Office of the Washington State Auditor
Pat McCarthy

October 10, 2019

Board of Commissioners
Public Utility District No. 1 of Klickitat County
Goldendale, 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 Klickitat 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

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REPORT OF INDEPENDENT AUDITORS AND
COMBINED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY

December 31, 2018 and 2017

MOSSADAMS

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Report of Independent Auditors

The Board of Commissioners
Public Utility District No. 1 of Klickitat County

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined 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.

Emphasis of Matter

As discussed in Note 1 of the financial statements, the District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, effective January 1, 2018. The beginning of year net position has been adjusted for this change. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the total OPEB liability and related ratios, the schedule of proportionate share of the net pension liability, and the schedule of contributions be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss Adams llp

Portland, Oregon
May 22, 2019

Directory of Officials

Office	Official	Term	Term Expiration
Board of Commissioners			
President	Dan G. Gunkel	6 years	December 2020
Vice President	Douglas B. Miller	6 years	December 2022
Secretary	Randy L. Knowles	6 years	December 2024

Office	Official	Address
Appointed Officials		
General Manager	James R. Smith	1313 S. Columbus Goldendale, WA 98620
Attorney	Ogden Murphy Wallace PLLC Athan E. Tramountanas	901 Fifth Avenue, Suite 3500 Seattle, WA 98164

This section provides an overview and analysis of key data presented in the basic combined financial statements for the years ended December 31, 2018 and 2017, with additional comparative data for 2016. Information within this section should be read in conjunction with the basic combined financial statements and accompanying notes.

About Public Utility District No. 1 of Klickitat County

Public Utility District No. 1 of Klickitat County (the District) consists of the electric system, nine water systems, and five wastewater systems. The District also operates two additional water and wastewater systems that are owned by other public entities. The District's service area covers approximately 1,680 square miles in Klickitat County. The District also serves small areas in the surrounding counties of Yakima, Skamania, and Benton. As of December 31, 2018, the District had 12,828 electric, 1,166 water, and 1,141 wastewater customers. The District's electric wholesale activities and transmission business line are significant parts of the District's electric system business. Wholesale revenues are generated from the sale of the output from the 26 MW H.W. Hill Methane Facility, (Landfill Gas II Project). As planned, the project was taken offline in June 2018 as the District made preparations for utilizing the incoming fuel source for Renewable Natural Gas (RNG) production versus power production. The RNG facility was brought online in November 2018 and contributed to wholesale revenue for the year. Wholesale revenue was also received from the White Creek Wind I power sale contract, related to the District's 13% share of generated output from this 205 MW project. The transmission business line is comprised of 230 kV transmission lines and substations that carry renewable generation by others to the BPA transmission system. The District's retail electric customers are supplied through several sources. Bonneville Power Administration purchases supply 81%, 10% comes from the District's share of the McNary dam hydroelectric project and 9% comes from non-federal resources through energy market purchases by The Energy Authority on behalf of the District.

Overview of the Combined Financial Statements

The financial statements of the District report the self-supporting proprietary activities of the District funded primarily by the sale of power, water, and wastewater services. The District reports these business-type activities using the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). The accrual accounting method recognizes all revenues and expenses incurred during the year, regardless of when cash is received or paid.

The combined financial statements, presented in a comparative format for the years ended December 31, 2018 and 2017, are comprised of:

> **Statement of Net Position:** This statement presents information on the District's assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between these reported as net position, and provides information regarding the nature and amount of resource investment (assets) and obligations incurred in the pursuit of such resources. The statement also provides a vehicle for evaluating the capital structure as well as assessing the liquidity and financial flexibility of the District.

Statement of Revenues, Expenses, and Changes in Net Position: This statement reflects the transactions and activities that have increased or decreased the District's total economic resources during the period. Revenues and expenses are classified as operating or non-operating based on the type of transaction. The statement may also be used as a partial determinant of creditworthiness.

Statement of Cash Flows: The Statement of Cash Flows provides information concerning the sources and uses of cash during the reporting period resulting from operating, financing, and investing activities. This information provides insight into the District's ability to generate net cash flows to meet obligations as they become due and is an important indicator of the District's liquidity and financial strength.

The Notes to the Financial Statements presented at the end of the combined financial statements provide additional information that is essential to a full understanding of the financial statements as described above including significant accounting policies, commitments, obligations, risks, contingencies, and other financial matters of the District.

Condensed Comparative Financial Information

Combined Statements of Net Position

	2018	2017	2016
Capital assets	$ 250,360,416	$ 225,969,579	$ 211,543,341
Current, restricted, and other assets and deferred outflows of resources	55,182,692	61,430,259	63,654,401
Total assets and deferred outflows of resources	$ 305,543,108	$ 287,399,838	$ 275,197,742
Long-term liabilities and deferred inflow of resources	$ 184,469,828	$ 175,898,068	$ 168,155,638
Current liabilities	18,859,185	11,795,295	10,914,688
Total liabilities and deferred inflows of resources	203,329,013	187,693,363	179,070,326
Net investment in capital assets	88,977,673	81,846,109	84,290,643
Restricted – bond funds	9,757,835	9,745,589	9,735,473
Unrestricted	3,478,587	8,114,777	2,101,300
Total net position	102,214,095	99,706,475	96,127,416
Total liabilities, deferred inflows of resources, and net position	$ 305,543,108	$ 287,399,838	$ 275,197,742

Financial Highlights – 2018

- Through prudent financial management activities of District staff, the District exceeded 2018 budgeted financial performance. The utility ended the year with a Debt Service Coverage Ratio of 1.48 versus a budget of 1.47 and ended the year with 186 days cash on hand compared to a budget of 161 days.

- The District completed construction of the Renewable Natural Gas (RNG) expansion project and commercial operation commenced on November 1, 2018.The utility is continuing to fully commission the facility and optimize the operation. The RNG facility contributed $2,059,491 of revenue to the District during 2018.

- The District's water rights agreement with Goodnoe Station Development was successfully bifurcated with V75 resulting in additional water rights revenue for the District. V75 is proceeding with development of 675 acres of premium wine grape vineyards. Goodnoe Station continues to evaluate further site development in future periods which would result in additional water rights revenue for the District.

- Also in 2018, the District had planned the addition of a distribution substation and associated sub-transmission switchyard. This was recommended by the Long Range Plan and projected/submitted large-load growth, as the existing substation that serves the area is nearing maximum capacity. The District was informed by the project developers that the additional large-loads would be deferred for at least two years. With that information, the decision was made to defer those projects until assurance of the timing of those additional large-loads was received. The deferral will still allow the smaller projected "normal" load growth in the area for a few years. The deferral of capital expenditures was approximately $6.6 million.

- The District operates 16 water and wastewater systems. Water and wastewater rates are annually adjusted for each individual system and, in 2018, these adjustments varied from no increase to increases of 5%.

- The 2018 budget included the potential for the District to borrow $5 million for new capital improvements on the electric system. As a result of expense controls and the decision to delay capital projects until additional customer load is certain, the District did not borrow these funds.

- Electric rates were not increased for customers during 2018.

- The District deferred excess revenues of $700 thousand at year end 2018, recording this amount in the rate stabilization fund for future use if needed. The year-end rate stabilization fund balance of $4.0 million exceeds the fiscal policy requirement of $2.4 million. This decision will help ensure rate stability in future periods for District ratepayers.

- Excess District transmission capacity was successfully marketed and sold resulting in approximately $391 thousand of revenue versus $150 thousand budgeted in 2018.

Financial Highlights – 2017

- The District exceeded 2017 budget financial performance. The utility ended the year with a Debt Service Coverage Ratio of 1.64 versus a budget of 1.46 and ended the year with 253 days cash on hand compared to a budget of 155 days.

- The District secured $35,000,000 of financing for purposes of constructing the Renewable Natural Gas (RNG) expansion project. This financing was secured by a regional lender at a fixed rate of 3.5% for both the draw down period and five-year term period. Interest payments are due semi-annually with the first principal payment due December of 2019. This financing is secured by a RNG off take contract with IGI Resources and parental guarantee from British Petroleum NA, which in part contains a 5 year fixed price / fixed volume component that repays the debt obligation in five years.

- Water rights were issued by the Washington State Department of Ecology to Goodnoe Station LLC in conjunction with the Water Supply Agreement between Klickitat PUD and Goodnoe Station. This contract covers the supply of 4,000 acre feet of water for use as mitigation by Goodnoe Station.

- Wishram new well project was completed and is now waiting final Department of Ecology approval to be put in service.

