Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Douglas County

For the period January 1, 2019 through December 31, 2019

Published August 3, 2020

Report No. 1026653

Office of the Washington State Auditor
Pat McCarthy

August 3, 2020

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Douglas County's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Public Utility District No. 1 of Douglas County
January 1, 2019 through December 31, 2019

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

We have audited, 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, the financial statements of each major fund of Public Utility District No. 1 of Douglas County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 8, 2020. The prior year comparative information has been derived from the District's 2018 basic financial statements, on which we issued our report dated July 22, 2019.

As discussed in Note 10 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Management's plans in response to this matter are also described in Note 10.

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 District'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 financial statements are free from material misstatement, we performed tests of the District's 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

July 8, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Douglas County
January 1, 2019 through December 31, 2019

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund of Public Utility District No. 1 of Douglas County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Public Utility District No. 1 of Douglas County, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 10 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Management's plans in response to this matter are also described in Note 10. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2018, from which such partial information was derived. We have previously audited the District's 2018 financial statements and we expressed unmodified opinions on the respective financial statements of each major fund in our report dated July 22, 2019. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2020 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.

Pat McCarthy

State Auditor

Olympia, WA

July 8, 2020

FINANCIAL SECTION

Public Utility District No. 1 of Douglas County
January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) presents an overview and analysis of the financial activities of Public Utility District No. 1 of Douglas County (the District) during the calendar years ended December 31, 2019 and 2018. This supplementary information should be read in conjunction with the accompanying audited financial statements and related notes.

OVERVIEW OF FINANCIAL STATEMENTS AND OPERATIONS

The District, a municipal corporation of the state, is organized in two primary operating systems: the Electric Distribution System (Distribution System) and the Wells Hydroelectric Project (Wells Project). The Distribution System provides retail electric and wholesale broadband service to customers in Douglas County, Washington. The Wells Project is a hydroelectric facility, owned and operated by the District and located on the Columbia River in the state of Washington. Generation from the Wells Project is sold at cost to three Pacific Northwest investor owned utilities pursuant to long term power sales contracts, to the District's Distribution System and to the Colville Confederated Tribes under the terms of a settlement agreement.

The financial report includes this MD&A, the financial statements and the notes to the financial statements. The financial statements of the District report information using enterprise accounting methods similar to those used by private utility companies. These statements offer short and long-term financial information about District activities.

- **Statement of Net Position**: The Statement of Net Position presents information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) of the District. The net position section is separated into three categories: net investment in capital assets, net position – restricted, and net position – unrestricted.

- **Statement of Revenues, Expenses, and Changes in Net Position**: This statement reflects the transactions and events that increase and decrease the economic resources of the District (operations). Revenues and expenses are summarized by major source and use. Revenues and expenses are further summarized as operating and non-operating based on the nature of the transaction.

- **Statement of Cash Flows**: The Statement of Cash Flows reflects the District's sources and uses of cash separated into operating, investing, and capital activities.

- **Notes to the financial statements**: The financial statement notes provide information that is essential for a full understanding of the information provided in the financial statements described above.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The assets of the District exceeded its liabilities at the close of fiscal year 2019 by $398 million (net position). Of this amount, $106 million represents unrestricted net position, which may be used to meet the District's ongoing obligations. Net investment in capital assets was $287 million and accounted for 72 percent of the District's net position.

The following analysis provides a three-year comparison of key financial information for the Distribution System and for the Wells Project.

DISTRIBUTION SYSTEM

The service area of the Distribution System includes Douglas County, with an area of 1,820 square miles. The assets (properties) of the Distribution System include 40 miles of 115-kV transmission lines, 27 miles of 34.5-kV transmission line and 13 miles 230-kV transmission line, 18 substations, 1,379 miles of overhead and underground distribution lines, 809 miles of fiber optic lines, and other buildings, equipment, inventories and related facilities.

Condensed Comparative Financial Information

Distribution System Balance Sheet
(Dollars in Thousands)

			Increase (Decrease) 2019-2018		
	12/31/2019	12/31/2018	$	%	12/31/2017
Current & Other Assets	$ 131,482	87,542	$ 43,940	50.2%	$ 67,664
Capital Assets	157,245	154,234	3,011	2.0%	151,102
Deferred Outflows	1,131	1,047	84	8.0%	1,144
Total Assets/Deferred Outflows	289,858	242,823	47,035	19.4%	219,910
Current Liabilities	15,283	12,690	2,593	20.4%	9,295
Noncurrent Liabilities	33,308	35,965	(2,657)	-7.4%	38,695
Deferred Inflows	2,165	2,022	143	7.1%	911
Total Liabilities/Deferred Inflows	50,756	50,677	79	0.2%	48,901
Net Investment in Capital Assets	127,680	123,731	3,949	3.2%	119,288
Restricted	2,645	2,646	(1)	0.0%	2,645
Unrestricted	108,777	65,769	43,008	65.4%	49,074
Total Net Position	$ 239,102	$ 192,146	$ 46,956	24.4%	$ 171,007

Distribution System Statement of Revenue, Expenses and Changes in Net Position
(Dollars in Thousands)

	12/31/2019	12/31/2018	Increase (Decrease) 2019-2018 $	%	12/31/2017
Operating Revenues					
Retail Electric Sales	$ 33,855	$ 29,439	$ 4,416	15.0%	$ 27,344
Electric Sales For Resale	76,966	44,737	32,229	72.0%	22,077
Broadband	4,063	3,863	200	5.2%	3,645
Other	431	449	(18)	-4.0%	437
Nonoperating Revenues	4,946	1,435	3,511	244.7%	2,208
Total Revenues	120,261	79,923	40,338	50.5%	55,711
Operating Expenses					
Purchased Power	50,198	39,059	11,139	28.5%	33,826
Other	24,437	21,388	3,049	14.3%	22,146
Nonoperating Expenses	1,247	1,303	(56)	-4.3%	1,352
Total Expenses	75,882	61,750	14,132	22.9%	57,324
Capital Contributions	2,577	2,966	(389)	-13.1%	8,175
Net Earnings	46,956	21,139	25,817	122.1%	6,562
Beginning Net Position	192,146	171,007	21,139	12.4%	164,445
Ending Net Position	$ 239,102	$ 192,146	$ 46,956	24.4%	$ 171,007

Financial Analysis

The Distribution System's overall financial condition increased during 2019 compared to 2018. Total revenues increased by $40.3 million, and total expenses increased by $14.1 million. The ending net position was $239.1 million, a $46.9 million increase from 2018. The reasons for this increase are discussed in the following sections.

Revenues

2018 to 2019:
Sales to retail customers (Retail Electric Sales), increased $4.4 million in 2019 or 15 % compared to 2018. This is primarily the result of unprecedented load growth over the last three years from block chain customers. These businesses, commonly called non-diverse, use significant amounts of power on a continual basis. In 2018 the non-diverse load growth increased approximately 10% and an additional 10% in 2019. In May 2019 District commissioners placed a moratorium on new non-diverse loads to allow District staff time to evaluate policies, procedures and the impacts of this unprecedented load growth in Douglas County.

Wholesale energy sales (Electric Sales for Resale) increased $32.2 million or 72% in 2019. Wells Project power sales revenue accounting for 54% of the total Electric Sales for Resale revenue in 2019. Under the power sales contract, which began on September 1, 2018, Wells Project output is sold to three Pacific Northwest investor owned utilities at a fixed price through September 30, 2028.

In 2019, the District saw a $3.5 million increase in nonoperating revenues related to reimbursements of construction costs for two transmission line projects. The District is the lead agency for a 230 kV transmission line construction project and a 115 kV transmission line reconstruction project.

2017 to 2018:
Revenues from sales to retail customers (Retail Electric Sales), in 2018 increased $2.1 million (7.7%) from 2017. The demand for energy in the greater East Wenatchee area remained strong in 2018 and was the primary reason for the increase in revenue. Retail customer consumption for 2018 was 1,005,718 megawatts, compared to 926,104 megawatts in 2017 and 798,405 in 2016.

The District entered into a new power sales contract for the sale of Wells Project output beginning in September 1, 2018. Wholesale revenues from the new power sales contract are deposited in the accounts of the Distribution System which are the primary reason for the $22.7 million increase in Electric Sales for Resale in 2018 compared to 2017.

