 2018	Current Portion
2010 revenue bonds	$ 25,715,000	$ -	$ (1,175,000)	$ 24,540,000	$ 1,220,000
2016 revenue bonds	3,807,805	-	(732,534)	3,075,271	747,866
2011 ARRA loan	2,979,984	-	(151,349)	2,828,635	156,348
Unamortized bond premium	327,527	-	(14,292)	313,235	-
Unamortized bond discount	(25,787)	-	5,158	(20,629)	-
Total long-term debt	$ 32,804,529	$ -	$ (2,068,017)	$ 30,736,512	$ 2,124,214

	Balance January 1, 2017	Additions	Payments/ Amortization	Balance December 31, 2017	Current Portion
2003 revenue bonds	$ 460,000	$ -	$ (460,000)	$ -	$ -
2010 revenue bonds	26,860,000	-	(1,145,000)	25,715,000	1,175,000
2016 revenue bonds	4,069,354	-	(261,549)	3,807,805	732,534
2011 ARRA loan	3,127,637	-	(147,653)	2,979,984	151,803
Unamortized bond premium	341,819	-	(14,292)	327,527	-
Unamortized bond discount	(30,944)	-	5,157	(25,787)	-
Total long-term debt	$ 34,827,866	$ -	$ (2,023,337)	$ 32,804,529	$ 2,059,337

During 2017, the District replaced its $10 million operating line of credit with a new $20 million aggregate principal line with a maturity date of December 31, 2020. The line of credit is comprised of a $10 million tax-exempt 2018A Note bearing an interest rate of 2.85% and a $10 million taxable 2018B Note bearing an interest rate of 3.61%. As of December 31, 2018 and 2017, respectively, there was no outstanding balance on either of the lines of credit.

Note 4 – Long-Term Debt (continued)

The annual debt service payment requirements (principal and interest) on debt outstanding as of December 31, 2018, are as follows:

	2016 Bonds		2010 Bonds		ARRA Grant		
	Interest	Principal	Interest	Principal	Interest	Principal	Total
2019	$ 55,970	$ 747,866	$ 1,371,705	$ 1,220,000	$ 81,947	$ 156,348	$ 3,633,836
2020	42,359	762,277	1,322,905	1,270,000	77,269	161,026	3,635,836
2021	28,485	774,801	1,272,106	1,320,000	72,432	165,863	3,633,687
2022	14,384	790,327	1,208,068	730,000	67,455	170,840	2,981,074
2023	-	-	1,170,313	765,000	62,324	175,971	2,173,608
2024-2028	-	-	5,199,305	4,425,000	228,963	962,512	10,815,780
2029-2033	-	-	3,819,828	5,360,000	75,077	1,036,075	10,290,980
2034-2038	-	-	2,099,109	6,485,000	-	-	8,584,109
2039-2043	-	-	270,559	2,965,000	-	-	3,235,559
	$ 141,198	$ 3,075,271	$ 17,733,898	$ 24,540,000	$ 665,467	$ 2,828,635	$ 48,984,469

Note 5 – Retirement and Deferred Compensation Plans

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following 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.

The following table represents the aggregate pension amounts for all plans for the years ended December 31:

Aggregate Pension Amounts - All Plans	2018	2017
Net pension liability	$ 3,879,743	$ 5,365,558
Deferred outflows of resources	791,012	944,133
Deferred inflows of resources	1,839,477	1,347,880
Pension expense	167,751	79,052

Note 5 – Retirement and Deferred Compensation Plans (continued)

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 composed 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 2% 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%. 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%. 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 2018 were as follows:

PERS Plan 1 Actual Contribution Rates	Employer	Employee
January through August 2018	12.70%	6.00%
September through December 2018	12.83%	6.00%

The District's actual contributions to the plan were $0 for both years ended December 31, 2018 and 2017.

Note 5 – Retirement and Deferred Compensation Plans (continued)

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2 and 1% 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 3% 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 5% 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 consumer price index), capped at 3% 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 is 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% and escalate to 15% 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 unfunded actuarial accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. 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 2018 were as follows:

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
January through August 2018	12.70%	7.38%	Varies
September through December 2018	12.83%	7.41%	Varies

Note 5 – Retirement and Deferred Compensation Plans (continued)

The District's actual contributions to the plan were $1,023,302 and $892,670 for the years ended December 31, 2018 and 2017, respectively.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007–2012 Experience Study and the 2017 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.50% salary inflation
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity
- Investment rate of return: 7.4%

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% Scale BB. Mortality rates are applied on a generational basis, meaning that 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. Those applicable to the District are listed below:

- Lowered the valuation interest rate from 7.7% to 7.5%.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4%.