- Bingen Substation Upgrade – The substation construction was completed.

- Street Lighting Conversion to LED – Bingen, Goldendale, and White Salmon – These communities applied for Washington State Transportation Improvement Board grants to replace high pressure sodium street lights with LED fixtures. The District owns the lighting systems and they are located primarily on District poles, as such these items were procured through the District. This project has been completed.

- The District operates 16 water and wastewater systems. Water and waste water rates are adjusted for each individual system and in 2017, these adjustments varied from a decrease of 30% for one water system to increases of 5%.

- The 2017 budget included the potential for the District to borrow $5 million for new capital improvements on the electric system. The District was very successful with budget constraints and recovered more renewable methane fuel from the Roosevelt landfill that increased our wholesale electric revenues. As a result of this improved financial performance, the District did not borrow these funds.

- Also as a result of this improved performance, the District did not implement a proposed 3% rate increase for the electric system on July 1, 2017.

Financial Analysis

Capital Activity

2017 to 2018:
The District's total utility plant values increased during 2018 by more than $24 million. Over $20 million of this increase can be attributed to completion of the Renewable Natural Gas project at the H. W. Hill Landfill Gas Site during the 4th quarter. In 2018 the District completed an upgrade at the Linden 230kV Switchyard by adding a circuit breaker, switches, and a tie-line. This upgrade gives the District the ability to keep the BPA Rock Creek sourced 230kV substations on-line by utilizing another 230kV source when the BPA Rock Creek substation is offline. It also provides the ability to maintain the power supply to the RNG facility and the community of Roosevelt when BPA Rock Creek is offline.

2016 to 2017:
The utility plant value increased during 2017 by more than $23 million. The District undertook some major projects throughout 2017, a project of significance being the Renewable Natural Gas project at the Roosevelt Landfill Gas Site. Approximately $14.5 million was spent on the project by the end of 2017.

Debt Activity

2017 to 2018:
The District drew down the remaining balance of the construction borrowing from the $35 million secured in 2017 for the RNG project. The drawdown was approximately $20.4 million for the year ended December 31, 2018. The District made debt payments in total of approximately $4.6 million during 2018. During 4th quarter 2018, the District received proposals from lenders to secure a $10 million operating line of credit to provide additional liquidity for the District. In the first quarter of 2019, the District signed the $10 million line of credit agreement.

2016 to 2017:
The District secured $35 million, of which $14.6 million had been issued as of December 31, 2017, for financing the constructing of the Renewable Natural Gas plant as detailed in the financial highlights – 2017 section above. The District made debt payments of approximately $4.5 million.

Current, Restricted, and Other Activity

2017 to 2018:
The utility current assets decreased by $4.7 million during 2018 as a result of decreased retail sales and reduced LFG generation revenue.

2016 to 2017:
Utility current assets increased $1.9 million during 2017, or 6%. The improvement occurred throughout 2017, with customer power consumption volume up, which increased revenue and thus cash.

Overall Results of Operations

2017 to 2018:
During the 2018 budget process the District anticipated a change in revenues from 2017. There were two main drivers of the reduction in revenue expected. The first was that 2017 was not an average weather year in regards to temperature. It was one of the coldest on record in the last several years. The other driver was the impact on wholesale revenues caused by the transition of the H.W. Hill Landfill facility from power generation to RNG production. Expense control and careful management of capital activities was a priority for the District as a result of this foresight. The actions taken by the District resulted in a net position improvement of more than $3.0 million for 2018.

2016 to 2017:
The concerted effort to keep expenses below budgeted levels for the year continued during 2017. The refunding of the 2006B Bonds in 2016 helped contribute to lower interest expense in 2017. Interest expense was down 8% from 2016, or approximately $500 thousand. Income from operations was up to $121 thousand in income from a $617 thousand loss in 2016 before capital contributions and grants.

Electric System Operating Results

	2018	2017	2016
Operating revenues	$ 44,244,502	$ 47,266,408	$ 43,709,405
Operating expenses	39,534,102	40,403,342	38,980,634
Operating income	4,710,400	6,863,066	4,728,771
Net non-operating (expense)	(4,147,633)	(4,745,208)	(4,979,644)
Capital contributions	2,174,646	2,694,782	2,122,277
Change in net position	$ 2,737,413	$ 4,812,640	$ 1,871,404

Operating Revenues

2017 to 2018:
Operating revenues were down $3.02 million, or 6% over 2017. Lower retail revenues were due to relatively mild weather in 2018 compared to 2017. The H. W. Hill Power Generation Facility was taken offline June 2018 to prepare for a transition of the facility for production of Renewable Natural Gas. This transition contributed to a reduction of realized wholesale revenues compared to 2017 as the planned decrease in project related output occurred. Revenues from the White Creek Wind I project exceeded budgeted expectations due to favorable wholesale pricing and results from hedging activity.

2016 to 2017:
Operating revenues were up $3.6 million, or 8% over 2016. The higher consumer consumption along with the rate increases during 2016 was the main reason for the increase. Wholesale revenues were also up from 2016 due to higher gas volumes at the landfill and thus higher generation of electricity from the H. W. Hill combustion turbine plant. The wholesale increase was $367 thousand, 3% of the overall increase of 8%.

Operating Expenses

2017 to 2018:
Operating expenses decreased $869 thousand, or 2%, compared to 2017 results. Successful expense management by District staff achieved total operating expenses of roughly 10% below 2018 budgeted amounts.

2016 to 2017:
Operating expenses were up overall 3.65%, with the main contributor being power expense, approximately $925 thousand. The increase appears to be reasonable since our sales to consumers was higher in 2017 as well.

Net Non-Operating Expense

2017 to 2018:
Net non-operating expense decreased $598 thousand or 13% in 2018. Interest income increased $267 thousand, or 66%. The increase can be attributed to better investment rates throughout the year along with consistent cash on hand for the better part of 2018. Interest expense declined $150 thousand from 2017.

2016 to 2017:
Net non-operating expense decreased $234 thousand or 5% in 2017. Interest income increased significantly percentage wise, 46%, from 2016. The increase can be attributed to more cash on hand throughout the year as well as an improved interest rate. The increase of interest income, along with lower interest expense, led to the overall reduction in expense.

Capital Contributions

2017 to 2018:
Capital contributions and grants received by the District decreased in 2018 by $520 thousand or 19%. Contributions are customer driven and activity for overall line extensions and new customer projects in terms of dollars was down compared to 2017.

2016 to 2017:
Capital contributions and grants received by the District for the Wishram well project led to an increase of $573 thousand over 2016, a 27% increase.

Water and Wastewater Systems Operating Results

	2018	2017	2016
Operating revenues	$ 1,285,443	$ 1,216,097	$ 1,213,152
Operating expenses	1,439,539	3,225,344	1,560,986
Operating income	(154,096)	(2,009,247)	(347,834)
Net non-operating revenue (expense)	33,657	11,984	(18,341)
Capital contributions and grants	446,070	763,682	-
Change in net position	$ 325,631	$ (1,233,581)	$ (366,175)

Operating Revenues

2017 to 2018:
Operating revenues increased by approximately $69 thousand, or 6%, over 2017. The increase was due to rate increases in the various systems along with higher water consumption.

2016 to 2017:
Operating revenues increased by approximately $3 thousand over 2016.

Operating Expenses

2017 to 2018:
Operating expenses decreased to the lowest level achieved over the past 3 years. The 2018 total was approximately $100 thousand below the 2017 amount when that year is adjusted for the large amount, approximately $1.664 million, due to an extra-ordinary expense. The increase in 2017 was the expensing of the Cliffs water system expenditures for system preliminary investigation costs, approximately $1.735 million.

2016 to 2017:
Operating expenses increased by a large amount, approximately $1.664 million, due to an extra-ordinary expense. The large increase was the change of the Cliffs water system expenditures for system preliminary investigation costs, approximately $1.735 million. The charges were incurred over multiple years investigating the water mitigation rights use for a large pump storage generation project. The project was determined by the Board of Commissioners to no longer be feasible by the District as the principal party. These costs were moved from Preliminary Investigation to expense during 2017.

Net Non-Operating Revenues

2017 to 2018:
Net Non-operating revenues increased $21.7 thousand over 2017. The increase was due to high interest income.

2016 to 2017:
Net Non-operating revenues increased $30 thousand over 2016. The increase was due to high interest income.

Capital Contributions and Grants

2017 to 2018:
The Wishram well is now in service and performing well for the community. Improvements and expansions to our SCADA system have resulted in improved reliability by allowing District operators to respond to issues such as water leaks more quickly and efficiently than in the past. During 2018 new Water/Wastewater projects were not being funded through grants, thus a large decrease in capital contributions/grants occurred, down $317.6 thousand, or 42%.