Revenues from Broadband services increased $218,000 (6%) compared to 2017 as the District continues to build Douglas County Community Network (DCCN) infrastructure into unserved areas in Douglas County.

Nonoperating Revenues decreased $773,000 (35%) compared to 2017 mainly resulting from less reimbursement activity related to the District's Rapids to Columbia 230 kV transmission joint line project.

Expenses

2018 to 2019:
Total expenses increased $14.1 million from 2018 to 2019. Nearly 67% of the District's operating expenses are for purchased power. This is mainly attributed to a component of the Wells Power sales contract which requires monthly transfers of Wells Project operating costs from the Distribution System to the Wells Project. The new power sales contract was effective for only four months in 2018 compared to 12 months in 2019.

Other operating expenses include operations and maintenance, administrative and general, taxes and depreciation, the balance of which increased $3 million in 2019 to $24.4 million. The difference in other operating expenses is due to normal fluctuations in the cost of doing business.

2017 to 2018:
The District entered into a new power sales contract for the sale of Wells Project output beginning in September 2018. A component of the new power sales contract established monthly transfers of Wells Project operating costs from the Distribution System to the Wells Project. This is the primary reason for the $5.2 million increase in 2018 compared to 2017. Other power resources include: Rocky Reach Dam, Nine Canyon Wind Project and a long-term exchange contract with Shell Energy.

Other operating expenses include operations and maintenance, administrative and general, taxes and depreciation, the balance of which decreased $758,000in 2018 to $21 million.

Nonoperating expenses decreased 3.6% which is primarily related to interest expense on long-term debt, which due to our level debt structuring, decreases year to year.

Capital Asset and Long-Term Debt Activity

As of December 31, 2019, the Distribution System had approximately $157 million invested in capital assets, net of accumulated depreciation. The total increase in the Distribution System's investment in capital assets for 2019 was $3 million. Capital additions are associated with a growing customer base, normal replacements of long-term electrical distribution facilities and rebuilding District facilities to accommodate road expansion projects.

As of December 31, 2019, the Distribution System had long-term liabilities of $33.3 million. This includes $27.7 million of revenues bonds outstanding, net of the current portion of $1.3 million. Debt service payments for 2019 totaled $2.5 million. Debt service coverage ratios for 2019 and 2018 were 22.1 and 12.2, respectively. The Distribution System's current bond ratings from the firms of Standard & Poor's and Moody's Investors Service are "AA" and "Aa3," respectively.

Please see the notes to the financial statements for further information regarding capital assets and long-term debt activity of the Distribution System.

Capital Contributions

District customers pay capital contributions that help fund new construction projects. In 2019, the District received $2.5 million in capital contributions.

WELLS PROJECT

The Wells Project is located 516 river miles from the mouth of the Columbia River and 50 miles upstream from East Wenatchee. In November 2012, The Federal Energy Regulatory Commission (FERC) issued the District a 40-year license for the Wells Hydroelectric Project. Commercial operation began on September 16, 1967. The Wells Project is constructed in a hydrocombine design, which includes ten generating units, a switchyard, spillways, and fish passage facilities in a single integrated concrete structure.

Condensed Comparative Financial Information

Wells Project Balance Sheet
(Dollars in Thousands)

	12/31/2019	12/31/2018	Increase (Decrease) 2019-2018 $	%	12/31/2017
Current and Other Assets	$ 22,263	20,536	$ 1,727	8.4%	$ 31,176
Capital Assets	336,218	311,471	24,747	7.9%	297,224
Deferred Outflows and Regulatory Assets	3,404	3,413	(9)	-0.3%	5,838
Total Assets/Deferred Outflows	361,885	335,420	26,465	7.9%	334,238
Current Liabilities	17,051	14,642	2,409	16.5%	23,259
Long-Term Liabilities	183,230	160,554	22,676	14.1%	157,160
Deferred Inflows	2,510	2,388	122	5.1%	1,747
Total Liabilities/Deferred Inflows	202,791	177,584	25,207	14.2%	182,166
Net Investment in Capital Assets	159,702	159,374	328	0.2%	157,499
Restricted for Debt Service	1,727	2,320	(593)	-25.6%	0
Unrestricted	(2,335)	(3,859)	1,524	-39.5%	(5,427)
Total Net Position	$ 159,094	$ 157,835	$ 1,259	0.8%	$ 152,072

	12/31/2019	12/31/2018	Increase (Decrease) 2019-2018 $	%	12/31/2017
Operating Revenues	$ 40,278	$ 48,803	$ (8,525)	-17.5%	$ 48,171
Nonoperating Revenues	1,232	930	302	32.5%	1,146
Total Revenues	41,510	49,733	(8,223)	-16.5%	49,317
Operating Expenses	32,887	34,839	(1,952)	-5.6%	32,338
Nonoperating Expenses	7,688	9,549	(1,861)	-19.5%	10,933
Total Expenses	40,575	44,388	(3,813)	-8.6%	43,271
Capital Contributions	324	418	(94)	-22.5%	-
Net Earnings	1,259	5,763	(4,504)	-78.2%	6,046
Beginning Net Position	157,835	152,072	5,763	3.8%	146,026
Ending Net Position	$ 159,094	$ 157,835	$ 1,259	0.8%	$ 152,072

Financial Analysis

Fluctuations in the Wells Project balance sheets as of December 31, 2019 compared to 2018 were due primarily to construction additions (rebuilding of our generators), normal amortization of deferred outflows and regulatory assets, and construction related loan financing. Other significant items are discussed in further detail below and in the notes to the financial statements.

Revenues

Because the electricity generated by the Wells Project is sold at cost, which the terms of the power sales contract define as all operation, maintenance, taxes and debt service (principal, interest, reserves), revenues directly follow any fluctuations in these items. Income results primarily from the difference between billed principal and reserves (revenue definition) and depreciation expense. Non-operating revenues consist mainly of investment income and a federal interest rebate for a portion of the interest expense on the 2010 Build America Bonds (BABs). See further information below regarding the BABs.

Expenses

2018 to 2019:
Total operating expenses decreased $1.9 million to $32.9 million. During 2018, the Project incurred high operating expenses related to exploratory and diagnostic dam safety costs, which, during 2019 were much lower.

Nonoperating expenses decreased due to significantly lower amortization of other charges, debt discounts and premiums. Normally, interest expense decreases year-to-year (level debt service), but increased slightly this year as the Project added $30M of construction financing (inter-system loans). Investment income decreased due to lower market rates and minimal funds available to invest.

2017 to 2018:
Total operating expenses increased $2.5 million to $34.8 million. The majority of the increase in operating expenses pertained to the dam safety costs which are mostly attributed to engineering and exploratory (diagnostic) activity.

Nonoperating expenses decreased due to lower interest costs. The Project's debt is structured to provide level debt service, so this is an expected outcome. The Project realized lower interest expense due to the call and refunding of the 2005 bonds at lower rates. Investment income decreased mainly due to a decrease of the Project's investment construction bond fund portfolio.

Capital Assets and Long-Term Debt Activity

As of December 31, 2019 the Wells Project had approximately $336 million invested in capital assets, net of accumulated depreciation, including its hydraulic generation and transmission plant, fish rearing facilities, and related land, office buildings and equipment.

As of December 31, 2019 the Wells Project had long-term liabilities of $183 million. This included $127 million of revenue bonds outstanding, net of the current portion of approximately $5.1 million. In August 2010 the District issued $113 million of Wells Project revenue bonds (2010 Bonds) in order to finance the continuation of the rebuild of the generating units and other capital projects, and to refinance the remaining 1999 and 2000 Wells Project bonds. The 2010 Bonds included $46 million of taxable Build America Bonds (BABs). The District receives a semi-annual interest rebate from the federal government equal to 35% of the corresponding semi-annual interest payment on the BABs. In August 2012 the District issued $43 million of Wells Project revenue and refunding bonds (2012 Bonds) in order to refinance most of the outstanding 2003 Wells Project bonds. This resulted in a total debt service savings of $3 million over the succeeding seven years. In June 2015 the District issued $58 million of Wells Project revenue bonds (2015 Bonds) in order to refinance and legally defease $67 million of the outstanding 2005 Wells Project bonds. The net present value savings of the 2005 refunding transaction were $5,968,000. See the notes to the financial statements for further information regarding the Wells Project bonds.