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 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 7.4% was used to determine the total liability.

Note 5 – Retirement and Deferred Compensation Plans (continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

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, 2018, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	Percent Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20%	1.70%
Tangible assets	7%	4.90%
Real estate	18%	5.80%
Global equity	32%	6.30%
Private equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability (Asset)

The table below presents the District's proportionate share of the Net Pension Liability (NPL) calculated using the discount rate of 7.4%, as well as what the District's proportionate share of the NPL would be if it were calculated using a discount rate that is 1 percentage point lower (6.4%) or 1 percentage point higher (8.4%) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 3,202,965	$ 2,606,288	$ 2,089,445
PERS 2/3	5,824,815	1,273,455	(2,458,151)

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.

Note 5 – Retirement and Deferred Compensation Plans (continued)

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

At December 31, 2018 and 2017, the District reported a total pension liability of $3,879,743 and $5,365,558, respectively, for its proportionate share of the net pension liabilities as follows:

	Liability	
	2018	2017
PERS 1	$ 2,606,288	$ 2,763,106
PERS 2/3	1,273,455	2,602,452

At December 31, 2018, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.058231%	0.058358%	0.000127%
PERS 2/3	0.074901%	0.074584%	-0.000317%

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.*

Pension Expense

For the years ended December 31, 2018 and 2017, the District recognized pension expense as follows:

	Pension Expense	
	2018	2017
PERS 1	$ 233,721	$ (242,911)
PERS 2/3	(65,970)	321,963

Note 5 – Retirement and Deferred Compensation Plans (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(103,572)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	238,150	-
	$ 238,150	$ (103,572)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 156,092	$ (222,959)
Net difference between projected and actual investment earnings on pension plan investments	-	(781,451)
Changes of assumptions	14,897	(362,415)
Changes in proportion and differences between contributions and proportionate share of contributions	30,420	(369,080)
Contributions subsequent to the measurement date	351,453	-
	$ 552,862	$ (1,735,905)

Note 5 – Retirement and Deferred Compensation Plans (continued)

Combined PERS 1 and PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 156,092	$ (222,959)
Net difference between projected and actual investment earnings on pension plan investments	-	(885,023)
Changes of assumptions	14,897	(362,415)
Changes in proportion and differences between contributions and proportionate share of contributions	30,420	(369,080)
Contributions subsequent to the measurement date	589,603	-
	$ 791,012	$ (1,839,477)

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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PERS 1	PERS 2/3	Combined
2019	$ 4,531	$ (203,972)	$ (199,441)
2020	(22,641)	(326,502)	(349,143)
2021	(67,941)	(533,923)	(601,864)
2022	(17,521)	(232,728)	(250,249)
2023	-	(121,163)	(121,163)
Thereafter	-	(116,208)	(116,208)
	$ (103,572)	$ (1,534,496)	$ (1,638,068)

Deferred compensation plans – The District offers its employees two deferred compensation plan options created in accordance with Internal Revenue Code Section 457, covering all eligible employees of the District, as defined in the plan documents. These plans allow employees to defer a portion of their salary until future years. Plan assets are held in trust for the exclusive benefit of the plan participants and their designated beneficiaries and are not subject to the claims of the District's general creditors. Deferred compensation funds are not available to employees until retirement, termination, death, or unforeseeable emergency.

Additionally, the District adopted a 401(a) defined contribution plan (the 401(a) Plan) effective January 1, 2000. Participation in the 401(a) Plan is open to eligible employees of the District as defined in the plan document. The District makes matching contributions to the 401(a) Plan at a rate of 50% of the employee's contribution to their 457 deferred compensation plan. The match is capped at 2% of gross wages for nonexempt employees and 6% of gross wages for exempt employees. During 2018 and 2017, the District contributed $182,221 and $239,241, respectively, to the 401(a) Plan.

Note 5 – Retirement and Deferred Compensation Plans (continued)

VEBA plan – In August 2005, the District implemented a voluntary employees' beneficiary association (VEBA) plan designed to provide limited employer funding on a tax-free basis for employee medical premiums and benefits for all eligible employees of the District, as defined in the plan document. The District's current VEBA contribution rate is $150 per month per employee for all employees having met the annual qualification requirements. Plan assets, although under District control, are held in trust for the exclusive benefit of the plan participants and their designated beneficiaries and are not subject to the claims of the District's general creditors. During 2018 and 2017, the District contributed $171,750 and $160,800, respectively, to the VEBA plan.