2016 to 2017:
During 2017 the Wishram water system received funding for a new well from a Community Development Block Grant. The system took cash draws of approximately $560 thousand, which is most of the $764 thousand increase.

The District Looking Forward
The District will be focusing on optimizing performance of the newly commissioned Renewable Natural Gas Facility to ensure maximum revenues will be received from the operation. The District will continue to utilize hedging of both power purchases and sales to minimize exposure to the volatile energy markets. Natural gas price volatility is largely mitigated for the RNG facility due to the fixed price nature of the offtake agreement. The District has budgeted for a 1.5% rate increase during 2019 to be implemented April 1. The annual review of water/wastewater rates will take place early in 2019 and increases by system will be in the 0% to 5% range based on each systems performance and necessary cash on hand to meet operational expenses and partial funding of capital projects. The utility will be entering a new Bonneville Power Administration rate period starting October 1 for a two-year period with forecasted rate increases of less than 3%. A continued flat block power purchase will be necessary to serve customer needs beyond the District's share of BPA output. This purchase is currently 7 MW for the fiscal year 2020 period and will grow to 8 MW in fiscal year 2021 to meet load growth. A few areas of focus outside of the RNG facility during 2019 will be continued work on vegetation management and employee training/development. The District has recently deployed a new Customer Information System/Accounting system and both District staff and customers will benefit from features and efficiencies of the system. Assisting with operations, the utility will drill a new water well in the community of Lyle to help meet increasing demand and maintain high levels of water quality. The District has engaged in and will continue to engage in the legislative process when appropriate to support legislative bills which provide benefit to District customers. The District will continue to support the effort of National Grid and Rye Energy in the development of the Goldendale Energy Storage Facility. The District will provide water and electric service if the project is licensed and constructed.

Public Utility District No. 1 of Klickitat County – MCAG No. 1785

Combined Statements of Net Position

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

	December 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and cash equivalents	$ 14,824,853	$ 19,946,775
Notes receivable	35,482	42,702
Accounts receivable, net	1,620,755	2,201,509
Unbilled revenue	2,106,834	1,737,124
Other receivables	4,238,034	3,514,807
Materials and supplies	1,946,178	1,878,164
Prepayments	1,062,036	1,210,896
Current portion of prepaid power contract	1,180,359	1,180,359
Total current assets	27,014,531	31,712,336
CAPITAL ASSETS		
Total plant in service	368,801,657	317,774,889
Construction work in progress	3,308,129	21,467,805
Total utility plant	372,109,786	339,242,694
Accumulated provision for depreciation	(121,749,370)	(113,273,115)
Net capital assets	250,360,416	225,969,579
OTHER ASSETS		
Other assets and prepaid power contract	9,414,423	11,129,657
Derivative asset	643,277	510,034
Special funds, power cost stabilization – designated	4,000,000	3,300,000
Regulatory asset – issuance costs	624,754	655,330
Total other assets	14,682,454	15,595,021
RESTRICTED CASH EQUIVALENTS		
Special funds, bonds	10,266,300	10,266,300
Total restricted cash equivalents	10,266,300	10,266,300
DEFERRED OUTFLOWS OF RESOURCES		
Pension	670,013	863,249
Other post employment benefit obligations	130,882	-
Accumulated decrease in fair value of hedging derivatives	72,390	463,221
Deferred loss on refunding	2,346,122	2,530,132
Total deferred outflows of resources	3,219,407	3,856,602
Total assets and deferred outflows of resources	$ 305,543,108	$ 287,399,838

See accompanying notes.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31, 2018	December 31, 2017
CURRENT LIABILITIES		
Accounts payable	$ 4,261,592	$ 3,388,877
Current portion of long-term debt	11,740,000	4,588,257
Consumers deposits	292,267	427,512
Other current and accrued liabilities	2,565,326	3,390,649
Total current liabilities	18,859,185	11,795,295
NONCURRENT LIABILITIES		
Long-term debt	149,642,743	141,019,925
Net pension liability	3,387,328	4,864,594
Total OPEB liability	1,464,592	-
Derivative liability	72,390	463,221
Total noncurrent liabilities	154,567,053	146,347,740
DEFERRED INFLOWS OF RESOURCES		
Pension	1,749,191	1,362,989
Regulatory liability – rate stabilization	4,000,000	3,300,000
Accumulated increase in fair value of hedging derivatives	643,277	510,034
Regulatory liability – CIAC	23,510,307	24,377,305
Total deferred inflows of resources	29,902,775	29,550,328
NET POSITION		
Net investment in capital assets	88,977,673	81,846,109
Restricted – bond funds	9,757,835	9,745,589
Unrestricted	3,478,587	8,114,777
Total net position	102,214,095	99,706,475
Total liabilities, deferred inflows of resources and net position	$ 305,543,108	$ 287,399,838

Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Combined Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31, 2018	2017
OPERATING REVENUES		
Electric system		
Sales to retail customers	$ 30,769,482	$ 33,029,659
Sales to wholesale and transmission customers	11,849,189	14,236,749
Water/wastewater systems	2,911,274	1,216,097
Total operating revenues	45,529,945	48,482,505
OPERATING EXPENSES		
Power expense	12,224,943	11,923,545
Operations expense	11,834,491	14,037,947
Maintenance expense	2,111,871	2,891,632
Administrative and general expense	3,791,563	3,888,555
Depreciation expense	8,813,023	8,662,997
Tax expense	2,197,750	2,224,010
Total operating expenses	40,973,641	43,628,686
OPERATING INCOME	4,556,304	4,853,819
NON-OPERATING REVENUE/(EXPENSE)		
Interest income	731,475	451,925
Other non-operating revenues	1,152,655	992,312
Interest expense	(5,772,473)	(5,932,832)
Other expenses	(225,633)	(244,629)
Total non-operating expense	(4,113,976)	(4,733,224)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	442,328	120,595
CAPITAL CONTRIBUTIONS AND GRANTS	2,620,716	3,458,464
CHANGE IN NET POSITION	3,063,044	3,579,059
NET POSITION, beginning of year	99,706,475	96,127,416
Less: adjustment for change in accounting principal - OPEB	(555,424)	-
NET POSITION, beginning of year, adjusted	99,151,051	96,127,416
NET POSITION, end of year	$ 102,214,095	$ 99,706,475

See accompanying notes.

	Years Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 45,604,535	$ 48,205,129
Payments to suppliers for goods and services	(21,520,905)	(22,938,099)
Payments to employees for services	(7,149,496)	(6,861,924)
Taxes paid	(2,282,832)	(2,311,431)
Net change in cash flows from operating activities	14,651,302	16,093,675
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from BPA transmission deposits	-	536,874
Other non-operating income	1,111,032	747,683
Net change in cash flows from non-capital financing activities	1,111,032	1,284,557
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(4,588,258)	(4,464,449)
Issuance of long-term debt	20,511,957	14,576,500
Interest payments	(5,909,365)	(5,887,844)
Capital contributions and grants	1,753,718	2,591,465
Other assets – preliminary engineering	-	(133,405)
Utility plant additions net of costs of removal and salvage proceeds	(32,668,985)	(23,089,235)
Net change in cash flows from capital and related financing activities	(20,900,933)	(16,406,968)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	716,677	431,806
Net change in cash flows from investing activities	716,677	431,806
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,421,922)	1,403,070
CASH AND CASH EQUIVALENTS, beginning of year	33,513,075	32,110,005
CASH AND CASH EQUIVALENTS, end of year	$ 29,091,153	$ 33,513,075
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 14,824,853	$ 19,946,775
Special funds cash and cash equivalents	14,266,300	13,566,300
	$ 29,091,153	$ 33,513,075

See accompanying notes.

Public Utility District No. 1 of Klickitat County – MCAG No. 1785

Combined Statements of Cash Flows

	Years Ended December 31, 2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
OPERATING INCOME	$ 4,556,304	$ 4,853,819
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation expense	8,813,023	8,662,997
Pension credit	(897,828)	(600,240)
OPEB credit	(48,170)	-
Amortization of prepaid power contract	1,180,359	1,180,359
Write-off of preliminary survey and investigation	-	1,783,503
Regulatory assets – issuance costs amortization	30,576	(43,825)
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Receivables and unbilled revenue	(490,165)	(279,611)
Materials and supplies	(68,014)	(1,144)
Prepayments	148,860	(208,864)
Accounts payable	872,715	636,956
Consumer deposits	(135,245)	2,235
Other current and accrued liabilities	(11,113)	107,490
Regulatory liability - rate stabilization	700,000	-
Total adjustments	10,094,998	11,239,856
Net cash from operating activities	$ 14,651,302	$ 16,093,675

See accompanying notes.