In May of 2019, Moody's affirmed its "Aa3" rating with a stable outlook. In November of 2018, Standard & Poor's also affirmed its "AA"/stable bond rating.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the finances of the District. If you have questions about this report or need additional financial information, please contact Public Utility District No. 1 of Douglas County, 1151 Valley Mall Parkway, East Wenatchee, WA 98802.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2019

ASSETS	Wells Hydroelectric Project	Distribution System	TOTAL 2019	TOTAL 2018
Current Assets				
Restricted:				
Debt Repayment Funds-Cash	$ 10,467,260	$ 2,645,411	$ 13,112,671	$ 2,861,651
Debt Repayment Funds-Investments	-	-	-	6,168,344
Reserve & Contingency Fund-Cash	7,155,369	-	7,155,369	4,650,215
Wells Hydroelectric Project Licensing Fund-Cash	-	3,212,557	3,212,557	434,696
Wells Hydroelectric Project Licensing Fund-Investments	-	-	-	2,500,000
Wells Hydroelectric Project - Plan Species Cash	1,357,243	-	1,357,243	514,984
Wells Hydroelectric Project - Plan Species Investment	751,185	-	751,185	1,247,783
Capital Project Revolving Loan Fund - Cash	-	587,129	587,129	77,382
Total Restricted	19,731,057	6,445,097	26,176,154	18,455,055
Unrestricted:				
Cash	645,623	25,411,783	26,057,406	18,528,748
Investments	-	-	-	26,600
Rate Stabilization Fund-Cash	-	16,875,945	16,875,945	2,133,071
Rate Stabilization Fund-Investments	-	7,124,055	7,124,055	21,866,929
Receivables - Net	356,234	12,762,879	12,720,907	15,161,983
Receivables - Intercompany	425,028	7,392	-	6,408
Current Portion of Intradistrict Note Recievable	-	880,000	-	310,000
Materials and Supplies	-	6,911,443	6,911,443	5,341,069
Other Current & Accrued Assets	1,105,544	2,011,878	3,117,422	2,112,098
Total Unrestricted	2,532,429	71,985,375	72,807,178	65,486,906
Total Current Assets	22,263,486	78,430,472	98,983,332	83,941,961
Non-Current Assets				
Electric Plant:				
Plant In Service	438,600,780	285,692,656	724,293,436	668,852,790
Construction Work in Progress	34,642,823	8,340,725	42,983,548	54,764,107
Electric Plant - Gross	473,243,603	294,033,381	767,276,984	723,616,897
Less: Accumulated Depreciation & Amortization	137,025,644	136,788,401	273,814,045	257,911,600
Net Electric Plant	336,217,959	157,244,980	493,462,939	465,705,297
Regulatory Assets	2,296,208	5,141,458	7,437,666	7,729,306
Intradistrict Note Receivable, excluding current portion	-	47,910,000	-	18,790,000
Total Non-Current Assets	338,514,167	210,296,438	500,900,605	492,224,603
Total Assets	360,777,653	288,726,910	599,883,937	576,166,564
Deferred Outflows				
Pension related outflows	970,136	970,137	1,940,273	1,756,620
Unamortized Loss on Reacquired Debt	137,050	161,040	298,090	319,774
Total Deferred Outflows	1,107,186	1,131,177	2,238,363	2,076,394
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 361,884,839	$ 289,858,087	$ 602,122,300	$ 578,242,958

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2019

LIABILITIES & NET POSITION	Wells Hydroelectric Project	Distribution System	TOTAL 2019	TOTAL 2018
Current Liabilities				
Accounts Payable	$ 7,763,507	$ 4,095,910	$ 11,859,417	$ 8,408,271
Accounts Payable-Intercompany	-	566,311	133,891	533,256
Other Accrued Liabilities	644,110	9,160,994	9,805,104	9,277,346
Payable from Restricted Assets:				
Accrued Interest Payable	2,703,483	99,444	2,404,721	2,527,896
Current Portion Long-Term Debt	5,940,000	1,360,000	6,420,000	6,585,000
Total Current Liabilities	17,051,100	15,282,659	30,623,133	27,331,769
Non-current Liabilities				
Bonds Payable, excluding current portion	127,325,000	24,585,000	151,910,000	158,330,000
Unamortized Bond Premiums (Discounts)	3,446,965	3,193,593	6,640,558	7,032,282
Bonds Payable, Net	130,771,965	27,778,593	158,550,558	165,362,282
Deposits and Contract Retainage	506,373	1,487,427	1,993,800	1,996,984
Intradistrict Note Payable, excluding current portion	47,910,000	-	-	18,790,000
Net Pension Liability	3,358,742	3,358,743	6,717,485	8,948,216
Compensated Absences, excluding current portion	683,091	683,091	1,366,182	1,422,132
Total Non-current Liabilities	183,230,171	33,307,854	168,628,025	196,519,614
Total Liabilities	200,281,271	48,590,513	199,251,158	223,851,383
Deferred Inflows				
Pension related inflows	2,165,244	2,165,243	4,330,487	4,043,864
Unamortized Gain on Redeemed Debt	344,228	-	344,228	366,200
Total Deferred Inflows	2,509,472	2,165,243	4,674,715	4,410,064
Total Liabilities and Deferred Inflows	202,790,743	50,755,756	203,925,873	228,261,447
Net Position				
Net Investment in Capital Assets	159,701,897	127,680,298	287,382,195	283,105,254
Restricted For Debt Service	1,726,666	2,645,411	4,372,077	4,966,475
Unrestricted	(2,334,467)	108,776,622	106,442,155	61,909,782
Total Net Position	159,094,096	239,102,331	398,196,427	349,981,511
TOTAL LIABILITIES, DEFFERRED INFLOWS AND NET POSITION	$ 361,884,839	$ 289,858,087	$ 602,122,300	$ 578,242,958

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For The Fiscal Year Ended December 31, 2019

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2019	TOTAL 2018
Operating Revenues					
Retail Sales of Electric Energy	$ -	$ 33,855,126	$ -	$ 33,855,126	$ 29,438,578
Energy Sales for Resale	40,278,313	76,965,928	(40,278,313)	76,965,928	64,753,260
Broadband	-	4,063,025	-	4,063,025	3,863,034
Other	-	430,782	-	430,782	448,875
Total Operating Revenues	40,278,313	115,314,861	(40,278,313)	115,314,861	98,503,747
Operating Expenses					
Operations	18,366,179	57,193,666	(40,278,313)	35,281,532	34,125,378
Maintenance	6,742,701	6,095,007	-	12,837,708	14,008,596
Depreciation	7,132,463	8,796,473	-	15,928,936	15,204,173
Taxes	646,544	2,549,663	-	3,196,207	3,161,050
Total Operating Expenses	32,887,887	74,634,809	(40,278,313)	67,244,383	66,499,197
Operating Income	7,390,426	40,680,052	-	48,070,478	32,004,550
Non-operating Revenues (Expenses)					
Interest Income	399,572	2,682,330	(352,435)	2,729,467	1,169,967
Interest Expense	(7,687,555)	(1,247,156)	352,435	(8,582,276)	(8,413,618)
Amortization of Other Charges, Debt Discounts, Premiums and Costs	161,829	143,244	-	305,073	(1,942,903)
Other	669,996	2,120,805	-	2,790,801	699,504
Total Non-operating Revenues (Expenses)	(6,456,158)	3,699,223	-	(2,756,935)	(8,487,050)
Income Before Contributions	934,268	44,379,275	-	45,313,543	23,517,500
Capital Contributions	324,000	2,577,373	-	2,901,373	3,384,038
Change In Net Position	1,258,268	46,956,648	-	48,214,916	26,901,538
Net Position, Beginning of Year as restated	157,835,828	192,145,683	-	349,981,511	323,079,973
Net Position, End of Year	$ 159,094,096	$ 239,102,331	$ -	$ 398,196,427	$ 349,981,511