Note 6 – Other Post-Employment Benefits

Effective January 1, 2015, the partial reimbursement for health care insurance premiums for retired employees was discontinued. In lieu thereof, an HRA VEBA contribution will be made by the District for employees voluntarily separating service after December 31, 2014, and who have reached their 50th birthday as of their separation date/last date of employment. Employees separating service between January 1, 2015, and December 31, 2015, were eligible for $4 times years of service times remaining months between their 60th and 65th birthday. The dollar value of the contribution was set to decrease $1 each year until it expired on December 31, 2018. The estimated future liability is $0 and $8,806 at December 31, 2018 and 2017, respectively. The District was funding this liability on a pay-as-you-go basis with contributions of $5,096 and $6,967 expensed in 2018 and 2017, respectively.

Note 7 – Self Insurance

The District is a member of Public Utility Risk Management Services Joint Self Insurance Fund (the Fund). Chapter 48.62 RCW authorizes the governing body of one or more governmental entities to form together into or join an organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. The Fund was formed on December 31, 1976, when certain Washington Public Utility Districts signed an agreement to pool their self-insured losses and jointly purchase insurance and administrative services. There are currently 19 active members in the Fund.

Note 7 – Self Insurance (continued)

The Fund operates three separate insurance pools: the Liability Pool, the Property Pool, and the Health and Welfare Pool. Fund members may belong to one, two, or all three pools according to their insurance needs. The Liability Pool insures on a $1,000,000 self-insured retention with a $250 deductible. Coverage is on an occurrence basis. In addition, the Liability Pool purchases excess general liability and excess public official liability coverage. The Property Pool operates on a maximum $500,000 self-insured retention, with a $75,000 deductible on listed major generating units and a $250 deductible on all other listed items of property. Coverage is on an occurrence basis and the Property Pool purchases excess property coverage above the self-insured retention level. The Health and Welfare Pool is funded by paid claims reimbursement from the member generating the claim and by pooled assessment for administration and excess stop-loss insurance coverage. In all pools, members are assessed as necessary to maintain designated minimum pool balances. Because the Fund is a cooperative program, there is joint liability among the participants of each pool. The District participates in only the Liability and Property Pools. In 2018 and 2017, the District contributed $91,902 and $98,390, respectively, to the Liability Pool and $27,848 and $56,743, respectively, to the Property Pool. Should any member terminate its affiliation with the Fund, it remains financially responsible to the Fund for any unresolved, unreported, and in-process claims for the period that it was a signatory to the agreement.

Self-insured retentions are fully funded by current and former members, and claims settlements have rarely exceeded retention levels resulting in escalation to excess coverage policies. Claims are processed by Pacific Underwriters Corporation, P.O. Box 68787, Seattle, WA 98168, a private entity contracted to perform administrative, claims adjustment, and loss prevention services, and which also compiles an annual financial report for the Fund. The Fund is governed by a board of directors that consists of one designated representative from each participating member. The Fund administrator and an elected six-member administrative committee (on which a District representative currently serves) are responsible for business decision-making and conducting the daily business affairs of the Fund.

Note 8 – Conservation Programs

The District operates a number of energy conservation programs. These include both residential and commercial weatherization loan programs, appliance and water heater rebate programs, appliance loan programs, and residential and commercial energy audits. Loan programs will provide five-year loans of up to $10,000 on residential dwellings and up to $25,000 on commercial enterprises for qualifying conservation measures. The District incurred net conservation program costs of ($39,788) and $230,973 in 2018 and 2017, respectively, which were charged to operations.

Note 9 – Telecommunications

The District has recognized the necessity of a modern and reliable communications infrastructure in managing its core electric distribution function and now operates and maintains a telecommunications network providing these services for internal use. Additionally, it provides wholesale telecommunications services, in accordance with Washington State law, to qualified retail merchants who, in turn, provide services to end users in the District’s service territory.

Note 9 – Telecommunications (continued)

The ongoing construction and the operations of the telecommunications network are being accomplished using the District's own workforce. The District has established separate detailed accounting for wholesale telecommunications activities and has developed a financing arrangement under which the continuing construction of telecommunications infrastructure and the operations of the telecommunications network are accomplished using funds loaned from the District's electric reserves.

Condensed telecom revenues and expenditures and assets and liabilities information follows:

	2018	2017
Operating revenues	$ 2,990,694	$ 2,938,026
Operating expenses	(2,786,772)	(2,646,466)
Nonoperating revenues	57,069	22,041
Nonoperating expenses	(141,984)	(149,137)
Change in net position	$ 119,007	$ 164,464
Total assets	$ 8,291,420	$ 8,570,322
Total liabilities	(3,353,626)	(3,751,534)
Total net position	$ 4,937,794	$ 4,818,788

During 2010, the District applied for and was awarded ARRA funding to further deploy broadband communication services in the underserved areas of Okanogan County. The award package consisted of $5,501,782 in grant money and a $3,667,855 loan. The project was designed to bring high-speed broadband to approximately 6,543 premises that previously lacked access, and called for placement of approximately 170 access nodes and 179 miles of fiber backbone. The project was completed in 2015 with the District having received a total of $5,403,960 in grant funding and $3,602,640 in loan funding against the accumulated project expenditures (see Note 4 for detail of debt service on this loan).

Note 10 – Energy Northwest

ENW Nuclear Project Nos. 1, 2, and 3 – The District has entered into "net billing agreements" with Energy Northwest (ENW, formerly Washington Public Power Supply System) and the Bonneville Power Administration (BPA). Under terms of these agreements, the District has purchased a maximum of .255% and 1.042% of the capability of ENW's Nuclear Project Nos. 1 and 2, respectively, and .143% of the capability of ENW's 70% ownership share of its Nuclear Project No. 3, and has assigned this capability to BPA. BPA is unconditionally obligated to pay the District, and the District is unconditionally obligated to pay ENW, the pro rata share of the total annual costs of each project, including debt service on revenue bonds issued to finance the projects, whether or not the projects are completed, operable, or operating and notwithstanding the suspension, reduction, or curtailment of the projects' output.

Note 10 – Energy Northwest (continued)

Nuclear Project Nos. 1 and 3 were approximately 63% and 75% complete, respectively, and had both been in a state of extended construction delay for many years, with all systems being maintained in condition to resume construction at any time. However, on May 13, 1994, the ENW full board of directors voted to declare termination of both projects. At this juncture, there has been no resolution concerning the final dispensation of the assets and liabilities associated therewith.

Nuclear Project No. 2 was completed and placed in operation on December 13, 1984.

The District's net billing obligations in 2018 (2019 ENW Budget Year) and 2017 (2018 ENW Budget Year) were as follows:

ENW Fiscal 2019 Budget Year	No. 1	No. 2	No. 3	Total
Annual budget	$ 41,438,000	$ 433,214,000	$ 41,751,000	$ 516,403,000
District's share	0.00255	0.01042	0.00143	
District's net billing obligation	105,667	4,514,090	59,704	4,679,461
ENW Fiscal 2018 Budget Year				
Annual budget	$ 84,765,000	$ 585,425,000	$ 115,883,000	$ 786,073,000
District's share	0.00255	0.01042	0.00143	
District's net billing obligation	216,151	6,100,129	165,713	6,481,992

Hanford project – In accordance with agreements between ENW, BPA, and 76 participants and between ENW and the U.S. Department of Energy (DOE), ENW constructed the Hanford Project, which began commercial operation in 1966 with a capacity of approximately 860 MW.

Pursuant to an exchange agreement entered into between the District, ENW, and BPA, the District had purchased 0.424% of the output of the Hanford Project and is obligated to pay ENW the same percentage of the annual costs.

Under an exchange agreement with the other participants in the Hanford Project, BPA had acquired the capability of the Hanford Project, including the District's share, in exchange for power from BPA. A decision was made in February 1988 by the DOE to maintain the project in a "cold standby" mode of operation.

ENW has evaluated alternative energy uses for the plant to no avail. Current options include a transfer to DOE for removal and site restoration, or removal and site restoration by ENW. At this time, it is unknown what the eventual disposition of the Hanford Project will be. ENW has reduced the project's assets to net realizable value and accrued the estimated cost of removal and site restoration.

Nine Canyon Wind Project – On October 1, 2001, the District entered into a power purchase agreement with ENW for output from the Nine Canyon Wind Project. The original project consisted of 37 wind turbines, with an aggregate generating capacity of approximately 48 MW, and was launched into commercial operation in fall 2002. During 2003, a second phase of the project was completed, adding an additional 12 turbines and bringing the project capacity up to about 63.7 MW. During 2006, a third phase of the project was completed, adding an additional 14 turbines and bringing the current total project capacity up to about 96 MW.

Note 10 – Energy Northwest (continued)

The District is currently one of 10 public utility Districts participating in the power purchase agreements for project output. The District purchased a 25% share of the generation output from Phases 1 and 2 and no output at all from Phase 3, bringing its combined share of total project output to 16.61%. The District is committed to paying its pro rata share of debt service on the Nine Canyon Wind Project Revenue Bonds issued by ENW for Phases 1 and 2. A bond refunding/reissuance process commenced in 2004 and completed in 2005, thereby establishing the District's estimated liability for project bond principal at $23,312,500. That amount could escalate to as much as $29,140,625 after a step-up provision that could trigger in the event that other purchasers defaulted on their contractual obligations. The District pays its share of the ongoing project operational costs through monthly power purchase agreement assessment invoices.