Note 1 – Organization and Significant Accounting Policies

Organization and combined financial statements – Public Utility District No. 1 of Klickitat County, Washington (the District) is a municipal corporation governed by an elected three-person Board of Commissioners. The District's reporting entity is comprised of the combined electric system, nine water systems, and five wastewater systems. All significant intercompany balances and transactions have been eliminated from the combined amounts reported. The District has no component units. The District's service area covers approximately 1,680 square miles in Klickitat County. The District also serves small areas in the surrounding counties of Yakima, Skamania, and Benton. As of December 31, 2018, the District had 12,828 electric, 1,166 water and 1,141 wastewater customers. Wholesale revenues are generated from the sale of the output from the 26 MW H.W. Hill Methane Facility (Landfill Gas II Project). As planned, the project was taken offline in June 2018 as the District made preparation to utilize incoming fuel source for Renewable Natural Gas (RNG) production versus power production. The RNG facility was brought online in November 2018 and contributed to wholesale revenue for the year. Wholesale revenue was also received from the White Creek Wind I power sale contract, related to the District's 13% share of generated output from this 205 MW project.

Basis of accounting and presentation – The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments using the full accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW, the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for the Electric System and the Uniform System of Accounts for Class A & B Water Utilities prescribed by the National Association of Regulatory Utility Commissioners for the Water System.

Cash and cash equivalents – The District considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents. Assets in the Local Government Investment Pool (LGIP) are considered cash equivalents as they can be converted to cash within one day.

Accounts receivable and allowance for uncollectible accounts – Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances, that may be unable to meet their financial obligations, and a reserve is recorded based on historical experience. The allowance for uncollectible accounts at December 31, 2018 and 2017 was $90,671 and $111,664, respectively.

Other receivables – Other receivables consist of amounts due from customers for small material purchases, certain aid in construction billings, repairs to damaged plant and equipment from accidents caused by others, funding requests to granting or loaning agencies, customers who take primary electric service from the District or have a power sales contract, and other miscellaneous items that may require invoicing that would not normally be entered into the customer service billing system.

Note 1 – Organization and Significant Accounting Policies (continued)

Materials and supplies – Materials and supplies provide for additions, maintenance and repairs to utility plant and are stated at average cost.

Restricted assets – In accordance with bond resolutions and certain related agreements, separate restricted funds are required to be established. Cash held in these funds are restricted for specific uses, including debt service and other special reserve requirements.

Capital assets (utility plant) – Utility plant is stated at original cost, contract price, or acquisition value if donated (see Note 3). Costs include labor, materials and related indirect costs, such as engineering, transportation and allowance for funds (i.e. interest) used during construction. Additions, renewals, and betterments with a minimum cost of $5,000 per item are capitalized. Repairs and minor replacements are charged to operating expenses. In the case of disposals, unless there is a major retirement or a general plant asset is retired, the cost of property, and any removal cost less salvage are charged to accumulated depreciation when property is retired. Depreciation is computed using straight-line group rates: 3% for distribution plant, 2.75% for transmission plant, and 1.67% to 2.5% for generating plant. Depreciation of water and wastewater plant has been computed over useful lives of 25 to 40 years. General plant composite rates range from 2.2% to 14.4%.

Derivative instruments – The District has adopted GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Subject to certain exceptions, GASB Statement No. 53 requires every derivative instrument be recorded on the statement of net position as an asset or liability measured at its fair value, and changes in the derivative's fair value to be recognized in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective.

It is the District's policy to document and apply as appropriate the normal purchases and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity and option contracts that require physical delivery and that are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity are considered to be derivatives under GASB Statement No. 53, and do not generally meet the "normal purchases and normal sales" criteria. See Note 9 for further discussion of the District's derivative instruments and risk management.

Debt expense, unamortized premium and loss on refunding – Bond issue costs are generally expensed as incurred. However, the District utilized regulatory accounting for bond issuance costs and as such, amortizes them consistent with rate making decisions. Bond premiums are amortized to interest expense, using the weighted average method over the term of the bonds. Loss on refunding is amortized over the shorter of the remaining life of the refunding or refunded bonds.

Unamortized prepaid power contract – Consists of prepaid power amortized using the straight-line method over the term of the contract (see Note 4).

Note 1 – Organization and Significant Accounting Policies (continued)

Compensated absences – Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records compensated absences as an expense and liability when earned. District employees are entitled to Personal Time Off (PTO) based upon length of continuous service which is payable upon resignation, retirement, or death. There is a 700-hour cap on PTO accrual, determined according to the employees’ anniversary dates. After the annual transfer of PTO hours into Volunteer Employee Beneficiary Association (VEBA) or deferred compensation, any hours over the 700-hour cap will be forfeited. At separation, if an employee is not eligible to retire, they may cash out their PTO bank at a schedule governed by years of service. Compensated absences are recorded within other current and accrued liabilities on the statement of net position.

Fair value of financial instruments – The carrying amounts of current assets, including restricted cash, derivative assets, derivative liabilities and current liabilities approximate fair value due to the short-term maturity of those instruments.

Net position – Net position consists of:

- **Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation, and unspent bond proceeds less outstanding balances of any bonds and other 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 their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

- **Unrestricted** – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Regulatory liability – rate stabilization – The District has established a rate stabilization account to reduce significant year-to-year variations in rates. Amounts deposited into the account are excluded from the statement of revenues, expenses, and changes in net position in accordance with regulated operations. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions and debt service covenants.

Regulatory liability – CIAC – The District has deferred certain contributions in aid of construction (CIAC) to future periods matching the time when the revenues and expenses are included in rates. The deferred balance is amortized as capital contributions on the statement of revenues, expenses, and changes in net position.

Deferred outflows / inflows of resources – Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflows of resources (Expense/expenditure) until then. The separate financial statement element, deferred inflows of resources, represents a generation of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

Note 1 – Organization and Significant Accounting Policies (continued)

Revenues and expenses – Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. Operating revenues are recognized when billed and expenses are recognized when incurred. In addition, the District recognizes unbilled revenue, revenues from services provided but not yet billed. The principal operating revenues of the District are charges to customers for electric, water, and wastewater service. Operating expenses for the District include the cost of sales and services, maintenance, administrative expenses, depreciation on capital assets, and taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The credit practices of the District require an evaluation of each new customer's credit worthiness on a case-by-case basis. Based on policy, a deposit may be obtained from the customer. Concentrations of credit risk with respect to receivables for residential customers are limited due to the number of customers comprising the District's customer base. Credit losses have been within management's expectations. Similar to its evaluation of residential, commercial and industrial customers' credit reviews, the District continually evaluates its wholesale power customers by reviewing credit ratings and financial credit worthiness of existing and new customers.

Capital contributions – Capital contributions are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer.

Use of estimates – The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the District's financial statements include the allowance for doubtful accounts, bad debt expense, useful lives of plant, and the liabilities for the District's pension and OPEB plans.

Significant risks and uncertainties – The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, 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 electric industry; and market risks inherent in the buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

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

Note 1 – Organization and Significant Accounting Policies (continued)

New Accounting Pronouncement – In June 2015, GASB issued Statement No. 75. Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement provides guidance for accounting for OPEB liabilities, including definition of balances to be included in deferred inflows and outflows of resources. The District has adopted the provisions of this statement and, accordingly, has restated beginning net position as of January 1, 2018. This resulted in a $555,424 reduction in beginning net position.

Note 2 – Deposits and Investments

Cash and cash equivalents consist of the following at December 31, 2018:

	Restricted Cash Equivalents	Designated Cash and Cash Equivalents	Unrestricted Cash and Cash Equivalents	Total 2018
Special funds, bonds	$ 10,266,300	$ -	$ -	$ 10,266,300
Special funds, power cost stabilization	-	4,000,000	-	4,000,000
Cash – general funds	-	-	14,824,853	14,824,853
Totals	$ 10,266,300	$ 4,000,000	$ 14,824,853	$ 29,091,153

Cash and cash equivalents consist of the following at December 31, 2017:

	Restricted Cash Equivalents	Designated Cash and Cash Equivalents	Unrestricted Cash and Cash Equivalents	Total 2017
Special funds, bonds	$ 10,266,300	$ -	$ -	$ 10,266,300
Special funds, power cost stabilization	-	3,300,000	-	3,300,000
Cash – general funds	-	-	19,946,775	19,946,775
Totals	$ 10,266,300	$ 3,300,000	$ 19,946,775	$ 33,513,075

Interest rate risk – The District's investment policy limits investment maturities to less than five years from the date of purchase unless authorized by the General Manager or his designee for a specific purpose. During 2018 and 2017, investments were in the State Treasurer's LGIP, which has a weighted average portfolio maturity of less than 90 days, as well as a Money Market Plus Public Funds account at an FDIC-insured financial institution.