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2019

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2019	TOTAL 2018
Cash Flow from Operating Activities					
Receipts from Customers	$ 40,731,482	$ 116,082,147	$ (40,326,122)	$ 116,487,507	$ 91,724,345
Receipts for Other Agencies	-	8,437,843		8,437,843	8,607,435
Payments to Employees & Payroll Related	(15,708,280)	(12,202,507)	-	(27,910,787)	(27,623,344)
Payments to Suppliers & Other Agencies	(10,408,401)	(61,891,958)	40,326,122	(31,974,237)	(35,798,125)
Net Cash Provided by Operating Activities	14,614,801	50,425,525	-	65,040,326	36,910,311
Cash Flows from Investing Activities					
Purchase of Investments	-	-	-	-	(21,137,105)
Proceeds from Sales and Maturities of Investments	5,930,000	17,242,875	(310,000)	22,862,875	30,096,780
Interest on Investments	286,340	2,550,725	(617,051)	2,220,014	1,032,910
Net Cash Provided by Investing Activities	6,216,340	19,793,600	(927,051)	25,082,889	9,992,585
Cash Flows from Capital and Related Financing Activities					
Additions to Electric Plant in Service	(789,760)	(2,734,361)	-	(3,524,121)	(987,311)
Net Additions to Construction Work in Progress	(29,509,306)	(7,169,945)	-	(36,679,251)	(26,202,474)
Intradistrict Note Payable-Principal Payments	(310,000)	-	310,000	-	-
Proceeds from Capital Contributions	324,000	2,577,373	-	2,901,373	2,861,979
Intradistrict Note - CPRLF	30,000,000	(30,000,000)	-	-	-
Principal Payments on Long-Term Debt: Scheduled Maturities	(4,970,000)	(1,305,000)	-	(6,275,000)	(12,190,000)
Interest Payments on Long-term Debt	(7,407,630)	(1,252,050)	617,051	(8,042,629)	(8,514,167)
Build America Bonds Interest Rebates	653,965	-	-	653,965	666,528
Net Cash Used in Capital and Related Financing Activities	(12,008,731)	(39,883,983)	927,051	(50,965,663)	(44,365,445)
Net Increase (Decrease) in Cash and Cash Equivalents	8,822,410	30,335,142	-	39,157,552	2,537,451
Cash & Cash Equivalents, Beginning of Year	10,803,085	18,397,683	-	29,200,768	26,663,317
Cash & Cash Equivalents, End of Year	$ 19,625,495	$ 48,732,825	$ -	$ 68,358,320	$ 29,200,768

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2019

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2019	TOTAL 2018
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities					
Operating Income	$ 7,390,426	$ 40,680,052	$ -	$ 48,070,478	$ 32,004,550
Adjustments to Reconcile Operating Income to Net Cash					
Provided by Operating Activities:					
Depreciation	7,132,463	8,796,473	-	15,928,936	15,204,173
Cash Provided by changes in Operating Assets and Liabilities:					
Accounts Receivable - Excluding Construction	4,031,809	767,286	-	4,799,095	(11,557,866)
Prepaid Expenses - Other Current and Accrued Assets	(146,141)	(448,429)	-	(594,570)	11,388
Materials and Supplies	-	(1,390,158)	-	(1,390,158)	(481,960)
Other Accrued Liabilities	164,634	1,193,980	-	1,358,614	587,824
Accounts Payable	(4,412,809)	620,812	-	(3,791,997)	1,988,554
Other Miscellaneous Assets	-	208,693	-	208,693	(252,542)
Retainage - Operating Only	454,419	(3,184)	-	451,235	(593,810)
Net Cash Provided by Operating Activities	$ 14,614,801	$ 50,425,525	$ -	$ 65,040,326	$ 36,910,311

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

These notes are an integral part of the accompanying financial statements:

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Douglas County, Washington (the District) is a municipal corporation of the State of Washington established in 1936. The District is administered by a three person Board of Commissioners, elected by the voters of Douglas County. The District is organized in two primary operating systems: the Electric Distribution System and the Wells Hydroelectric Project. The Electric Distribution System provides retail electricity and broadband communication to customers in Douglas County, Washington. The Wells Hydroelectric Project generates electricity from a hydroelectric dam located on the Columbia River.

Accounting Policies:

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) applicable to municipal utilities. 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 the Uniform System of Accounts of the Federal Power Act, prescribed by the Federal Energy Regulatory Commission (FERC). The District's accounting records are further maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 RCW. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses. Revenues and expenses related to financing and investing activities, and any other revenues and expenses not related to the District's principal operations, are considered to be non-operating revenues and expenses.

Revenue Recognition:

The Distribution System recognizes revenue as billed on a monthly basis. Unbilled delivered electrical services at fiscal period end are considered to be the revenue of the following month and are not accrued, which is a departure from GAAP. Service rates are established by the District's publicly elected Board of Commissioners. Under the terms of a new 10-year Power Sales contract (effective 9-1-18), Wells Project generation is sold to the Distribution System under similar terms to the legacy contract (revenues are derived from cost: operation, maintenance, taxes, and debt service). Sale of power to three major Pacific Northwest electric utilities (Puget Sound Energy, Avista Utilities, Portland General Electric), Okanogan PUD and the Colville Confederated Tribes, are recorded in the District's Electric Distribution System.

Utility Plant and Depreciation:

<u>Distribution System</u> plant assets are stated at cost. New construction, betterments and major renewals are capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of the asset, ranging from 12.5 to 35 years and on the double-declining balance method which is applied for 5 years on vehicles. Composite rates are used for depreciation of asset groups and accordingly, no gain or loss is recorded on the disposition of an asset. When operating plant assets are retired, their original cost together with removal costs, less salvage, are charged to accumulated depreciation.

<u>Wells Project</u> plant, including land and all related facilities, is recorded at cost. Cost is comprised of the following: (a) all direct construction and acquisition costs; (b) all indirect costs up to the commencement of initial power generated on September 7, 1967, and only those indirect costs related to the construction and acquisition since that date; and (c) interest costs capitalized up to certain dates, which were subsequent to the date generating units were placed in service. Under FERC accounting, interest costs would cease to be capitalized after units are placed in service. Management of the District elected to capitalize interest costs through January 1, 1969, as to the 1963 series bonds, and to September 1, 1972, as to the 1965 series bonds, because it believed this was the accounting treatment specifically prescribed in the bond resolutions and power sales contracts. Depreciation of generation and transmission plant is provided over estimated useful lives ranging from 15 to 95 years, using the sinking fund method (6% rate). The sinking fund method is a method selected by the Board at the inception of the Wells Project and continues to be applied as its use corresponds more closely to the Project's related revenue stream (determined from debt service), than would an alternative cost allocation method. Depreciation of general plant assets are recorded using the straight-line method. As noted above and prescribed by FERC accounting rules, gains and losses on disposition of depreciable assets are an adjustment to accumulated depreciation, which has a self-correcting effect on the depreciation base. Land and other non-depreciable assets are excluded from this treatment (gains and losses are recognized).

Deferred Improvements to Recreational Facilities – Wells Project:

Deferred improvements to recreational facilities represent costs incurred to complete certain recreational projects and improvements on city owned land surrounding the reservoir. These costs are amortized using the sinking fund method (6% rate). The treatment of these costs is a method selected under the provisions of ASC 980.

Restricted Assets:

In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. These accounts are restricted for specific uses including debt service, bond reserves and capital additions.

Receivables:

Distribution System uncollectible accounts are estimated based on an experience percentage of sales to electric residential consumers. The District's Commissioners approve all write-offs.

The Wells Project does not have an allowance for uncollectable accounts.

Inventories:

Inventories are valued at average cost, which approximates the market value.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the District considers all short-term investments with an initial maturity of three months or less when purchased to be cash equivalents. This definition of cash equivalents excludes investments with a maturity of less than three months which are pooled with investments with longer maturity periods.

Compensated Absences:

Employees accrue personal leave to be used for vacation, sick, and family leave purposes. Personal leave granted each employee varies in accordance with years of service and may be carried forward from year-to-year, capped at a maximum bank of 1,200 hours for employees hired before April 1, 2011 and 700 hours for employees hired on or after April 1, 2011. The District records personal leave as an expense and liability when earned.