Financial and operating information regarding Energy Northwest may be obtained from Energy Northwest at PO Box 968, Richland, WA, 99352.

Note 11 – Other Power Supply Agreements

Wells Hydroelectric Project – Since the initial construction of the Wells Hydroelectric Project, the District has been a party to a power sales contract governing the apportionment of the project output. The District's current share of the total output from Wells Hydroelectric Project is 9.36%, which represents 37.60% and 35.91% of the District's total power purchases in 2018 and 2017, respectively. During the 1980s, both the District and Public Utility District No. 1 of Douglas County (Douglas PUD) contested several provisions of the 1963 agreement and sought resolution of the disputed issues in Chelan County Superior Court. Disputes between the parties were resolved with a Memorandum of Understanding signed on August 5, 1991, requiring the two Districts to negotiate a new power sale contract commencing in September 2018 and extending for an additional 50 years. Negotiations on this contract concluded with the placement of the final signatures on May 15, 2017. The terms of the contract will allow the District's portion of the project output to grow relative to its increasing loads until peaking at a 30% share. The District's annual contractual purchases are to be priced at its respective output percentage multiplied by the actual annual Wells Project cost of production and operation. The District expended $3,985,033 and $3,580,751 on Wells power purchases in 2018 and 2017 respectively

Enloe Hydroelectric Project – For several decades the District has been pursuing the possible rehabilitation of Enloe Hydroelectric Dam on the Similkameen River near Oroville, Washington. The District is the present owner of the dam, and relicensing attempts prior to 2005 were intended to revive an existing facility with its original output of 26,000 MWh annually and installed capacity of 4,100 KW.

On March 3, 1983, and again on September 13, 1996, the District obtained FERC licenses for renovation and resumed operation of the Enloe project. In both cases, the licenses were later rescinded due to appeals of the licensing provisions, open-ended opportunities for Federal agencies to modify the terms, the potential of requiring fish passage after the fact, and the listing of new endangered species.

On January 21, 2005, the District again submitted a new application to FERC for a preliminary permit on the project using the FERC Traditional Licensing Process (TLP). The proposed configuration would approximately double the project output to 47,300 MWh of energy per year and 9,000 KW of capacity.

Note 11 – Other Power Supply Agreements (continued)

After spending the better part of a decade on environmental assessments, resource studies, permitting issues, and litigation the District received a new 50-year operating license on July 9, 2013, and began preparing for final design, financing, bidding, and construction of the project. While continuing its compliance with all license terms, in early 2015 it was determined that the District was encountering significant time constraints so, on March 19, 2015, the District submitted a request for a two-year extension of the commencement-of-construction deadline. The extension was granted on July 31, 2015, and on May 9, 2016, the District Board of Commissioners formally declared by Resolution #1620 their intent to construct a new powerhouse and reenergize Enloe Dam. Utilizing the Design-Build contract methodology, a Phase 1 agreement was executed April 16, 2018, that was to complete 30% of the project design and deliver a firm not-to-exceed estimate of cost. Upon receipt of the Phase 1 Report, noting the complexity, controversy, risk, and considerable escalation in anticipated cost, the District Board of Commissioners made the decision on November 19, 2018, to forego further pursuit of reenergizing the facility and to focus strictly on site preservation and safety concerns while exploring alternative uses or dispossession of the asset.

Note 12 – Northwest Open Access Network

The District is a member of Northwest Open Access Network (NoaNet), a nonprofit mutual corporation formed by the District in collaboration with several other public utilities in the state of Washington. NoaNet was incorporated in February 2000 to facilitate the construction of a communications backbone to accommodate the increasing broadband needs of the member utilities and their customers. The NoaNet network began commercial operation in early 2001.

In July 2001, NoaNet issued $27 million in Telecommunications Network Revenue Bonds (taxable) to finance the repayment of startup funds advanced by founding members and the initial costs of construction and commissioning. These bonds were fully paid-off during 2015.

As of December 31, 2016, NoaNet had a $13 million line of credit with Wells Fargo Bank with an outstanding balance of $9,350,638. In early 2017, they established a new banking relationship with Washington Trust Bank creating new accounts through which they retired all outstanding Wells Fargo debt. Currently active accounts are a seven-year Long-Term Loan in the amount of $10.2 million, a $3 million term loan, a $2 million Capital Line of Credit, and a $2 million Operating Line of Credit. The balances owed on these four accounts at December 31, 2018, are $7,917,799, $2,950,000, $600,000, and $700,000 respectively.

The District's ownership interest in NoaNet was 8.04% as of December 31, 2018 and 2017. During 2018, NoaNet incurred a net loss from operations of $4,812,895. This operating loss, partially offset by interest revenue but increased by interest expense, reduced net position of $65,493,303 in 2017 to $60,130,892 in 2018. NoaNet financial results for 2018 are estimated; however, any variance will not have a material impact on the District's financial position

Financial and operating information regarding NoaNet may be obtained from the NoaNet Financial Center, 5802 Overlook Ave NE, Tacoma, WA 98422.

Note 13 – Pending Litigation

Pateros-Twisp transmission line – For many years, the District sought to construct a second transmission line into the Methow Valley. This new line, along with a proposed new substation, would alleviate the current issues of both marginal electrical capacity and reliability. A coalition of local citizens and environmental groups consistently opposed the project and challenged the validity of the District's Final Environmental Impact Statement (FEIS) on grounds of various alleged deficiencies. The challenges of the FEIS made their way through the Okanogan County Superior Court and the Washington State Court of Appeals before finally being denied hearing by the Washington State Supreme Court on December 2, 2008.

During 2009, the District started the process of acquiring right-of-way easements and various other permits for construction. The entire timeframe between 2010 and 2015 was marked with opposition and contention. Condemnation proceedings and precedent-setting litigation that extended all the way to the Washington State Supreme Court was necessary to procure the needed easements from the Washington State Department of Natural Resources and a small contingent of private individuals. Throughout the latter half of 2015, fair compensation was determined and access to the route obtained. On April 1, 2016, groundbreaking for the project took place near Gold Creek. Construction of the line continued through much of 2016 and 2017 with final completion occurring in 2018. The proposed Gold Creek Substation originally associated with the line has been reclassified as pending. The only outstanding issues are minor claims of trespass during construction that may warrant remediation.

Employee termination litigation – The District's Board of Commissioners terminated the District's General Manager for cause on October 23, 2017. A lawsuit alleging wrongful discharge and breach of contract has been initiated by the former General Manager in Okanogan County Superior Court. The District's insurance provider has retained legal counsel to provide defense in the case, however, judgements levied in breach of contract cases are not insurable and the outcome of such lawsuits cannot be predicted. As of the date of this audit report, the litigation is on-going.

Other litigation – 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 adverse impact on its financial position.

Required Supplementary Information

Public Utility District No. 1 of Okanogan County, Washington
Schedule of Proportionate Share of the Net Pension Liability
As of June 30

	2018		2017		2016		2015	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Employer's proportion of the net pension liability	0.058358%	0.074584%	0.058231%	0.074901%	0.066079%	0.084448%	0.070364%	0.089705%
Employer's proportionate share of the net pension liability	$ 2,606,288	$ 1,273,455	$ 2,763,106	$ 2,602,452	$ 3,548,754	$ 4,251,890	$ 3,680,691	$ 3,205,211
Employer's covered payroll	$ -	$ 7,786,739	$ -	$ 7,343,270	$ 5,720	$ 7,944,672	$ 44,842	$ 7,961,648
Employer's proportionate share of the net pension liability as a percentage of covered payroll	0.00%	16.35%	0.00%	35.44%	62041.15%	53.52%	8208.13%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	95.77%	61.24%	90.97%	57.03%	85.82%	59.10%	89.20%

	2014	
	PERS 1	PERS 2/3
Employer's proportion of the net pension liability	0.064331%	0.081669%
Employer's proportionate share of the net pension liability	$ 3,240,704	$ 1,650,825
Employer's covered payroll	$ 44,854	$ 7,052,508
Employer's proportionate share of the net pension liability as a percentage of covered payroll	7225.01%	23.41%
Plan fiduciary net position as a percentage of the total pension liability	61.19%	93.29%

*As this is a newly adopted standard, information is only available for the last five years.

	2018		2017		2016		2015	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Statutorily or contractually required contributions	$ -	$ 1,023,302	$ -	$ 892,670	$ -	$ 816,064	$ 2,282	$ 810,707
Contributions in relation to the statutorily or contractually required contributions	-	(1,023,302)	-	(892,670)	-	(816,064)	(2,282)	(810,707)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ -	$ 8,030,219	$ -	$ 7,464,551	$ -	$ 7,299,320	$ 24,388	$ 7,873,743
Contributions as a percentage of covered payroll	0.00%	12.74%	0.00%	11.96%	0.00%	11.18%	9.36%	10.30%

	2014	
	PERS 1	PERS 2/3
Statutorily or contractually required contributions	$ 4,125	$ 729,692
Contributions in relation to the statutorily or contractually required contributions	(4,125)	(729,692)
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$ 44,789	$ 7,922,822
Contributions as a percentage of covered payroll	9.21%	9.21%

*As this is a newly adopted standard, information is only available for the last five years.

MOSSADAMS

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Commissioners
Public Utility District No. 1
of Okanogan County, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Okanogan County, Washington (the District), which comprise the statements of net position as of December 31, 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 30, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Everett, Washington
May 30, 2019

Supplemental Information (unaudited)

Public Utility District No. 1 of Okanogan County, Washington
Comparative Results of Operations and Debt Service Coverage (unaudited)

	Years Ended December 31,				
	2018	2017	2016	2015	2014
OPERATING REVENUES					
Electric - retail	$ 44,579,946	$ 46,625,103	$ 45,153,587	$ 43,881,058	$ 42,911,047
Electric - wholesale	3,983,254	2,145,929	2,451,474	3,189,997	4,680,273
Telecommunications	2,978,557	2,928,695	2,682,434	2,609,109	2,516,289
Other operating revenue	1,753,999	1,829,683	1,510,428	1,391,935	1,301,167
Total operating revenues	53,295,756	53,529,410	51,797,923	51,072,099	51,408,776
OPERATING EXPENSES					
Cost of power	25,801,958	24,903,435	25,163,647	25,369,144	24,884,068
Electric operations and maintenance	7,756,304	6,336,050	5,971,586	5,734,344	5,718,362
Telecommunications operations and maintenance	1,020,591	939,635	925,550	1,015,892	1,011,714
Customer accounting and information	2,222,937	2,419,000	2,083,293	2,088,840	1,960,419
Administration and general	3,334,670	3,947,482	3,725,502	5,048,381	4,241,549
Depreciation and amortization	6,245,405	5,982,909	5,906,256	5,841,292	4,717,805
Taxes	2,848,487	2,927,535	2,795,174	2,742,672	2,713,281
Total operating expenses	49,230,352	47,456,046	46,571,008	47,840,565	45,247,198
Net operating revenue (expense)	4,065,404	6,073,364	5,226,915	3,231,534	6,161,578
NONOPERATING REVENUES (EXPENSES)					
Interest income	223,663	89,019	61,005	45,244	42,574
Grant revenue	-	141,453	3,997,676	3,560,701	3,509,879
Contributed capital	1,097,953	1,264,550	767,312	1,397,164	1,294,511
Interest on long-term debt	(1,635,737)	(1,698,024)	(1,889,530)	(1,925,917)	(1,980,623)
Allowance for funds used during construction (AFUDC)	480,648	1,298,283	1,032,090	875,036	937,714
Other revenue	407,454	406,831	405,495	404,625	407,633
Other expenses	(334,482)	(37,251)	(62,532)	(1,650,528)	(3,749,436)
Net nonoperating revenues (expenses)	239,499	1,464,861	4,311,516	2,706,325	462,252
CHANGE IN NET ASSETS	$ 4,304,903	$ 7,538,225	$ 9,538,431	$ 5,937,859	$ 6,623,830
DEBT SERVICE COVERAGE ADJUSTMENTS					
Interest charges (net AFUDC)	$ 1,155,089	$ 399,741	$ 857,440	$ 1,050,881	$ 1,042,909
Depreciation and amortization	6,245,405	5,982,909	5,906,256	5,841,292	4,717,805
Capital grant	-	(141,453)	(3,997,676)	(3,560,701)	(3,509,879)
Impairment of investment	-	-	-	1,650,381	3,746,773
Total debt service coverage adjustments	7,400,494	6,241,197	2,766,020	4,981,853	5,997,608
AVAILABLE FOR DEBT SERVICE	$ 11,705,397	$ 13,779,422	$ 12,304,451	$ 10,919,712	$ 12,621,438
TOTAL DEBT SERVICE	$ 3,633,836	$ 3,651,285	$ 3,695,758	$ 3,684,871	$ 3,780,993
DEBT SERVICE COVERAGE	3.22	3.77	3.33	2.96	3.34

Public Utility District No. 1 of Okanogan County, Washington
Customer Statistical Data (unaudited)

	Years Ended December 31,				
	2018	2017	2016	2015	2014
ACTIVE CUSTOMER ACCOUNTS					
Residential	17,302	17,198	17,121	17,026	16,958
General service	2,534	2,502	2,500	2,472	2,422
Industrial	2	3	3	3	3
Irrigation and frost control	1,342	1,339	1,343	1,344	1,327
Street lighting	20	20	21	21	21
Sales for resale	4	4	5	5	5
Telecommunications	17	18	18	18	19
Total active customer accounts	21,221	21,084	21,011	20,889	20,755
REVENUES BILLED					
Residential	$ 23,036,243	$ 24,492,421	$ 22,131,755	$ 21,113,464	$ 21,594,991
General service	16,186,787	16,602,440	15,902,364	15,394,511	14,699,325
Industrial	930,751	1,204,820	2,444,584	2,453,501	2,227,514
Irrigation and frost control	4,281,503	4,164,197	4,528,774	4,776,955	4,248,172
Street lighting	144,662	161,225	146,110	142,627	141,045
Sales for resale	3,983,254	2,145,929	2,451,474	3,189,997	4,680,273
Telecommunications	2,978,557	2,928,695	2,682,434	2,609,109	2,516,289
Other operating revenue	1,753,999	1,829,683	1,510,428	1,391,935	1,301,167
Total revenues billed	$ 53,295,756	$ 53,529,410	$ 51,797,923	$ 51,072,099	$ 51,408,776
ENERGY CONSUMED (kWh)					
Residential	290,653,707	312,590,840	271,006,607	269,949,470	288,719,419
General service	228,247,611	233,037,448	223,505,336	223,376,404	216,537,020
Industrial	14,993,620	20,041,870	42,795,190	44,235,060	39,843,330
Irrigation and frost control	65,125,700	64,924,877	70,713,251	79,162,514	67,931,145
Street lighting	373,799	1,171,906	1,364,433	1,368,734	1,359,997
Sales for resale	220,928,000	188,232,000	174,261,000	175,444,000	198,744,000
Total energy consumed (kWh)	820,322,437	819,998,941	783,645,817	793,536,182	813,134,911
AVERAGE ANNUAL REVENUE PER CUSTOMER					
Residential	$ 1,331	$ 1,424	$ 1,293	$ 1,240	$ 1,273
General service	6,388	6,636	6,361	6,228	6,069
Industrial	465,376	401,607	814,861	817,834	742,505
Irrigation and frost control	3,190	3,110	3,372	3,554	3,201
Street lighting	7,233	8,061	6,958	6,792	6,716
Sales for resale	995,814	536,482	490,295	637,999	936,055
Telecommunications	175,209	162,705	149,024	144,951	132,436
Total annual average revenue per customer	$ 2,511	$ 2,539	$ 2,465	$ 2,445	$ 2,477
AVERAGE ANNUAL kWh PER CUSTOMER					
Residential	16,799	18,176	15,829	15,855	17,026
General service	90,074	93,140	89,402	90,363	89,404
Industrial	7,496,810	6,680,623	14,265,063	14,745,020	13,281,110
Irrigation and frost control	48,529	48,488	52,653	58,901	51,192
Street lighting	18,690	58,595	64,973	65,178	64,762
Total annual average kWh per customer	28,273	29,996	29,035	29,622	29,636

	Years Ended December 31, 2018	2017	2016	2015	2014
COST OF POWER					
Bonneville Power Administration	$ 16,709,206	$ 16,296,694	$ 16,158,335	$ 15,301,707	$ 15,407,731
Douglas County PUD - Wells Hydroelectric Project	3,985,033	3,580,751	3,993,203	4,041,858	3,784,405
Energy NW - Nine Canyon Wind Project	2,969,117	2,968,704	3,009,427	3,042,858	3,040,382
Other cost of power, including market purchases	2,138,602	2,057,286	2,002,682	2,982,721	2,651,550
Total cost of purchased power	$ 25,801,958	$ 24,903,435	$ 25,163,647	$ 25,369,144	$ 24,884,068
ENERGY RESOURCES MWh					
Bonneville Power Administration	466,664	475,851	451,899	434,936	473,822
Douglas County PUD - Wells Hydroelectric Project	318,123	306,058	293,474	291,554	300,617
Energy NW - Nine Canyon Wind Project	38,805	33,573	40,839	35,544	40,613
Other cost of power, including market purchases	22,475	36,721	39,323	64,871	29,993
Total energy resources MWh	846,067	852,203	825,535	826,905	845,045
AVERAGE COST PER MWh					
Bonneville Power Administration	$ 35.81	$ 34.25	$ 35.76	$ 35.18	$ 32.52
Douglas County PUD - Wells Hydroelectric Project	12.53	11.70	13.61	13.86	12.59
Energy NW - Nine Canyon Wind Project	76.51	88.43	73.69	85.61	74.86
Other cost of power, including market purchases	95.15	56.02	50.93	45.98	88.41
Average cost per MWh (all resources)	$ 30.50	$ 29.22	$ 30.48	$ 30.68	$ 29.45
PEAK DEMAND MW	156	178	164	152	170
NET UTILITY PLANT	$ 110,383,214	$ 126,302,912	$ 122,414,960	$ 115,043,427	$ 110,840,366
EMPLOYEE DATA					
Full-time employees	93	95	91	90	90
Part-time employees	-	-	-	2	2
Total employees	93	95	91	92	92

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