Note 2 – Deposits and Investments (continued)

Credit risk – In accordance with the Revised Code of Washington, District bond resolutions and District internal investment policies, all investments are direct obligations of the U.S. Government, deposits in the LGIP, or deposits with financial institutions recognized as qualified public depositories of the State of Washington.

The District's cash deposits are covered by federal depository insurance or protected against loss by deposit with financial institutions recognized as qualified public depositories of the State of Washington. The District intends to hold deposits and securities until maturity.

Concentration of credit risk – District policies allow the entire portfolio to be invested in direct United States Government guaranteed obligations or in the LGIP. No other investment may exceed half of portfolio market value. The LGIP, a 2a7-like pool as defined by GASB Statement No. 31 and the Securities and Exchange Commission, invests in high quality, short-term investments; all LGIP money market securities must be rated A-1 by Standard & Poor's Corporation or P1 by Moody's Investor Services, Inc. The LGIP weighted average maturity must not exceed 90 days and no single investment may exceed 762 days in maturity. Withdrawals in excess of $10 million are available on a one day notice. The LGIP Annual Report is available on the Washington State Treasurer's website.

Note 3 – Capital Assets (Utility Plant)

The following are changes in capital assets for the year ended December 31, 2018:

Description	Balance 01/01/2018	Additions	Retirements and Transfers	Balance 12/31/2018
Capital assets not being depreciated				
Organization	$ 14,767	$ -		$ 14,767
Franchises and consents	211,427	-		211,427
Land and land rights	1,857,728	11,267	17,502	1,851,493
Construction work in progress	21,467,805	35,549,065	53,708,741	3,308,129
	23,551,727	35,560,332	53,726,243	5,385,816
Capital assets being depreciated				
Electric plant				
Distribution plant	121,832,055	4,831,057	353,211	126,309,901
Transmission plant	55,119,308	473,542	129,236	55,463,614
Generating plant	106,201,631	44,674,027	10,001	150,865,657
Water and wastewater plant	22,504,770	241,072	-	22,745,842
General plant	10,033,203	1,512,815	207,062	11,338,956
	315,690,967	51,732,513	699,510	366,723,970
Total capital assets	339,242,694	87,292,845	54,425,753	372,109,786
Accumulated depreciation	(113,273,115)	(9,094,290)	618,035	(121,749,370)
Net capital assets	$ 225,969,579	$ 78,198,555	$ 53,807,718	$ 250,360,416

Note 3 – Capital Assets (Utility Plant) (continued)

The following are changes in capital assets for the year ended December 31, 2017:

Description	Balance 01/01/2017	Additions	Retirements and Transfers	Balance 12/31/2017
Capital assets not being depreciated				
Organization	$ 14,767	$ -	$ -	$ 14,767
Franchises and consents	211,427	-	-	211,427
Land and land rights	1,779,946	77,782	-	1,857,728
Construction work in progress	5,341,876	22,646,493	6,520,564	21,467,805
	7,348,016	22,724,275	6,520,564	23,551,727
Capital assets being depreciated				
Electric plant				
Distribution plant	119,167,413	3,020,968	356,326	121,832,055
Transmission plant	54,937,858	202,884	21,434	55,119,308
Generating plant	103,742,809	2,943,885	485,063	106,201,631
Water and wastewater plant	22,133,455	371,315	-	22,504,770
General plant	9,412,621	681,168	60,586	10,033,203
	309,394,156	7,220,220	923,409	315,690,967
Total capital assets	316,742,172	29,944,495	7,443,973	339,242,694
Accumulated depreciation	(105,198,831)	(8,852,660)	778,376	(113,273,115)
Net capital assets	$ 211,543,341	$ 21,091,835	$ 6,665,597	$ 225,969,579

Note 4 – Other Assets and Prepaid Power Contract

Other assets and prepaid power contract as of December 31 consist of the following:

	2018	2017
Prepaid power contract, net of current portion	$ 9,414,423	$ 10,623,264
Preliminary investigation charges	-	506,393
	$ 9,414,423	$ 11,129,657

Prepaid power contract – The District entered into a 20-year Energy Purchase Agreement for the White Creek Wind I Facility, which became effective January 1, 2008. Under this Agreement, the District had rights to 26% of the output from the 205 MW facility and was obligated to pay the same percentage of the reimbursable operating expenses. In June 2008, the District completed a transaction with Lewis PUD to sell 10% of the 26% share of the White Creek Wind I project power output. In December 2008, the District also sold 3% of the remaining 16% share of the White Creek Wind I project power output to Benton PUD. The gain on the sale of White Creek power rights was $23,678,404. The remaining portion of the project is amortized on a straight-line basis over the remaining term of the contract.

Note 5 – Long-Term Debt

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

	Balance 01/01/2018	Additions	Payments/ Amortization	Balance 12/31/2018	Due Within One Year
Electric revenue bonds	$ 141,448,036	$ 20,423,500	$ 4,428,208	$ 157,443,328	$ 11,573,557
Unamortized bond premium	2,443,375	-	149,138	2,294,237	-
W/WW revenue bonds	26,500	-	9,000	17,500	9,000
W/WW loans	1,690,271	88,457	151,050	1,627,678	157,443
Total long-term debt	$ 145,608,182	$ 20,511,957	$ 4,737,396	$ 161,382,743	$ 11,740,000

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

	Balance 01/01/2017	Additions	Payments/ Amortization	Balance 12/31/2017	Due Within One Year
Electric revenue bonds	$ 131,179,407	$ 14,576,500	$ 4,307,871	$ 141,448,036	$ 4,428,207
Unamortized bond premium	2,592,513	-	149,138	2,443,375	-
W/WW revenue bonds	35,500	-	9,000	26,500	9,000
W/WW loans	1,837,849	-	147,578	1,690,271	151,050
Total long-term debt	$ 135,645,269	$ 14,576,500	$ 4,613,587	$ 145,608,182	$ 4,588,257

Substantially all electric revenues are pledged as security for the electric revenue bonds and substantially all water/wastewater (W/WW) revenues are pledged as security for the water/wastewater revenue bonds. Water/wastewater loans are secured by water/wastewater assets. Electric revenue bonds carry fixed interest rates ranging from 0.993% to 7.038% for the years ended December 31, 2018 and 2017. The electric system also has one loan that carries a fixed interest rate of 3.50%. The water/wastewater revenue bonds have a 5.0% fixed rate. The loans from the Public Work Trust Fund (PWTF) carry fixed rates from 0.0% to 0.5%, the State Revolving Fund (SRF) loans have fixed rates of 0.0% to 1.0% and the USDA of 2.125%. Electric revenue bonds mature through December 1, 2036, water/wastewater bonds mature through September 1, 2021, and the PWTF and SRF loans mature through 2055. There is $10,266,300 as of December 31, 2018 and 2017, in restricted assets of the District representing revenue bond reserve requirements and debt service accounts for the various indentures. There are a number of other limitations and restrictions contained in the various bond indentures.