Accounting Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Insurance:

The District holds insurance policies for general liability, employee benefits liability, directors' and officers' liability, excess liability, and property insurance. Among other things, the property insurance policies cover flood, earth movement, terrorism and mobile equipment. Other types of insurance carried by the District include business automobile liability and physical damage, aircraft non-ownership liability, comprehensive crime coverage, information security and privacy liability coverage, and blackout/brownout coverage.

For purposes of certain employee benefits insurance the District is a member of the Central Washington Public Utilities Unified Insurance Program Trust (Trust). The Trust was organized pursuant to the provisions of RCW Title 54 and interlocal governmental agreements. Its general objectives include provision for the central collection and disbursement of employee benefit premiums and claims involving medical, dental, life and long-term disability coverage. The Trust is administered by a Board of Trustees comprised of an appointed Trustee from each of the seven member public utility districts. The Trustees are authorized to negotiate, obtain, and maintain insurance policies, and authorize disbursements made from the Trust to third party administrators or other entities. Effective August 1, 2002 and January 1, 2009 the Trust established a self-insured medical plan and self-insured dental plan, respectively, approved by the Washington State Office of Risk Management. The audit report for the Trust is available on the Washington State Auditor's Office website; www.sao.wa.gov. Claims settlements have not exceeded insurance coverage during any of the past three years.

Intersystem Note:

In 2004 the Board authorized an intersystem loan, in the form of a revolving note (Note) for the purpose of funding the cost of relicensing the Wells Project. Under the terms of the Note the Wells Project was allowed to take semi-annual draws from the Electric Distribution System's Wells Relicensing Fund. The interest rate for each draw was established at the time of the draw and was equal to the yield on US Treasury bonds maturing in May, 2018, plus 100 basis points. Amounts borrowed under the Note were to be due upon the expiration of the current Wells Project license and any subsequent annual FERC licenses issued to the District. On May 31, 2012, the original Wells Project license expired and FERC issued an annual license that allowed the District to continue operating the Wells Project until a new long-term license could be issued. Under the terms of the Note the District had the option, by election prior to maturity, to extend the maturity date such that principal would be amortized over the life of the new FERC license, with interest payable semi-annually. In May 2012, the District Commission, in anticipation of receiving a new long-term license, chose to utilize this option. On November 9, 2012, FERC issued to the District a new 40 year license to operate and maintain the Wells Project. Repayment of the Note is amortized over the new license period at an interest rate equal to the 30 year US Treasury bond yield at November 1, 2012, the effective date of the new license, plus 100 basis points. In 2013, the note was reclassified to a long-term loan, see Note 4.

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 2 – DEPOSITS AND INVESTMENTS

The District's deposits are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission. Cash held in the Local Government Investment Pool (LGIP) is managed by the Washington State Treasurer's Office. The LGIP is a 2a7-like pool and represents an interest in a group of securities with no specific securities subject to custodial risk.

The District's investments consist of direct obligations of the U.S. Government, municipal bonds of state and local governments, and U.S. government sponsored enterprises (agencies), which are all eligible investments for public funds in the state of Washington (RCW 43.84.080). To minimize custodial risk, the District's investments are held by a 3rd party safekeeping account which uses deliver vs. payment protocol. The District's practice is to, generally, hold investments to maturity.

Fair Value: The District categorizes its fair value measurement within the hierarchy established by GAAP. The hierarchy is based on the valuation inputs to measure the fair value of the asset. Level 1 inputs are quoted prices in the active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The difference of $98,512 between the Distribution investment balance in this note and the financial statements is the fair maket adjustment entry made at calendar year end. The valuation method for fair value measurements as of December 31, 2019 and 2018 are as followed:

Distribution Investments	Balance as of December 31, 2019			2019	2018
	Level 1	Level 2	Level 3	Total	Level 2
Federal Agency Securities	$ —	$ 2,501,950	$ —	$ 2,501,950	13,801,359
Municipal Bond Securities	—	4,523,593	—	4,523,593	10,238,830
Total	$ —	$ 7,025,543	$ —	$ 7,025,543	24,040,189

Wells Project Investments	Balance as of December 31, 2019			2019	2018
	Level 1	Level 2	Level 3	Total	Level 2
Federal Agency Securities	$ —	$ —	$ —	$ —	2,997,840
Municipal Bond Securities	—	751,185	—	751,185	4,418,287
Total	$ —	$ 751,185	$ —	$ 751,185	7,416,127

Interest Rate Risk: The risk the value of investments will decrease as a result of a rise in interest rates.

As of December 31, 2019 the average maturity of the investments are as follows:

Distribution Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	2,501,950	$ 2,501,950	—
Municipal Bond Securities	4,523,593	3,715,392	808,201
Total	$ 7,025,543	$ 6,217,342	$ 808,201

Wells Project Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	—	$ —	—
Municipal Bond Securities	751,185	751,185	—
Total	$ 751,185	$ 751,185	$ —

As of December 31, 2018 the average maturity of the investments are as follows:

Distribution Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	13,801,359	$ 6,437,652	7,363,707
Municipal Bond Securities	10,238,830	5,739,150	4,499,680
Total	$ 24,040,189	$ 12,176,802	$ 11,863,387

Wells Project Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	2,997,840	$ 2,997,840	—
Municipal Bond Securities	4,418,287	3,675,630	742,657
Total	$ 7,416,127	$ 6,673,470	$ 742,657

Credit Risk: State law limits investment authority to local governments. The District's investments are made in investment types authorized by state law.

As of December 31, 2019 the credit quality ratings of debt securities are as follows:

Distribution Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ 2,501,950	AAA	S&P
Municipal Bond Securities	4,523,593	A1/Aa/AAA	S&P

Wells Project Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ —	AAA	S&P
Municipal Bond Securities	751,185	A1/Aa/AAA	S&P

As of December 31, 2018 the credit quality ratings of debt securities are as follows:

Distribution Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ 13,801,359	AAA	S&P
Municipal Bond Securities	10,238,830	A1/Aa/AAA	S&P

Wells Project Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ 2,997,840	AAA	S&P
Municipal Bond Securities	4,418,287	A1/Aa/AAA	S&P

Concentration of Credit Risk: As of December 31, 2019 Distribution had municipal bond investments in the amount of $4,523,593 (approximately 64%) of the investment portfolio. As of December 31, 2018 Distribution had municipal bond investments in the amount of $10,238,830 (approximately 42%) of the investment portfolio. As of December 31, 2019 the Wells Project had municipal bond investments in the amount of $751,185 (approximately 3.8%) of the investment portfolio. As of December 31, 2018 the Wells Project had municipal bond investments in the amount of $4,418,287 (approximately 59%) of the investment portfolio. These municipal bonds are not guaranteed by the U.S. Government.

NOTE 3 – UTILITY PLANT

As stated in Note 1, utility plant is recorded at cost. Cost includes both direct costs of construction or acquisition and indirect costs. The District's capitalization threshold is $5,000 and an expected useful life of three years or more. The cost of maintenance and repairs is charged to expense as incurred, while the cost of additions, replacements and improvements is capitalized. Construction Work in Progress may contain amounts that will be transferred to a deferred charge account. As prescribed by FERC, the book cost of operating property retired or otherwise disposed of, less salvage, is charged to accumulated depreciation. The following changes occurred in the District's utility plant:

Electric Plant Assets **Distribution System**	**December 31, 2018**	**Increase**	**Decrease**	**December 31, 2019**
Utility plant not being depreciated:				
Land and land rights	$ 3,851,324	$ 2,222,353	$ (149,879)	$ 5,923,798
Construction w ork in progress	17,864,469	10,261,630	(19,785,374)	8,340,725
Subtotal	21,715,793	12,483,983	(19,935,254)	14,264,523
Utility plant being depreciated:				
Transmission	26,744,141	334,615	(121,544)	26,957,211
Distribution	169,807,213	21,126,924	(3,935,075)	186,999,062
General	62,786,461	1,738,464	(93,857)	64,431,068
Intangible	519,332	-	-	519,332
Miscellaneous	862,185	-	-	862,185
Subtotal	260,719,332	23,200,002	(4,150,476)	279,768,859
Accumulated depreciation	(128,200,951)	(9,427,539)	840,088	(136,788,402)
Net plant being depreciated	132,518,381	13,772,463	(3,310,388)	142,980,457
Net Utility Plant - Distribution	$ 154,234,174	$ 26,256,447	$ (23,245,641)	$ 157,244,979

Electric Plant Assets **Wells Hydroelectric Project**	**December 31, 2018**	**Increase**	**Decrease**	**December 31, 2019**
Utility plant not being depreciated:				
Land and land rights	$ 52,177,903	$ -	$ -	$ 52,177,903
Construction work in progress	36,899,639	31,863,755	(34,120,571)	34,642,823
Subtotal	89,077,542	31,863,755	(34,120,571)	86,820,726
Utility plant being depreciated:				
Hydraulic generation	309,954,179	33,618,677	-	343,572,856
Transmisssion	18,953,002	-	-	18,953,002
General	12,152,942	789,760	(102,008)	12,840,694
Intangible plant	11,044,108	12,217	-	11,056,325
Subtotal	352,104,231	34,420,654	(102,008)	386,422,877
Accumulated depreciation	(129,710,650)	(7,671,824)	356,830	(137,025,644)
Net plant being depreciated	222,393,581	26,748,830	254,822	249,397,233
Net utility plant - Wells Project	$ 311,471,123	$ 58,612,585	$ (33,865,749)	$ 336,217,959

NOTE 4 – LONG-TERM DEBT

Wells Hydroelectric Project

	Purpose	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Due Within One Year
Revenue Bonds:						
Series of 2010A, serial bonds maturing annually to September 1, 2022 and term bonds maturing September 1, 2030 and 2040, interest at 1.484% - 5.450%	Capital Improvements	45,615,000	-	1,180,000	44,435,000	1,230,000
Series of 2010B, serial bonds maturing annually to September 1, 2020 and term bonds maturing September 1, 2030 and 2040, interest at 1.484% - 5.495%	Capital Improvements	37,505,000	-	1,185,000	36,320,000	1,215,000
Series of 2010C, serial bonds maturing annually to September 1, 2029, interest at 3.00% - 5.00%	Refunding	5,410,000	-	395,000	5,015,000	415,000
Series of 2015A, serial bonds maturing annually to September 1, 2025, and term bonds maturing September 1, 2030 and 2035, interest at 3.70% - 5.00%	Refunding	28,255,000	-	1,230,000	27,025,000	1,170,000
Series of 2015B, serial bonds maturing annually to September 1, 2026, and term bonds maturing September 1, 2022, 2030, and 2035, interest at 3.60% - 5.25%	Refunding	20,570,000	-	980,000	19,590,000	1,030,000
Revenue bonds payable		137,355,000	-	4,970,000	132,385,000	5,060,000

Following is a summary of future debt service requirements for Wells Project revenue bonds outstanding at December 31, 2019:

Principal		Interest		Total
5,060,000		6,652,086	$	11,712,086
5,265,000		6,425,702		11,690,702
5,475,000		6,189,535		11,664,535
5,690,000		5,954,463		11,644,463
5,925,000		5,687,530		11,612,530
33,700,000		23,964,684		57,664,684
36,405,000		15,344,201		51,749,201
29,070,000		6,054,623		35,124,623
5,795,000		316,903		6,111,903
132,385,000	$	76,589,727	$	208,974,727

Interest on all bonds for the Wells Hydroelectric Project is payable on March 1 and September 1. All bond covenants were complied with for calendar years 2019 and 2018.

Following is a summary of the debt service requirements for the intra-district loan payable at December 31, 2019:

		Principal		Interest		Total
2020	$	140,000		343,805	$	483,805
2021		145,000		338,367		483,367
2022		150,000		332,736		482,736
2023		155,000		326,913		481,913
2024		160,000		320,897		480,897
2025-2029		910,000		1,505,061		2,415,061
2030-2034		1,100,000		1,314,005		2,414,005
2035-2039		1,325,000		1,083,534		2,408,534
2040-2044		1,600,000		805,420		2,405,420
2045-2049		1,930,000		469,604		2,399,604
2050-2052		1,350,000		92,496		1,442,496
Total	$	8,965,000	$	6,932,838	$	15,897,838

Following is a summary of the debt service requirements for the intra-district Capital Projects Revolving Loan Fund payable at December 31, 2019:

		Principal		Interest		Total
2020	$	740,000		1,181,132	$	1,921,132
2021		770,000		1,321,917		2,091,917
2022		795,000		1,295,875		2,090,875
2023		830,000		1,268,954		2,098,954
2024		855,000		1,240,881		2,095,881
2025-2029		4,790,000		5,746,952		10,536,952
2030-2034		5,800,000		4,871,289		10,671,289
2035-2039		7,010,000		3,808,108		10,818,108
2040-2044		8,495,000		2,522,192		11,017,192
2045-2049		9,740,000		962,844		10,702,844
Total	$	39,825,000	$	24,220,143	$	64,045,143

Advance Debt Refunding

In June 2015, the Wells Project issued its Wells Hydroelectric Revenue and Refunding Bonds, Series 2015A, 2015B, and 2015C (the 2015 Bonds), in the total combined par amount of $58,249,581. The 2015 Bonds were issued at par. A portion of the 2015 Bonds refinanced and legally defeased $67,075,000 of the outstanding 2005 Series Bonds. The refinancing resulted in a reduction of $1,058,000 in total Wells Project debt service over the succeeding 24 years and an economic gain (difference between the present values of the old and new debt service requirements) of $43,469.

Debt service on all outstanding Wells Project bonds, which have been refinanced and legally defeased is met by cash and investments held in irrevocable trust with escrow agents. As of December 31, 2019, all outstanding Wells Project legally defeased bonds were fully funded. Trust accounts assets and the liabilities for legally defeased bond issues are not included in the District's financial statements.

Distribution System

Long-term liability activity for the year ended December 31, 2019 was as follows:

	Balance 12/31/2018	Decrease	Increase	Balance 12/31/2019	Due Within One Year
Revenue bonds payable	$ 27,250,000	$ 1,305,000	$ -	$ 25,945,000	$ 1,360,000
Unamortized bond premiums (discounts)	3,344,157	150,564	-	3,193,593	
Total bonds payable	30,594,157	1,455,564	-	29,138,593	1,360,000
Deposits and Contract Retainage	1,490,612	150,945	147,760	1,487,427	
Net Pension Liability	4,474,108	1,115,365	-	3,358,743	
Compensated absences	1,452,460	1,015,464	1,077,025	1,514,021	830,930
Non-current liabilities	$ 38,011,337	$ 3,737,338	$ 1,224,785	$ 35,498,784	$ 2,190,930

In August 2012, the Distribution System issued its Electric Distribution System Revenue and Refunding Bonds, Series 2012, in the total amount of $32,650,000. A portion of the 2012 Bonds refinanced $7,075,000 of the outstanding 2004 Bonds. The remaining portion of the 2012 Bonds were issued for construction of a new transmission line and capital improvements to electrical facilities. The following is a summary of future debt service requirements for Distribution System revenue bonds outstanding at December 31, 2019:

	Principal	Interest	Total
2020	1,360,000	1,193,325	2,553,325
2021	1,415,000	1,132,125	2,547,125
2022	1,470,000	1,068,450	2,538,450
2023	1,535,000	1,024,350	2,559,350
2024	715,000	947,600	1,662,600
2025-2029	4,155,000	4,164,250	8,319,250
2030-2034	5,330,000	3,014,500	8,344,500
2035-2039	6,815,000	1,552,300	8,367,300
2040-2041	3,150,000	190,200	3,340,200
Total	$ 25,945,000	$ 14,287,100	$ 40,232,100

The 2012 Distribution bonds are serial bonds through 2023 and term bonds maturing in 2041. Interest rates range from 2.0% to 5.0% and interest is payable on June 1 and December 1. The bondholders' resolution requires the District to maintain at least 125% coverage for debit service. The required coverage was maintained in 2019 and 2018.