Note 5 – Long-Term Debt (continued)

Future maturities are as follows as of December 31, 2018:

Electric Revenue Bonds

Year(s)	Principal	Interest	Totals
2019	$ 11,573,557	$ 7,251,009	$ 18,824,566
2020	11,733,923	6,845,464	18,579,387
2021	11,914,304	6,416,393	18,330,697
2022	12,119,702	5,969,182	18,088,884
2023	12,340,115	5,502,607	17,842,722
2024-2028	30,591,727	22,332,437	52,924,164
2029-2033	38,785,000	12,640,280	51,425,280
2034-2037	28,385,000	2,394,000	30,779,000
	$ 157,443,328	$ 69,351,372	$ 226,794,700

Water/Wastewater Revenue Bonds

Year(s)	Principal	Interest	Totals
2019	$ 9,000	$ 763	$ 9,763
2020	6,500	313	6,813
2021	2,000	50	2,050
	$ 17,500	$ 1,126	$ 18,626

Water/Wastewater PWTF, SRF and USDA Loans

Year(s)	Principal	Interest	Totals
2019	$ 157,443	$ 10,733	$ 168,176
2020	157,518	10,185	167,703
2021	157,584	9,476	167,060
2022	157,673	8,744	166,417
2023	148,455	8,021	156,476
2024-2028	575,930	29,905	605,835
2029-2033	138,416	17,245	155,661
2034-2038	25,361	13,259	38,620
2039-2043	28,174	10,446	38,620
2044-2048	31,298	7,322	38,620
2049-2053	34,768	3,852	38,620
2054-2057	15,058	485	15,543
	$ 1,627,678	$ 129,673	$ 1,757,351

Note 6 – Retirement Benefits

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* as of and for the year ended December 31, 2018:

Aggregate Pension Amounts – All Plans		
Net pension liabilities	$	3,387,328
Deferred outflows of resources	$	670,013
Deferred inflows of resources	$	1,749,191
Pension credit	$	897,828

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

Note 6 – Retirement Benefits (continued)

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

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component. 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) as of December 31 were as follows:

PERS Plan 1 Actual Contribution Rates	2018	2017
Employer	12.83%	12.70%
Employee	6.00%	6.00%

The District's actual contributions to the plan were $360,069 and $321,420 for the years ended December 31, 2018 and 2017, respectively.

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years (PERS 2) or 10 years (PERS 3) of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

Note 6 – Retirement Benefits (continued)

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service.

Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are 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 UAAL and an administrative expense. 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 Actual Contribution Rates	2018	2017
Employer	12.83%	12.70%
Employee	7.41%	7.38%

PERS Plan 3 Actual Contribution Rates	2018	2017
Employer	12.83%	12.70%
Employee	5-15%	5 – 15%

The District’s actual contributions to the plan were $533,228 and $449,349 for the years ended December 31, 2018 and 2017, respectively.

Note 6 – Retirement Benefits (continued)

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.

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. The total pension liability as of June 30, 2018 was determined using the following actuarial assumptions:

- **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**: 7.40%.

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, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.40%.

To determine that rate, an asset sufficiency test included an assumed 7.40% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40% 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. 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 7.40% was used to determine the total liability.

Note 6 – Retirement Benefits (continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.40% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.40% approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.20% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic	
		2018	2017
Fixed Income	20%	1.70%	1.70%
Tangible Assets	7%	4.90%	4.90%
Real Estate	18%	5.80%	5.80%
Global Equity	32%	6.30%	6.30%
Private Equity	23%	9.30%	9.30%
	100%		

Note 6 – Retirement Benefits (continued)

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.40%, as well as what the District's proportionate share of the net pension liability (assets) would be if it were calculated using a discount rate that is 1-percentage point lower (6.40%) or 1-percentage point higher (8.40%) than the current rate.

	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
PERS 1	$ 2,789,793	$ 2,270,085	$ 1,819,913
PERS 2/3	$ 5,110,302	$ 1,117,243	$ 2,156,617

Pension Plan Fiduciary Net Position

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

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

At December 31, 2018 and 2017, the District reported a total pension liability of $3,387,328 and $4,864,594, respectively for its proportionate share of the net pension liability.

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.050830%	0.052794%	-0.001964%
PERS 2/3	0.065435%	0.067908%	-0.002473%

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

The collective net pension liability was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Note 6 – Retirement Benefits (continued)

Pension Expense/(Credit)

For the years ended December 31, 2018 and 2017, the District recognized a pension credit of $897,828 and $600,240, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	90,212	-	93,484
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	187,460	-	161,478	-
Total	$ 187,460	$ 90,212	$ 161,478	$ 93,484
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 136,945	$ 195,609	$ 239,071	$ 77,600
Net difference between projected and actual investment earnings on pension plan investments	-	685,592	-	628,980
Changes of assumptions	13,070	317,959	25,062	-
Changes in proportion and differences between contributions and proportionate share of contributions	56,338	459,819	197,187	562,925
Contributions subsequent to the measurement date	276,200	-	240,451	-
Total	$ 482,553	$ 1,658,979	$ 701,771	$ 1,269,505
Combined PERS 1 & PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 136,945	$ 195,609	$ 239,071	$ 77,600
Net difference between projected and actual investment earnings on pension plan investments	-	775,804	-	722,464
Changes of assumptions	13,070	317,959	25,062	-
Changes in proportion and differences between contributions and proportionate share of contributions	56,338	459,819	197,187	562,925
Contributions subsequent to the measurement date	463,660	-	401,929	-
Total	$ 670,013	$ 1,749,191	$ 863,249	$ 1,362,989

Note 6 – Retirement Benefits (continued)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	PERS 1
2019	$ 3,947
2020	(19,721)
2021	(59,177)
2022	(15,261)
Total	$ (90,212)

Year Ended December 31,	PERS 2/3
2019	$ (258,442)
2020	(307,054)
2021	(466,898)
2022	(202,650)
2023	(104,770)
Thereafter	(112,812)
Total	$ (1,452,626)

Note 7 – Post-Employment Benefits Other than Pension

Plan description – The District administers a single-employer defined benefit healthcare plan. The plan provides postretirement medical and dental benefits for eligible retirees who are 65 years old with 5 years of service or 55 years old with 20 years of service. Survivors of members who die prior to retirement are not eligible for medical benefits. Benefit provisions are established through District policy. The District's postemployment health care plan does not issue a publicly available financial report.

As of the valuation date of January 1, 2017, membership includes 78 active participants, 24 retirees and surviving spouses, and 14 spouses of current retirees.

Funding policy – Contribution requirements are established through District policy. The premium paid for spouse coverage is based on whether or not the retiree is eligible for Medicare. The following premiums were in place as of December 31, 2017:

	Medical	Dental
Pre-65		
Retiree Only	$ 696	$ 43
Retiree + Spouse	$ 1,410	$ 89
Post-65		
Retiree Only	$ 522	$ 43
Retiree + Spouse	$ 1,057	$ 89

Total OPEB liability, OPEB expense, deferred outflows of resources, and deferred inflows of resources related to OPEB – The District's total OPEB liability of $1,464,592 was measured as of December 31, 2017 and was determined by an actuarial valuation as of January 1, 2017.

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

	December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions or inputs	$ 41,364	$ -
Contributions made subsequent to measurement date	89,518	-
	$ 130,882	$ -

Note 7 – Post-Employment Benefits Other than Pension (continued)

Deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending December 31,		
2018	$	5,372
2019		5,372
2020		5,372
2021		5,372
2022		5,372
Thereafter		14,504
	$	41,364

Actuarial assumptions – The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	January 1, 2017
Measurement Date	December 31, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	3.44%
Inflation	2.30%
Projected Salary Increase	3.05%

Mortality rates for healthy retirees and beneficiaries were based on the RP-2000 Sex-distinct tables, as appropriate, with adjustments for mortality improvements based on Scale BB.

Health care cost trend – The health care cost trend starts at 7.1% in the first year and in future years varies between 6.5% and 3.9%, due to the timing of the excise tax scheduled to affect health care benefits. The trend then settles to an ultimate rate of 3.9%. Dental costs are assumed to increase 5.0% in all future years.

Discount rate – The discount rate used to measure the total pension OPEB liability was 3.44% percent for the December 31, 2017 measurement date. This rate is consistent with the Bond Buyer 20-year General Obligation Bond index.

Note 7 – Post-Employment Benefits Other than Pension (continued)

Changes in total OPEB liability – Changes in the total OPEB liability for the year ended December 31, 2017 (measurement date) are shown below:

	Total OPEB Liability
Balance as of December 31, 2016	$ 1,401,532
Changes for the year:	
Service cost	61,916
Interest on total OPEB liability	53,391
Effect of assumptions changes or inputs	46,736
Benefit payments	(98,983)
Balance as of December 31, 2017	$ 1,464,592

Sensitivity analysis – Below is a sensitivity analysis around the discount rate of 3.44% as well as the healthcare trend rate assumed in the actuarial assumptions:

Discount Rate	1% decrease 2.44%	Current rate 3.44%	1% increase 4.44%
Total OPEB liability	$ 1,611,253	$ 1,464,592	$ 1,328,952

Healthcare Cost Trend	1% decrease	Current rate	1% increase
Total OPEB liability	$ 1,280,396	$ 1,464,592	$ 1,680,878

Note 8 – Segment Information – Enterprise Funds

The District operates an electric, nine water, and five wastewater utilities which are primarily financed by user charges. The key financial data for the years ended December 31, 2018 and 2017, is as follows:

Condensed statement of net position:

	Electric System	Water-Wastewater Systems	Total 2018	Total 2017
Assets				
Current, restricted, other assets and deferred outflows	$ 51,610,068	$ 3,572,624	$ 55,182,692	$ 61,430,259
Capital assets	233,436,532	16,923,884	250,360,416	225,969,579
Total assets and deferred outflows	$ 285,046,600	$ 20,496,508	$ 305,543,108	$ 287,399,838
Liabilities				
Current liabilities	$ 18,061,909	$ 797,276	$ 18,859,185	$ 11,795,295
Noncurrent liabilities and deferred inflows	184,460,025	9,803	184,469,828	175,898,068
Total liabilities and deferred inflows	202,521,934	807,079	203,329,013	187,693,363
Net position				
Net investment in capital assets	73,948,623	15,029,050	88,977,673	81,846,109
Restricted	9,757,835	-	9,757,835	9,745,589
Unrestricted	(1,181,792)	4,660,379	3,478,587	8,114,777
Total net position	82,524,666	19,689,429	102,214,095	99,706,475
Total liabilities, deferred inflows and net position	$ 285,046,600	$ 20,496,508	$ 305,543,108	$ 287,399,838

Condensed statements of revenues, expenses, and changes in net position:

	Electric System	Water-Wastewater Systems	Total 2018	Total 2017
Operating revenues	$ 44,244,502	$ 1,285,443	$ 45,529,945	$ 48,482,505
Operating expenses	31,424,498	736,120	32,160,618	34,965,689
Depreciation	8,109,604	703,419	8,813,023	8,662,997
Operating income	4,710,400	(154,096)	4,556,304	4,853,819
Non-operating revenues (expenses)				
Interest income	671,665	59,810	731,475	451,925
Interest expense	(5,748,716)	(23,757)	(5,772,473)	(5,932,832)
Other non-operating revenue (expense), net	929,418	(2,396)	927,022	747,683
Capital contributions and grants	2,174,646	446,070	2,620,716	3,458,464
Change in net position	2,737,413	325,631	3,063,044	3,579,059
Net position, beginning of year	83,705,065	16,001,410	99,706,475	96,127,416
Less: cumulative adjustment for change in accounting principal - OPEB	(555,424)	-	(555,424)	-
Net position, beginning of year, adjusted	83,149,641	16,001,410	99,151,051	96,127,416
Net position, end of year	$ 85,887,054	$ 16,327,041	$ 102,214,095	$ 99,706,475

Note 9 – Power Risk Management

As of December 31, 2018, the District had the following derivative instruments outstanding:

	Changes in Fair Value			Fair Value at December 31, 2018		
	Classification	Amount		Classification	Amount	
Cash Flow Hedges:						
Financial Swap Forward	Deferred Inflow	$	643,277	Derivative Asset	$	643,277
Financial Swap Forward	Deferred Outflow	$	72,390	Derivative Liability	$	72,390

As of December 31, 2017, the District had the following derivative instruments outstanding:

	Changes in Fair Value			Fair Value at December 31, 2017		
	Classification	Amount		Classification	Amount	
Cash Flow Hedges:						
Financial Swap Forward	Deferred Inflow	$	510,034	Derivative Asset	$	510,034
Financial Swap Forward	Deferred Outflow	$	463,221	Derivative Liability	$	463,221

The fair values of the financial swap contracts were based on the futures price curve for the Mid-Columbia Intercontinental Exchange for electricity.

Objective and strategies – The District enters into derivative energy transactions to hedge its known or expected positions within its approved Risk Management Policy. Decisions are made to enter into forward transactions to protect its financial position specifically to deal with long and short positions as determined by projected load and resource balance positions.

Generally, several strategies are employed to hedge the District's resource portfolio, including:

- *Surplus Purchased Power Resources* – The District hedges projected surpluses in future periods by selling power or by purchasing put options. Surplus power is generally sold forward at a fixed-price, either physically or financially, when the probability of surplus is very high; surplus power is hedged through the purchase of physical or financial put options when the projected surplus is less certain, but nevertheless expected to be available under expected scenarios. From time to time the District will sell physical power forward in the next calendar month at a price based on the Mid-Columbia index to perfect financial forward sales which settle based on the same index.

Credit risk – The District has developed a credit policy that establishes guidelines for setting credit limits and monitoring credit exposure on a continuous basis. The policy addresses frequency of counterparty credit evaluations, credit limits per specific counterparty and counterparty credit concentration limits. Commodity transactions, both physical and financial, are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness. Counterparty credit limits are based on The Energy Authority's (TEA) proprietary credit rating system and other factors. Credit ratings for counterparties range from "not-rated" to AAA, with a majority of counterparties rated between BBB- and AA.

Note 9 – Power Risk Management (continued)

Basis risk – The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. There are no derivative transactions outstanding that carry basis risk as of December 31, 2018. As applicable, all power related transactions are to be settled on the relevant Mid-Columbia index, and all gas transactions are to be settled on the relevant Sumas/Huntingdon index. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

Termination risk – Hedging derivative contracts may be terminated by mutual agreement of the Board and the counterparty, or upon the occurrence of a termination event. Termination events include non-payment, non-delivery, deterioration of creditworthiness, or other material adverse changes. During the years ended December 31, 2018 and 2017, there were no terminations.

Note 10 – Risk Management and Self-Insurance

Unemployment insurance – The District maintains insurance against most normal hazards, except for unemployment insurance, where the District has elected to become self-insured with the Employment Security Department applying an experience rating that dictates payment amounts. The District reimburses the State Employment Security Department for actual costs upon receipt of any claim. The District does not estimate any future liability as the amount is not significant.

Public utility risk management services – The District, along with seventeen other public utility districts and one joint operating agency, is a member of the Public Utility Risk Management Services (PURMS) self-insurance fund. The program provides members with various liability, property, and health insurance coverages in three separate pools.

The District has not accrued a liability for any outstanding claims of the self-insured pools, including incurred-but-not-reported health and welfare claims, as the amount cannot be reasonably estimated. Management believes these claims, for those that are successful, will not have a significant impact on the financial position of the District.

Mile Marker 28 Fire
In July 2013, a wildfire broke out in the vicinity of an electrical power line located on active timber lands. The Washington Department of Natural Resources has conducted an investigation as to the cause of and any damages that may have resulted from the fire. Two complaints have been filed by: Bureau of Indian Affairs (BIA) on behalf of Yakama Nation and the Washington Department of Natural Resources (DNR). The District also received notification from the US Department of Agriculture (USDA) alleging the District owes the USDA suppression costs related to the mile marker 28 fire.

In March 2018, a mediation meeting took place between the District and representatives from the State of Washington, in which the parties reached a settlement of $2.9 million and any and all claims were dismissed with prejudice. The settlement payment was made by PURMS and AEGIS.

Note 10 – Risk Management and Self-Insurance (continued)

The claims settled were for State claims only. The settlement process with the BIA and the USDA is still ongoing. Management believes there is substantial doubt regarding the initial investigation report and, as such, does not believe damages are estimable. The District has access to the shared insurance pool, noted below of $35 million per occurrence.

PURMS and AEGIS, the insurance carriers for the District, has provided legal representation for both fires. The District's deductible is $1,000,000, which is shared by the pools.

The District is a participant in the liability pool, which provides the District with shared excess coverage of $35,000,000 general liability, and $35,000,000 per occurrence Directors and Officers liability.

Note 11 – Joint Ventures

Conservation and Renewable Energy System (CARES) – The District, along with seven other public utility districts, is a member of CARES, a municipal corporation and joint operating agency of the State of Washington. CARES was formed pursuant to RCW Chapter 43.52. The purpose of CARES is to develop and acquire conservation, renewable, and high efficiency resources consistent with the Northwest Conservation and Electric Power Plan. CARES issued Conservation Project Revenue Bonds which are tax-exempt and unconditionally guaranteed by the BPA. The District has not contributed any money to CARES for several years. The District has no equity interest or liability for CARES operations.

McNary North Fishway Hydroelectric Project – On August 14, 1995, the District and Northern Wasco County PUD entered into an Ownership Agreement to jointly construct and operate the McNary North Fishway Hydroelectric Project. The project was completed in September 1997 and is generating approximately 10 MW of electricity. Both the District and Northern Wasco County PUD share equally in the output, as well as the construction and operation costs of the Project. The District contributed $603,346 and $1,000,000 in 2018 and 2017, respectively.

Last Mile Electrical Cooperative (LMEC) – The District, along with seven other public utility districts and two other organizations, is a member of LMEC, a non-profit cooperative. LMEC was formed pursuant to RCW Chapter 24.06. The purpose of LMEC is to develop wind and other renewable energy projects. At this time, LMEC has not issued any debt and is solely funded by its members. The District has no equity interest or liability for the LMEC operations at this time.

White Creek Public, LLC & White Creek Project, LLC – The District, along with Cowlitz PUD, formed White Creek Public, LLC to participate in White Creek Project, LLC which also includes as members Tanner Electric Co-op and Lakeview Light & Power. Early development of the project was done by the utilities involved, but prior to the end of 2007 the project was sold to Prudential and Lehman Brothers. Energy purchase agreements were signed by the utilities for 20 years of power that began commercial operation on November 21, 2007 (see Note 4). The percentage owned by each utility was determined based upon their contribution made during the original development stage. Phases 1 and 2 of White Creek Wind I have a total of 89 2.3 MW wind turbines for an anticipated output of 205 MW.

Note 12 – Contingencies

Lawsuits – The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of District management that resolution of these matters will not have a material adverse effect on the financial condition of the District. See also Note 10.

Construction financing – On April 17, 2001 the District entered into a thirty (30)-year agreement with Goldendale Energy, Inc. in order to provide for the transmission of the electric energy to be produced at Goldendale Energy Inc. generating facility from the E.E. Clouse Substation to Bonneville's Harvalum Substation. The generating facility was sold through bankruptcy auction in February 2007 to Puget Sound Energy. The District established a new letter of credit for the transmission line service, which the District built and operates for the generation facility. The letter of credit covers the net present value of the remaining contract amount including the debt outstanding.

Grants – Grants received by the District are subject to audit by the granting agency and may result in certain costs being disallowed and required to be returned. Management believes it has complied with grant guidelines and the likelihood of disallowed costs is remote.

Note 13 – Power Contracts

Effective October 1, 2017, the District entered into a Load following Agreement with the BPA. The agreement is for Load Following service coupled with a new Tiered Rate Methodology (TRM). The TRM establishes an initial Contract High Water Mark (CHWM) load that qualifies for service at Bonneville Power Administration's (BPA) lower cost power (Tier 1) from the Federal Base System (FBS). Any requirement above the CHWM load is known as Above High Water Mark (AHWM) load. The AHWM load obligation for each year is established in advance of each rate period, which spans two years, based upon load forecasts and projected FBS capability. The AHWM load can be served with non-federal resources or purchased from BPA as Tier 2 power. Tier 2 power purchased from BPA is expected to be priced at or around market. The District's AHWM was served by non-federal resource power through a power purchase contract from The Energy Authority for the two-year rate period.

Note 14 – Generation Assets

H. W. Hill Landfill Gas project is a 26.0 MW plant that takes methane gas from the regional landfill and produces electricity from two 10 MW Combined Cycle combustion turbines and one 6 MW steam generator. The entire output is sold under contract to an off taker through mid-year 2018. The project was taken offline in June 2018 in preparation for the new RNG facility. Future use of this facility is under consideration by District staff.

McNary Dam Hydroelectric project is a 10 MW plant that the District shares joint ownership with Northern Wasco People's Utility District in The Dalles, Oregon. The facility is located on the north shore fish bypass area of McNary Dam and received a 50-year license on September 30, 1991. The District receives 4.5 MWs, which are declared to load.

The Renewable Natural Gas Facility went online in November 2018 with production of RNG. The RNG is injected into the nearby natural gas pipeline and utilized by downstream parties as renewable vehicle fuel. The output from the facility is sold as part of a 15-year contract to IGI Resources and its parent company, British Petroleum North America. The District recognized $2,059,491 in revenues related to the output from the facility during the year ended December 31, 2018.

Note 15 – Union Contracts

The District has a contract with the International Brotherhood of Electrical Workers (IBEW) as well as the Water/Wastewater Workers which covers these workers employed by the District. The District signed a new contract with the unions in April 2015, which expires in March 2020. The parties agreed to open the contract on December 2017 with regard to wages and healthcare, the Patient Protection and Affordable Care Act (PPACA) Excise Tax on Cadillac Plans implementation in 2018-2019. The District continues to negotiate with the IBEW through the date the financial statements were issued.

Note 16 – Subsequent Event

Effective January 25, 2019, the District signed a $10 million line of credit agreement with a commercial lender. Interest on the line of credit is fixed at 4.74%. The agreement is set to expire December 31, 2020, at which time all unpaid interest and principal will be due in full. The line of credit is secure by the net revenues of the District, as defined by the lender, and is subordinate to any senior lien debt agreements outstanding. The line of credit also requires certain financial covenants including a debt service coverage ratio.

Required Supplementary Information

Public Utility District No. 1 of Klickitat County –
Schedule of Changes in Total OPEB Liability and Related Ratios
Last Ten Years*

	December 31, 2018
Total OPEB Liability	
Service cost	$ 61,916
Interest cost	53,391
Effect of assumptions changes	46,736
Benefit payments	(98,983)
Net change in total OPEB liability	63,060
Total OPEB liability, beginning of period	1,401,532
Total OPEB liability, end of period	$ 1,464,592
Covered employee payroll	$ 6,861,924
Total OPEB liability as a percent of covered payroll	21.34%

* Fiscal year 2018 was the 1st year of implementation, therefore only one year is shown.

Public Utility District No. 1 of Klickitat County –
Schedule of Proportionate Share of the Net Pension Liability
Last Ten Years*

PERS 1

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the net pension asset	0.050830%	0.052794%	0.057652%	0.070364%
Proportionate share of the net pension liability	$ 2,270,085	$ 2,505,117	$ 3,096,184	$ 3,680,682
Covered-employee payroll	$ 6,888,007	$ 6,684,510	$ 6,630,605	$ 6,507,405
Proportionate share of the net pension liability as percentage of covered-employee payroll	33%	37%	47%	57%
Plan's fiduciary net position	$ 7,677,378,000	$ 7,496,920,000	$ 7,126,401,000	$ 7,558,312,000
Plan fiduciary net position as a percentage of the total pension liability	63%	61%	57%	59%

PERS 2/3

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the net pension asset	0.065435%	0.067908%	0.073869%	0.089705%
Proportionate share of the net pension liability	$ 1,117,243	$ 2,359,477	$ 3,719,245	$ 3,205,210
Covered-employee payroll	$ 6,888,007	$ 6,684,510	$ 6,630,605	$ 6,497,821
Proportionate share of the net pension liability as percentage of covered-employee payroll	16%	35%	56%	49%
Plan's fiduciary net position	$ 38,685,317,000	$ 35,000,803,000	$ 30,482,624,000	$ 29,511,959,000
Plan fiduciary net position as a percentage of the total pension liability	96%	91%	86%	89%

* - Additional years will be added as information is obtained.

PERS 1

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Contractually required contribution (actuarially determined)	$ 360,069	$ 321,420	$ 318,217	$ 296,743
Contributions in relation to the actuarially determined contribution	(360,069)	(321,420)	(318,217)	(296,743)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 6,289,795	$ 6,687,962	$ 6,630,605	$ 13,005,226
Contributions as a percentage of covered-employee payroll	0%	0%	0%	2%

PERS 2/3

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2016
Contractually required contribution (actuarially determined)	$ 533,228	$ 449,348	$ 412,412	$ 379,656
Contributions in relation to the actuarially determined contribution	(533,228)	(449,348)	(412,412)	(379,656)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 6,289,795	$ 6,687,962	$ 6,630,605	$ 6,497,821
Contributions as a percentage of covered-employee payroll	8%	7%	6%	6%

* - Additional years will be added as information is obtained.

Notes to schedules

Klickitat county PUD implemented GASB 68 for the year ended June 30, 2015. information is presented for only those years for which information is available.

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

NOTE - Changes made to presentation
The PERS 1 UAAL is considered a PERS 1 contribution as it is contributed to that plan. This has been added to the PERS 1 contributions and deducted from PERS 2/3.

GASB 82 - Changes the covered payroll in RSI to the payroll on which contributions are based. Accordingly, PERS 1 will include the payroll of PERS 2/3 when there is a PERS 1 UAAL contribution.

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*

The Board of Commissioners
Public Utility District No. 1 of Klickitat County

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 combined financial statements of Public Utility District No. 1 of Klickitat County (the District), which comprise the combined statement of net position as of December 31, 2018, and the related combined statement 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 22, 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 opinions 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 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 individual and combined 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

Portland, Oregon
May 22, 2019

MOSSADAMS