NOTE 5 – OTHER COMMITMENTS AND CONTINGENCIES

a) Power Purchasers Settlement Agreement

Under this agreement the District must offer certain temporary, non-firm energy to the Wells Project Power Purchasers under two pricing strategies which are subject to annual adjustments. Annual adjustments are made when the Wells Annual Power Cost has been determined, after the end of each Wells fiscal year. The adjustments result in a portion of the excess power being priced at Wells Power Cost, another portion priced at the District's general service rate and the balance remaining at the original purchase price. Each month the District estimates the adjustment to revenue required by this agreement. This agreement terminated August 31, 2018. Beginning September 1, 2018 the District is able to more effectively market wholesale power in excess of our local load.

b) Power Sales Contracts

The Wells Project's legacy Power Sales Contracts with four Pacific Northwest investor-owned utilities expired on August 31, 2018. The District negotiated new 10-year contracts with Puget Sound Energy, Portland General Electric, and Avista Corporation effective September 1, 2018. Under the new agreements, the Wells' output is sold at cost to the District's Distribution System; however, previous obligations (share of output) to the Colville Tribes (5.5%) and Okanogan County PUD (currently 9.9%) remain in place. Okanogan County PUD is able to ramp up their percentage, over time, based upon load growth (up to 30%, conditionally in 2028).

c) Endangered Species

Several species of fish in the vicinity of the Wells Project are listed as threatened or endangered under the Endangered Species Act (ESA). Upper Columbia River (UCR) Steelhead and UCR spring Chinook were listed as endangered species on

August 18, 1997 and March 24, 1999, respectively. Subsequently the endangered status of UCR spring Chinook was reaffirmed and the status of UCR steelhead was upgraded to threatened.

The District has negotiated with state and federal fisheries resource agencies and Indian tribes, a multispecies Anadromous Fish Agreement and Habitat Conservation Plan (HCP). The Plan Species are spring Chinook, summer/fall Chinook, steelhead, sockeye, and Coho salmon. The purpose of the HCP is to have legally enforceable measures in place to either avoid a listing under the ESA or, in the event of a listing, allow continued operation of the Wells Project under an incidental take permit. The HCP satisfies all FERC relicensing and ESA requirements for the Plan Species. FERC approved the HCP in June of 2004 and amended the Wells Project license accordingly. At the District's request, FERC also issued an Order on Rehearing in November 2004, clarifying several technical items.

Bull trout were listed as a threatened species on June 10, 1998. On September 30, 2010 the United States Fish and Wildlife Service (FWS) designated critical habitat for ESA listed Columbia River bull trout. This designation included most of the waters found within the Wells Project. ESA listed bull trout have been observed at the Wells Project but are not covered in the HCP. In May 2004 FWS issued a biological opinion and incidental take permit that covered the operations of the Wells Project and the implementation of the HCP.

There is extensive litigation in the federal court system under the ESA, challenging actions taken by the responsible federal agencies in regard to anadromous fish. Future legal actions to protect fish may have a significant impact on the amount and/or cost of power generated at the Wells Project. As the ultimate outcome of this matter is not determinable, no accruals have been made to the financial statements.

d) <u>Plan Species Account</u>

In accordance with the Tributary Conservation Plan, formed under the HCP, a Plan Species Account was established to fund projects for the protection and restoration of Plan Species habitat. The HCP requires a Tributary Committee, composed of one representative of each party to the HCP, to select the projects and approve the project budgets from the Plan Species Account for purposes of implementing the Tributary Conservation Plan. All budget and spending decisions must be made by unanimous vote of the Tributary Committee members. The HCP requires the District to make monetary contributions to the Plan Species Account. In 2004 a required initial contribution of $2,272,740 was made to the Plan Species Account. In January 2010 the District began making required annual payments to the Plan Species Account. The amounts transferred in 2019 and 2018 were $284,794 and $275,968, respectively. Outflows for Plan Species projects from the account are expensed to the Wells Project as incurred.

e) <u>Energy Northwest – Nine Canyon Wind Project</u>

The Nine Canyon Wind Project is a wind energy generation project located eight miles southwest of Kennewick, Washington in the Horse Heaven Hills. The project was developed in three phases. Energy Northwest issued bonds to finance each phase of the Wind Project System, some of which have been refunded, and currently has $25,045,000 of Phase I bonds outstanding, $7,695,000 of Phase II bonds outstanding and $46,020,000 of Phase III bonds outstanding. The District is obligated to pay 6.251%, 43.59% and 0% of the debt service for Phase I, II, and III bonds, respectively, and is entitled to 10.23% of the aggregate output of the project (9.8 MW of generating capacity) until July 1, 2030.

f) <u>Douglas PUD – Chelan PUD Power Sales Contract</u>

The District has a long term power sales contract with Chelan PUD to purchase 5.54% of the output of Chelan PUD's Rocky Reach Project. The contract is a take-or-pay contract requiring the District to pay costs associated with operation, maintenance, renewals and replacements to Rocky Reach, whether or not the project is operable or operating. The current term of the power sales contract expires on October, 31, 2021. The District has the option to extend the term of the contract for up to four successive 10-year periods thereafter.

g) <u>Relicensing</u>

On November 9, 2012 FERC issued to the District a new long-term license for the Wells Project. The new license was issued for a period of 40 years, effective November 1, 2012. Accumulated costs of $9.8 million were capitalized to intangible plant and are being amortized over a corresponding 40 year period.

h) <u>Generator and Turbine Refurbishment</u>

A generator and turbine refurbishment project is in progress at Wells and will continue for several years until all 10 units are refurbished. Costs are financed by the issuance of revenue bonds and inter-system loans. Toshiba America Energy Systems has completed several units and is nearing the mid-point of the project. The recent purchase of a spare turbine runner should shorten down-time significantly on the remaining units. The generator rebuild and refurbishment project is expected to extend service lives approximately 35 years.

NOTE 6 – PENSION PLANS, DEFERRED COMPENSATION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68 for the year 2019:

Aggregate Pension Amounts – PERS Plans 1/2/3		
Net pension liabilities*	$	(6,717,484)
Pension assets		—
Deferred outflows of resources		1,940,272
Deferred inflows of resources		(4,330,488)
Pension expense		(2,127,761)

Substantially, all District 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 98504-8380

Or it may be downloaded from the DRS Web site at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

Funding Policy
Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 percent to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2019 and 2018, are as follows:

<u>2019:</u>

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	12.86%	12.86%	12.86%
Employee	6.00	7.90	*

2018:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	12.83%	12.83%	12.70%
Employee	6.00	7.41	*

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 19.16% for Plan 1 and 12.83% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 7.41% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

The District and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2019	$ -	2,189,714	241,135
2018	-	2,087,993	236,762
2017	-	1,899,908	206,419

Deferred Compensation Plans

The District also offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(a) permitting employees to defer a portion of their salary until future years. The District provides a 50% match of employee contributions capped at 2% of regular straight-time wages. The deferred compensation is not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study and the 2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.5% salary inflation
- **Salary increases**: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. 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.

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

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.

Discount Rate

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

Consistent with current law, the asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, whose rates include a component for the PERS 1). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

Long-Term Expected Rate of Return

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

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, 2019 are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset class	Target allocation	Percentage long-term expected real rate of return arithmetic
Fixed income	20%	2.20%
Tangible assets	7	5.10
Real estate	18	5.80
Global equity	32	6.30
Private equity	23	9.30
	100%	

Sensitivity of NPL

The table below presents the District's proportionate share* of the net pension liability as of June 30, 2019 calculated using the discount rate of 7.4%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4%) or 1-percentage point higher (8.4%) than the current rate.

	1% Decrease (6.4%)	Current discount rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 6,343,409	5,882,928	3,956,433
PERS 2/3	12,671,351	2,904,135	(7,389,829)

Pension Plan Fiduciary Net Position

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

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

At December 31, 2019, the *District* reported a total pension liability of $6,717,484 for its proportionate share of the net pension liabilities as follows:

		Net pension liability
PERS 1	$	5,065,332
PERS 2/3		1,652,152

The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. At June 30, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate share June 30, 2018	Proportionate share June 30, 2019	Change in proportion
PERS 1	0.134405%	0.131726%	0.002679%
PERS 2/3	0.172521	0.170090	0.002431

Employer contribution transmittals received and processed by 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 DRS in the Schedules of Employer and Non-employer Allocations for all plans.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended December 31, 2019, the District's recognized deferred inflows/outflows are as follows:

PERS Plan 1		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	—	—
Net difference between projected and actual investment earnings on pension plan investments		—	(338,407)
Changes of assumptions		—	—
Changes in proportion and differences between contributions and proportionate share of contributions		—	—
Contributions subsequent to the measurement date		463,121	—
Total	$	463,121	(338,407)

PERS Plan 2/3		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	473,346	(355,204)
Net difference between projected and actual investment earnings on pension plan investments			(2,404,861)
Changes of assumptions		42,306	(693,188)
Changes in proportion and differences between contributions and proportionate share of contributions		—	104,881
Contributions subsequent to the measurement date		788,083	—
Total	$	1,303,735	(3,348,372)

For the year ended December 31, 2018, the District's recognized deferred inflows/outflows are as follows:

PERS Plan 1		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	—	—
Net difference between projected and actual investment earnings on pension plan investments		—	(238,539)
Changes of assumptions		—	—
Changes in proportion and differences between contributions and proportionate share of contributions		—	—
Contributions subsequent to the measurement date		473,346	—
Total	$	473,346	(238,539)

PERS Plan 2/3		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	361,059	(515,728)
Net difference between projected and actual investment earnings on pension plan investments			(1,807,583)
Changes of assumptions		34,459	(838,306)
Changes in proportion and differences between contributions and proportionate share of contributions		—	(135,329)
Contributions subsequent to the measurement date		714,340	—
Total	$	1,109,858	(3,296,946)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		PERS Plan 1
2020	$	(74,705)
2021		(176,955)
2022		(63,148)
2023		(23,599)
Thereafter		—
Total	$	(338,407)

Year ended December 31:		PERS Plan 2
2020	$	(626,327)
2021		(1,135,573)
2022		(448,693)
2023		(194,268)
Thereafter		—
Total	$	(2,404,861)

NOTE 7 – DEFERRED OUTFLOW OF RESOURCES AND REGULATORY ASSETS

Distribution System

The Distribution System had deferred outflows of $1,131,177 and $1,046,670 respectively at December 31, 2019 and 2018. The deferred outflows consist of pension related outflows and unamortized losses on reacquired debt.

The Distribution System had regulatory assets of $5,141,458 and $5,346,160 respectively, at December 31, 2019 and 2018. Regulatory assets consist of preliminary survey and investigation, such as wind development costs, undistributed balances in clearing accounts and miscellaneous work in progress.

Wells Hydroelectric Project

The Wells Hydroelectric Project had deferred outflows of $1,107,186 and $1,029,724 respectively at December 31, 2019 and 2018. Deferred outflows consist of unamortized losses on reacquired debt.

The Wells Project had regulatory assets of $2,296,208 and $2,383,146 respectively, at December 31, 2019 and 2018. Regulatory assets amortized by the Wells Project are primarily recreation facilities improvements (on land not owned by the District) and miscellaneous fish improvements (Coho Mitigation under the HCP). Regulatory assets are amortized using the sinking fund method.

NOTE 8 – BROADBAND SERVICES

Douglas County Community Network (DCCN):

Since the 1960's the District has owned and operated data communication facilities that provide communication for District electrical equipment, employees and office equipment. The communication system has grown to become an integral part of the District's electrical system, providing remote monitoring, switching, metering, internal communication, and security to District assets. In 2000 the Washington State Legislature gave Public Utility Districts the authority to offer wholesale telecommunication services. The District named its broadband network the Douglas County Community Network (DCCN). DCCN provides wholesale broadband data communication services to customers of the District. As of December 31, 2019 the District has capitalized $37.2 million dollars of community network equipment.

Douglas County Community Network	2019
Operating Revenue:	
Wholesale Broadband Residential & Business	$ 3,029,734
Broadband Governmental	630,044
Colocation & Bandwidth	239,395
Television	163,852
	$ 4,063,025
Operating Expenses:	
Operation & Maintenance	$ 1,357,899
Administration & General	388,816
	$ 1,746,715

Northwest Open Access Network (NoaNet):

NoaNet was incorporated in February 2000 to provide a broadband communications backbone for assisting its members in the efficient management of load, conservation and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001. In July 2012 the District withdrew from membership in NoaNet. The District remains obligated to a 5.21% (maximum) share of the 2011 revenue bonds. As of December 31, 2019 there were no revenue bonds outstanding. The final principal and interest payment was December 1, 2016.

The management of NoaNet anticipates meeting debt serve and operating costs through profitable operations; however members have contributed to help meet debt service obligations. During 2019 and 2018 the District contributed (expensed) $0 toward NoaNet's debt service. An audited annual report for NoaNet may be obtained by writipang to: Northwest Open Access Network, 5802 Overlook Ave NE, Tacoma, WA 98422. NoaNet's web site is www.noanet.net

NOTE 9 – CONTINGENT LIABILITIES

Pole Attachment Lawsuit

Two telecom companies that have attachments to District owned poles are paying the annual pole attachment fee under protest until the Court of Appeals makes it final ruling on a lawsuit filed by Pacific County PUD regarding pole attachment rates.

The District does not believe that the ultimate outcome of this matter will have a material impact on its financial position, results of operations or cash flow.

NOTE 10 – SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the COVID-19 virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges, and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. Proactive measures have been implemented by the District to protect District employees and its customers, including closing lobbies, implemenenting "social distancing" measures and shifting employee work schedules' to minimize contact between employees. The District also has declared that until further notice it will not disconnect utility service from customers impacted by COVID-19 for failure to pay or charge late fees during the outbreak of COVID-19. Management will continue to to monitor the situation closely.

These collective actions may impact financial results for the District in 2020, but did not impact financial results for 2019.

Public Utility District No. 1 of Douglas County
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 1
As of June 30, 2019
Last 10 Fiscal Years

		2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset)	%	0.162184%	0.154055%	0.138455%	0.134405%	0.131726%
Employer's proportionate share of the net pension liability	$	8,483,732	8,058,509	6,569,798	6,002,573	5,065,332
TOTAL	$	8,483,732	8,058,509	6,569,798	6,002,573	5,065,332
Employer's covered employee payroll	$	17,173,115	17,359,459	17,355,869	18,646,736	17,437,527
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	49.40%	46.42%	37.85%	32.19%	29.05%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%	61.24%	63.30%	67.12%

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Fifth year reporting.

REQUIRED SUPPLEMENTARY INFORMATION

Public Utility District No. 1 of Douglas County
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 2 & 3
As of June 30, 2019
Last 10 Fiscal Years

		2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset)	%	0.191162%	0.185707%	0.178088%	0.172521%	0.170090%
Employer's proportionate share of the net pension liability	$	6,830,329	9,350,201	6,187,707	2,945,643	1,652,152
TOTAL	$	6,830,329	9,350,201	6,187,707	2,945,643	1,652,152
Employer's covered employee payroll	$	17,173,115	17,359,459	17,355,869	18,646,736	17,437,527
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	39.77%	53.86%	35.65%	15.80%	9.47%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	85.82%	90.97%	95.63%	97.77%

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Fifth year reporting.

REQUIRED SUPPLEMENTARY INFORMATION

Public Utility District No. 1 of Douglas County
Schedule of Employer Contributions
PERS Plan 1
As of December 31, 2019
Last 10 Fiscal Years

		2015	2016	2017	2018	2019
Contractually required contributions	$	745,396	856,049	864,162	926,932	896,828
Contributions in relation to the contractually required contributions	$	(745,396)	(856,049)	(864,162)	(926,932)	(896,828)
Contribution deficiency (excess)	$	-	-	-	-	-
Covered Employer Payroll	$	17,173,115	17,359,459	16,714,899	19,047,535	18,123,747
Contributions as a percentage of covered employee payroll	%	4.34%	4.93%	5.17%	4.82%	4.95%

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Fifth year reporting.

Public Utility District No. 1 of Douglas County
Schedule of Employer Contributions
PERS Plan 2 & 3
As of December 31, 2019
Last 10 Fiscal Years

		2015	2016	2017	2018	2019
Contractually required contributions	$	851,534	1,072,067	1,086,126	1,373,696	1,398,495
Contributions in relation to the contractually required contributions	$	(851,534)	(1,072,067)	(1,086,126)	(1,373,696)	(1,398,495)
Contribution deficiency (excess)	$	-	-	-	-	-
Covered Employer Payroll	$	17,173,115	17,359,459	16,714,899	19,047,535	18,123,747
Contributions as a percentage of covered employee payroll	%	4.96%	6.18%	6.50%	7.21%	7.72%

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Fifth year reporting.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov