Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 2 of Pacific County

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

Published September 30, 2020

Report No. 1027033

Office of the Washington State Auditor
Pat McCarthy

September 30, 2020

Board of Commissioners
Public Utility District No. 2 of Pacific County
Raymond, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 2 of Pacific 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

Americans with Disabilities

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Public Utility District No. 2 of Pacific County
January 1, 2019 through December 31, 2019

Board of Commissioners
Public Utility District No. 2 of Pacific County
Raymond, 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 Public Utility District No. 2 of Pacific 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 September 24, 2020.

As discussed in Note 13 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated September 24, 2020.

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

September 24, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 2 of Pacific County
January 1, 2019 through December 31, 2019

Board of Commissioners
Public Utility District No. 2 of Pacific County
Raymond, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 2 of Pacific 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 2 of Pacific County, as of December 31, 2019, and the changes in financial position and 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 13 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Our opinion is not modified with respect to this matter.

Other Matters

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 September 24, 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

Pat McCarthy

State Auditor

Olympia, WA

September 24, 2020

FINANCIAL SECTION

Public Utility District No. 2 of Pacific County
January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

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Statement of Revenues, Expenses and Changes in Net Position – 2019
Statement of Cash Flows – 2019
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REQUIRED SUPPLEMENTARY INFORMATION

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PUBLIC UTILITY DISTRICT NO. 2 of PACIFIC COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ending December 31, 2019

The following discussion and analysis of the financial results of Public Utility District No. 2 of Pacific County (District) provides an overview of the District's financial activities for the year ended December 31, 2019. This discussion is designed to be used in conjunction with the financial statements and notes, which follow this section.

Overview of the Financial Statements

The District is a municipal corporation with financial activities in the areas of electric and water. In addition to the aforementioned electric and water systems, the District also leases excess capacity on its fiber optic system.

In accordance with requirements set forth by the Governmental Accounting Standards Board, the District's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues when earned and expenses when incurred during the year, regardless of when cash is received or paid.

The basic financial statements, presented on a comparative format, are comprised of:

Statement of Net Position

The Statement of Net Position presents information on the District's assets and liabilities, with the difference between the two reported as net position. The net position section of the Statement is separated into three categories: net investment in capital assets; restricted net position; and unrestricted net position.

Statement of Revenues, Expenses, and Changes in Net Position

This statement reflects the transactions and events that have increased or decreased the District's total economic resources during the period. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.

Statement of Cash Flows

The Statement of Cash Flows reflects the sources and uses of cash separated into three categories of activities: operating, capital and related financing, and investing. The District includes cash equivalents within its definition of cash.

The notes to the financial statements presented at the end of the basic financial statements are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flows.

Statement of Net Position **(in thousands)**	***2019***	***2018***	***Change***	**% Change**
Current and Other Assets	25,880	22,657	3,223	14.23%
Net Capital Assets	52,842	53,550	(708)	-1.32%
Other Noncurrent Assets	1,927	1,783	144	8.07%
Deferred Outflows of Resources	3,354	3,854	(500)	-12.97%
Total Assets & Deferred Outflows	84,003	81,844	2,159	2.64%
Current Liabilities	5,365	5,474	(109)	-1.99%
Noncurrent Liabilities	40,234	58,224	(17,990)	-30.90%
Deferred Inflows of Resources	17,151	1,138	16,013	
Total Liabilities & Deferred Inflows	62,750	64,836	(2,086)	-3.22%
Net Investment in Plant	45,259	52,420	(7,161)	-13.66%
Restricted for Debt	1,323	1,293	30	2.31%
Restricted for Construction	0	164	(164)	
Unrestricted	(25,328)	(36,869)	11,541	31.30%
Total Net Position	21,254	17,008	4,246	24.97%

Capital Asset and Long-Term Debt Activity

The District's net (after depreciation) capital additions and retirements, including construction work-in-progress, were approximately $(707,000) in 2019.

The additions consisted of various improvements to the District's electric infrastructure, customer line extensions and the expansion to the District's broadband system and water systems. The District sold property and other surplus assets resulting in an overall reduction of plant value. More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

At the end of the 2019 fiscal year, the District had $10.6 million in outstanding long-term debt, which includes unamortized bond premium and the amount coming due within one year. This represents a decrease of 1.0 million when compared to the same figure for 2018.

The District issued no new bonds in 2019 or 2018. In 2014, the District issued $14.7 million in new debt. See Note 6 to the financial statements and for additional information on the long-term debt.

Summary of Financial Position

The assets of the District exceeded its liabilities at the end of 2019 by $21.25 million (net position) and $24 million of this amount represents unrestricted net position, which may be used to meet ongoing obligations. Net (of related debt) investment in capital assets accounted for $45.3 million. The District's overall financial position increased $4.25 million in 2019.

Statement of Revenues, Expenses and change in Net Position (in thousands)	2019	2018	Change	% Change
Operating Revenues				
Utility Sales & Service Fees	25,326	24,224	1,102	4.55%
Other Operating Revenue	1,046	912	134	14.73%
Non-operating Revenues				
Interest Income	346	282	64	22.60%
Other Income	4,239	28	4,211	
Total Revenues	**30,957**	**25,446**	**5,511**	**21.66%**
Operating Expenses				
Power Supply	14,599	12,386	2,213	17.87%
Operations & Maintenance	2,736	2,696	40	1.48%
Administrative	5,065	7,636	(2,571)	33.66%
Taxes & Depreciation	5,000	4,660	340	7.32%
Non-Operating Expenses				
Interest & Other Non-Operating Exp	381	395	(14)	3.53%
Total Expenses	**27,781**	**27,773**	**8**	0.03%
Income (Loss) Before Capital Contributions	**3,176**	**(2,327)**	5,503	236.51%
Capital Contributions	1,070	932	138	14.85%
Change in Net Position	**4,246**	**(1,395)**	**5,641**	**404.30%**
Prior Year Net Position	**17,008**	**47,879**	**(30,871)**	
Adjustment to Prior Year Net Position	0	(29,476)		
Ending Net Position	**$21,254**	**$17,008**	**4,246**	**24.97%**

Financial Analysis

During 2019, the District's overall financial position increased due to a 4.15 million settlement received from the defendants of the pole attachment lawsuit filed by the District in 2008. Results of operations also increased due to an accounting change recognizing taxes collected from customers as revenue beginning in November 2019. The District's net position increased by $4.2 million compared to a decrease in net position of $30.8 million in 2018.

The following narrative is an analysis of the change in net position by major components of income.

Operating Revenues

Total Utility Sales and Service Fees for 2019 were up $1.2 million from 2018. Residential sales resulted in an increase of $420,000 with Commercial / Industrial / Lighting / Unbilled Revenue classes kicking in an additional increase of $300,000. The District recorded a $125,00 increase of rent from its pole attachment customers. In November 2019, the District began recognizing taxes collected as revenue which increased revenue by $300,000. There was a slight increase in customer fees paid for new or revised services of $140,000 from 2018.

In October 2019, the District adjusted the retail rate structures billed to its customers due to an increase in power costs from the Bonneville Power Administration. The electric basic charge was increased for all customers and retail kwh power rates were lowered to reflect the breakout of state utility and privilege taxes. These taxes were included in the previous kwh rate structure.

Non-operating Revenues

For 2019 Non-Operating Revenue was up 4.2 million over 2018. The bulk of this was the settlement proceeds received from the District's 2008 pole attachment lawsuit. The District also received FEMA reimbursement of $45,000.

Operating Expenses

The Operating Expense category includes: Power Supply, Operation and Maintenance, Administrative and Taxes and Depreciation.

Operating Expenses were overall a relatively flat comparison to 2018 with less than a 1% increase.

The following explains material year to year changes by Operating Expense category.

Power Supply

Power Supply, the largest single category of operating expenses, came in at $14.6 million in 2019, which is up 2.2 million which is an 18.0% increase over 2018. Power costs from BPA and market purchases and sales are the significant factors affecting power costs.

The District, as a slice customer is a participant in the output of the Federal Columbia River Power System (FCRPS), which includes the Columbia Generating Station at Hanford, WA. Hydro-electric generation however contributes the majority of the power produced by the FCRPS. The District is generally a net seller, meaning its share of the systems output exceeds its load. Therefore surplus sales can help offset total cost of power. Many factors, including precipitation, snow pack, natural gas prices, and others contribute to the market price for electric energy. These factors impact the prices the District receives for surplus power sales, or pays when it makes market purchases to meet its load.

The District reported net balance market activity of $(733,000) in 2019 which is down from 2018 when the District reported net balance market activity of $892,000. This represents a significant unfavorable decrease of 1.6 million in net market activity due to low power prices in 2019 and an unusual winter cold event which caused a significant spike in power costs during February and March.

Other Operating Expenses occurring in 2019 are non-power supply expenses which were down $2.2 million or 86% when compared to 2018.

Operations and Maintenance Expenses were down $40,000 when compared to 2018. No notable variances to report.

Administrative and General
Expenses for 2019 were under 2018 by $2.6 million. A notable variance is an adjustment to the Other Post Employment Benefits (OPEB) expense representing a decreased cost of $2.3 million. The OPEB medical trend was updated to exclude the "Cadillac" healthcare excise tax which was repealed in December 2019. Other notable deceases were in legal fees of $60,000 as a result of the pole attachment settlement and a $60,000 decrease in pension expense. The District temporarily suspended offering conservation rebates during 2019 which resulted in a decrease of weatherization expense of $720,000 over 2018. See note 11 OPEB for further information.

Depreciation increased $116,000 over 2018 reflecting additions to plant accounting and no prior year adjustments.

Taxes paid in 2019 were $224,000 more than 2018 which is commensurate with the increase in revenue received this year.

Non-Operating Expenses
In 2019 Interest and Other expenses were essentially flat ($381,000 vs $395,000) when compared to 2018. Interest on the 2014 Bond Issue is the driver in this category.

Capital Contributions
Capital Contributions, primarily reimbursement received from customers for extending District facilities on their behalf, increased $140,000 from 2019 to 2018.

Requests for Information
The basic financial statements, notes and management discussion and analysis are designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report should be directed to the District at Post Office Box 472, or 405 Duryea Street, Raymond, WA 98577.

PUD No. 2 of Pacific County

MCAG 1793

STATEMENT OF NET POSITION

As of December 31, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
CURRENT ASSETS		
Cash & Cash Equivalents		
Unrestricted Cash & Cash Equivalents	$	6,784,187
Designated Cash	$	9,659,317
Construction Account	$	1,662,811
Accounts Receivable, net	$	1,523,032
Accrued Unbilled Revenues (Note 9)	$	2,346,734
Notes Receivable (Note 8)	$	9,132
Inventory - Materials & Supplies	$	3,818,455
Prepaid Expenses & Option Premiums	$	76,760
Total Current Assets		**25,880,428**
NONCURRENT ASSETS		
Note Receivable (Note 8)		77,001
Restricted Bond Reserve Fund (Note 1)		1,322,826
Other Receivables		423,504
Other Charges (Note 3)		103,310
Subtotal Noncurrent Assets		**1,926,641**
Utility Plant (Note 4)		
Land and Non-Depreciable Assets		1,003,721
Electric & Water Plant in Service		114,270,765
Construction Work in Progress		2,910,326
Less: Accumulated Depreciation		(65,342,491)
Net Utility Plant		**52,842,321**
Total Noncurrent Assets		**54,768,962**
TOTAL ASSETS		**80,649,390**
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of Hedging Derivatives (Note 3)		82,524
Deferred Pension Outflow of Resources		475,443
Deferred OPEB Outflow of Resources		2,796,312
Total Deferred Outflows of Resources		**3,354,279**

The accompanying notes are an integral part of the financial statements.

PUD No. 2 of Pacific County

MCAG 1793

STATEMENT OF NET POSITION

As of December 31, 2019

(CONTINUED)

NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$	2,210,415
Accrued Taxes Payable		660,221
Current Portion Of Compensated Absences		557,790
Current Portion of OPEB Liability		780,524
Accrued Interest Payable		132,055
Revenue Bonds, Current Portion (Note 6)		1,024,320
Total Current Liabilities		**5,365,325**
NONCURRENT LIABILITIES		
Revenue Bonds & Other Long Term Debt (Note 6)		9,544,592
Compensated Absences		102,417
Net Pension Liability		1,861,790
Long Term Other Post Employment Benefits		27,835,081
Customer Deposits		807,281
Other Liabilities		82,524
Total Noncurrent Liabilities		**40,233,685**
Total Liabilities		**45,599,010**
DEFERRED INFLOWS OF RESOURCES		
Accumulated Increase in Fair Value of Hedging Derivatives (Note 3)		103,310
Deferred Pension Inflow of Resources		1,201,417
Deferred OPEB Inflow of Resources		15,845,800
Total Deferred Inflows of Resources		**17,150,527**
NET POSITION		
Net Investment in Capital Assets		45,259,046
Restricted for Debt Service		1,322,826
Unrestricted		(25,327,740)
Total Net Position	**$**	**21,254,132**

The accompanying notes are an integral part of the financial statements.

PUD No. 2 of Pacific County

MCAG 1793

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended December 31, 2019

OPERATING REVENUES		
Sales of Electric Energy & Water - Retail	$	25,325,769
Broadband Revenue		513,244
Other Operating Revenue		533,102
Total Operating Revenues	**$**	**26,372,115**
OPERATING EXPENSES		
Power Supply	$	14,598,642
Distribution Operation & Maintenance		2,448,601
Broadband Expense		287,432
Customer Service, Energy and Information Services		1,017,774
Administrative & General Expense		4,047,601
Taxes		1,709,295
Depreciation		3,291,397
Total Operating Expenses	**$**	**27,400,742**
OPERATING INCOME (LOSS)	**$**	**(1,028,627)**
NONOPERATING REVENUES & (EXPENSES)		
Loan Receivable Interest Income	$	876
Investment Interest Income	$	345,864
Other Nonoperating Income (Expense)		35,528
Court Award and Settlement		4,150,829
Fema Grant		45,302
Interest Expense		(373,779)
Total Nonoperating Revenues & Expenses	**$**	**4,204,620**
INCOME BEFORE CONTRIBUTIONS	**$**	**3,175,993**
CAPITAL CONTRIBUTIONS	**$**	**1,070,490**
CHANGE IN NET POSITION PRIOR YEAR	**$**	**4,246,483**
TOTAL NET POSITION, BEGINNING OF YEAR	**$**	**17,007,648**
TOTAL NET POSITION, END OF YEAR	**$**	**21,254,131**

The accompanying notes are an integral part of the financial statements.

PUD No. 2 of Pacific County

MCAG 1793

STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	28,412,844
Cash Paid to Suppliers and Service Providers	(19,438,095)
Cash Paid to Employees for Salaries and Wages	(4,487,577)
Taxes Paid	(1,709,295)
Net Cash Provided by (Used for) Operating Activities	**2,777,877**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other Income	4,200,559
Other Expense	(6,917)
Net Cash Provided by Noncapital Activities	**4,193,642**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(2,583,975)
Bond Principal Paid	(1,042,901)
Bond Interest Paid	(373,779)
Capital Contributions	1,070,490
Other	38,893
Net Cash Used by Capital and Related Financing Activities	**(2,891,272)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	345,864
Net Cash Provided (Used) by Investing Activities	**345,864**
NET INCREASE (DECREASE) IN CASH	**4,426,111**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**15,003,030**
CASH AND CASH EQUIVALENTS, END OF YEAR	**19,429,141**

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

MCAG 1793

Operating Income (Loss)	(1,028,627)
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation/Amortization	3,291,397
(Increase) Decrease in Unbilled Revenues	(362,547)
Increase (Decrease) Total OPEB Liability	(32,258)
Increase (Decrease) Net Pension Liability	(618,821)
Decrease (Increase) in Accounts Receivable	1,492,936

Decrease (Increase) in Notes Receivable	(86,132)
Decrease (Increase) in Inventories	55,043
Decrease (Increase) in Prepaids and Deposits	(3,700)
Increase (Decrease) in Accounts Payable	154,249
Increase (Decrease) in Accrued Taxes Payable	(91,150)
Increase (Decrease) in Customer Deposits	15,588
Increase (Decrease) in Other Current Liabilities	(8,101)
Net Cash Provided by Operating Activities	**2,777,877**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The deferred inflows and outflows relating to GASB 68 and GASB 75 had no effect on cash flows for 2019.

The accompanying notes are an integral part of the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Public Utility District No. 2 of Pacific County (District) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principals. The District has applied all applicable GASB pronouncements. The following is a summary of the more significant policies:

A. Reporting Entity

Public Utility District No. 2 of Pacific County was incorporated on March 1, 1940 and operates under the laws of the State of Washington applicable to a public utility district. The District is organized as a municipal corporation, authorized under Title 54 RCW and is governed by an elected three-member Board. The District provides retail electricity to the majority of Pacific County and provides water to three areas of the County and is authorized under State law to provide wholesale telecommunication service.

B. Basis of Accounting

The accounting and reporting policies of the District are regulated by the Washington State Auditor's Office under chapter RCW 43.09 and are based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC).

The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing, and investing activities are considered to be non-operating revenues and expenses.

The District's financial statements include the financial position of the District's Utility System. Beginning January 1, 2019, the District merged the water divisions to create a Water System. In addition, the Electric and Water Systems were consolidated into one combined Utility System. In the combined statements certain intersystem transactions are eliminated in the total balances.

C. **Summary of Accounting and Reporting Changes**

The District began reporting taxes collected from the electric customers as a source of revenue beginning in November 2019. This was done in anticipation of action by the Washington State legislature requiring more transparency on electric customer billing. The District lowered the previous kwh rate so that the taxes could be displayed as separate line items on electric billing statements. These taxes were included in the previous kwh rate structure.

D. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments, with maturity of three months or less when purchased, to be cash equivalents.

E. Utility Plant and Depreciation

Major expenditures (exceeding $3,000) for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost or estimated historical cost, where historical cost is not known or at acquisitional value if donated. Preliminary costs incurred for proposed projects are deferred until construction of the project is completed. Costs relating to projects ultimately constructed are transferred to the utility's plant assets. Charges that relate to abandoned projects are expensed.

See Note 4 – Capital Assets for additional information.

F. Restricted Funds

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

The restricted assets are composed of the following:

	2019
Bond Reserve	$1,322,826
Construction Funds	1,662,811

G. Receivables and Allowance for Doubtful Accounts

Management periodically assesses the collectability of accounts receivable. This assessment provides the basis for the allowance for doubtful accounts and the related bad debt expense. The District's allowance for doubtful accounts was $172,777 as of December 31, 2019.

H. Inventories

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

I. Compensated Absences

Personal Leave

The District provides its employees with a single Personal Leave (PL) plan, in lieu of separate programs for vacation and illness benefits. Employees accrue PL based upon their length of service. PL is charged as a component of payroll overhead as time is incurred by an employee. A corresponding liability is recognized until such time as an employee uses or sells PL to the District in accordance with the terms of the plan.

Changes in the Compensated Absences during the current and prior fiscal period are as follows:

Balance as of December 31, 2018	$574,647
Earned during 2019	615,710
Reserve Supplemental Leave Bank (net change)	26,149
Floating Holiday	(9,301)
Taken during 2019	(546,998)
Balance as of December 31, 2019	$660,207

The District estimates $557,790 will be used in the next fiscal year. The current and noncurrent liability for unpaid personal time off appears on the statement of net position.

In accordance with the terms and conditions of the Health Reimbursement Arrangement – Voluntary Employees' Beneficiary Association (HRA-VEBA) Plan, the Collective Bargaining Agreement (CBA) and/or District Resolution:

- Personal Leave is payable in full upon an employee's resignation or death.
- At retirement, the District will deposit the cash value of any unused PL hours to the retirees HRA-VEBA account.

See Note 7 – Pension Plans for additional information on the HRA-VEBA plan.

J. Supplemental Leave Bank

Employees with sick leave balances remaining under the terms of the former sick leave plan were able to transfer the balance into a Supplemental Leave Bank (SLB). No additional hours may be posted to the SLB.

In accordance with the terms and conditions of the HRA-VEBA Plan, the CBA and/or District Resolution:

- An employee on Short Term Disability may utilize SLB hours to make up the difference between the 70% pay they received while on Short Term Disability (STD) and 100% of their regular earnings.
- Employees with SLB balances receive an annual transfer of the cash value of up to 16 SLB hours to their respective HRA-VEBA accounts.
- Employees who leave employment due to resignation or retirement forfeit any remaining hours in their respective SLBs.
- In the event of the death of an active employee, the surviving dependents shall receive 50% of the cash value remaining in the deceased employee's SLB.

K. Purchase Commitments
See Note 12 – Power Supply; for contracts with the Bonneville Power Administration and others for future power supply.

L. Revenue Recognition
Revenues from retail sales of electricity include an estimate for energy delivered to customers between the last billing date and the end of the year. This amount is reflected in the accompanying financial statements in the amount of $2,346,734 at December 31, 2019. This estimate impacted electric revenue by $362,546.

M. Capital Contributions
Capital contributions for the District consist mainly of line extension fees. Line extension fees represent amounts collected to recover the costs of installing new lines. Capital contributions are recorded as revenues when received.

N. Unamortized Bond Premium
Bond premium is amortized to interest expense using the effective interest method over the term of the bonds.

O. 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.

P. OPEB
The District provides OPEB benefits to its retirees. The benefits are administered by the Public Utility Risk Management Services (PURMS). For purposes of measuring the net OPEB liability, OPEB expense, deferred outflows of resources and deferred inflows of resources related to OPEB, GASB 75 requires the projection of the total OPEB Liability to be based on a claims costs or age adjusted premiums basis. An actuarial study was performed as of December 31, 2019 to determine the District's liability.

See Note 11- Other Postemployment Benefits for additional information.

NOTE 2 - DEPOSITS AND INVESTMENTS
The total Deposits and Investments as of December 31, 2019 is $19,429,140. The District has deposits with Bank of the Pacific of $2,905,640 and $16,523,500 in the State Local Government Investment Pool (LGIP).

Deposits

Custodial credit risk (deposits) Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The District has not adopted a policy that addresses deposit custodial risk; however, the District's deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the District's deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool.

Amounts held in Washington State banks approved by the Public Deposit Protection Commission (PDPC) are covered by federal depository insurance up to $250,000 and by the PDPC for amounts over $250,000. The PDPC constitutes a multiple financial institution collateral pool that provides for additional assessments against participants of the pool on a pro rata basis. Accordingly, the deposits covered by PDPC are considered to be insured.

Investments

The District currently has investments in the LGIP. The LGIP was authorized by Chapter 294, Laws of 1986 and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are review by the LGIP advisory committee.

The District does not have a policy for custodial credit risk of investment securities. Further, the District is not subject to foreign currency risk or interest rate risk.

Investments Measured at Amortized Cost

As of December 31, 2019, the District had the following investments at amortized cost:

Investment	**District's own investments**
State Investment Pool (LGIP)	$16,523,500
Total	**$16,523,500**

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is classified as an unrated 2a-7 investment pool per the Securities and Exchange Commission. The pool portfolio is invested in a manner that meets the maturity, quality, diversification, liquidity and shadow pricing requirements that allow it to report at amortized costs as set forth by GASB 79. The LGIP does not have any legally binding guarantees of share values and does not impose liquidity fees or redemption gates on participant withdrawals. The only restriction on withdrawals from the State Investment Pool is a deposit received by ACH. In this case, a five-day waiting period exists. The LGIP operates in accordance with appropriate state laws and regulations.

The weighted average maturities of the LGIP is less than three (3) months, with cash available to the District on demand. The on-demand availability of these funds defines them as cash equivalent liquid investments and not subject to interest rate risk. Cash investments are not subject to interest rate risk or any market value reporting requirements. All LGIP investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposits, meaning credit risk is very limited. The investments are either fully insured or fully held by a third-party custody provider in the name of the LGIP. The LGIP is audited by the Washington State Auditor's Office and regulated by Washington RCWs.

The Office of the State Treasurer prepares an annual LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at http://www.tre.wa.gov.

NOTE 3 - DERIVATIVE INSTRUMENTS

The District enters into derivative energy transactions to hedge its known or expected positions within its approved Risk Management policy. Decisions are made to enter into forward transactions to protect its financial position, specifically to deal with expected long and short positions as determined by projected load and resource balance positions, with the objective of providing stable rates and meeting budget.

The District has adopted GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Subject to certain exceptions, GASB Statement No. 53 requires that every derivative instrument be recorded on the statement of net position as an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred. These are recorded on the statement of net position as deferred inflows/outflows of resources as accumulated increase/decrease in fair value of hedging derivatives.

It is the District's policy to document and apply as appropriate the normal purchase and normal sales exceptions under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity and option contracts that require the physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded from GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Financial swaps for electricity are derivatives under GASB Statement No. 53, but generally do not meet the "normal purchases and normal sales" criteria. Options are amortized to power costs over the exercise period of the option.

At December 31, 2019 the District had the following hedging derivative instruments outstanding.

Changes in Fair Value		**Fair Value at December 31, 2019**		
Classification	Amount	Classification	Amount	Notional
Other Charge	$82,524	Deferred Outflow	$82,524	25,840 MWh
Other Credit	$103,310	Deferred Inflow	$103,310	23,400 MWh

Option and Swap Hedging Derivatives:

	2019
Notional value	$1,275,148
Volumes (MWH)	35,650
Fair value - asset	$103,310
Fair value - liability	$82,524
Reference rates	Mid-C index
Dates entered into	06/19 – 12/19
Dates of maturity	1/20 – 12/22
Option Premiums	$0

The fair values used for mark-to-market amounts are based on the future price curve for the Mid-Columbia Intercontinental Exchange.

The District has developed a credit policy that establishes guidelines for setting credit limits and monitoring credit exposure on a continuous basis. The policy addresses frequency of counterparty credit evaluations, credit limits per specific counterparty and counterparty credit concentration limits. Commodity transactions, both physical and financial, are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness. The District has entered into master enabling agreements with various counterparties, such as International Swaps and Derivatives Association (ISDA) Agreements for financial transactions. All of the enabling agreements have provisions addressing credit exposure and provide for various remedies to assure financial performance, including the ability to call on additional collateral as conditions warrant, generally as determined by the exposed party. The District also uses netting provisions in the agreements to diffuse a portion of the risk.

The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. There are no derivative transactions outstanding that carry basis risk as of December 31, 2019. As of December 31, 2019, no termination events have occurred, and there are no outstanding transactions with material termination risk. There is no rollover, interest rate or market access risk for these derivative products at December 31, 2019.

NOTE 4 - CAPITAL ASSETS

Electric and Water plant activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Removals	Ending Balance
Utility Plant Not Being Depreciated:				
Land	$1,171,123		(167,402)	$1,003,721
Construction in Progress	4,184,511		(1,274,185)	2,910,326
Total	**5,355,634**		**(1,441,587)**	**3,914,047**
Utility Plant Being Depreciated:				
Transmission Plant	4,757,896	41,792	(25,425)	4,774,263
Distribution Plant	77,678,142	3,298,384	(454,152)	80,522,374
Telecom Plant	12,784,212	840,609	(465,029)	13,159,792
General Plant	13,469,986	4,660	(209,773)	13,264,873
Water Plant	2,544,658	5,366	(563)	2,549,461
Total	**111,234,894**	**4,190,811**	**(1,154,942)**	**114,270,763**
Less: Accumulated Depreciation	(63,040,787)	(3,534,456)	1,232,752	(65,342,491)
Total Net Utility Plant	**$53,549,741**	**656,355**	**(1,363,777)**	**$52,842,319**

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings & Improvements	25-40 years
Electric Plant – Transmission	17-30 years
Electric Plant – Distribution	17-33 years
Transportation Equipment	7-10 years
General Plant & Equipment	5-20 years
Water Plant	5-50 years
Telecommunications	7-30 years

The District’s Continuing Property Records system reflects the recording of property units added and retired. Initial depreciation on utility plant is recorded in the month subsequent to purchase or completion of construction. As prescribed by FERC, the book cost of operating property retired or otherwise disposed of, less salvage, is charged to accumulated depreciation. As a result of this guidance, the decreases to accumulated depreciation can exceed the decreases to depreciable assets. The District follows FERC operating instructions for depreciation expense, which includes all classes of depreciable electric plant in service except depreciation expense chargeable to clearing accounts. Depreciation expenses applicable to transportation equipment and shop equipment are charged to clearing accounts to obtain a proper distribution of expenses between construction and operation. The depreciation expense charged to clearing accounts is included in Maintenance under Operating Expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

The estimated original cost of operating property retired or otherwise disposed of and the cost of removal, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts; accumulated depreciation is charged with accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income. There were no sales of significant units or systems in 2019.

NOTE 5 – LEASES

The District is committed under annual operating leases for office equipment. Lease expense for the year ended December 31, 2019 amounted to $11,673. These leases renew on an annual basis until January 2021.

The District had no capital leases during 2019.

NOTE 6 - LONG-TERM DEBT

<u>Revenue Bonds</u>

In April 2014 the District issued $10.0 million in Tax Exempt, Bank Qualified Electric System Revenue Bonds (2014A) to fund capital improvements, pay for bond issuance costs (including bond insurance) and fund bond debt service and reserve accounts ($850,374). Principal payments on these bonds begin in September 2019, maturing annually in varying amounts through September 2033. The bonds have annual interest rates ranging from 3.00% to 5.00%.

In April 2014 the District issued $4.67 million in Taxable Electric System Revenue Bonds (2014B) to fund capital improvements, pay for bond issuance costs (including bond insurance) and fund bond debt service and reserve accounts ($397,124). Principal payments on these bonds began in September 2015, maturing annually in varying amounts through September 2019. The bonds have annual interest rates ranging from 1.00% to 2.42%.

During the year ended December 31, 2019, the following changes occurred in long-term debt:

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2014A (BQ) Electric Revenue Bonds, interest at 3.00% - 5.00%, maturing in 2033; Original Issue amount: $10,000,000	10,000,000	-	(80,000)	9,920,000	1,000,000
2014B Electric Revenue Bonds, interest at 1.00% - 2.420%, maturing in 2019; Original Issue amount: $4,670,000	900,000	-	(900,000)	0	0
DWSRF Loan – Bay Center Water, interest at .5%, maturing in 2024; Original Issue amount: $462,091	145,923	-	(24,320)	121,603	24,320
Subtotal	**11,045,923**	**-**	**(1,004,320)**	**10,041,603**	**1,024,320**
Plus: Unamortized Premium	565,889	-	(38,580)	527,309	-
Totals Bonds and Direct Borrowings Payable	**11,611,812**	**-**	**(1,042,900)**	**10,568,912**	**1,024,320**
Net Pension Liability	2,584,960	-	(723,170)	1,861,790	
Net OPEB Liability	44,116,297		(16,281,216)	27,835,081	
Compensated Absences	574,647	615,710	(530,150)	660,207	557,790
Other Liabilities	881,544	8,262		889,806	
Total Long-Term Debt/Liability	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Scheduled principal maturities and interest requirements on the Revenue Bonds are as follows:

Year	Principal	Interest	Total
2020	1,024,321	396,158	1,420,479
2021	1,054,321	366,036	1,420,357
2022	1,089,320	335,015	1,424,335
2023	1,129,321	292,293	1,421,614
2024	499,320	247,971	747,291
2025-2029	2,680,000	928,450	3,608,450

2030-2033	2,565,000	318,500	2,883,500
Total	10,041,603	2,884,423	12,926,026

In accordance with Bond Resolutions and the Official Bond Statements, separate restricted fund accounts are required to be established. The assets held in these fund accounts are restricted for specific uses, including debt service and other specific uses.

Applicability of Federal Arbitrage Regulations
Certain debt issuances of the District issued after the Tax Reform Act of 1986 are subject to the federal arbitrage regulations. The arbitrage rebate regulations require that all earnings from the investment of gross proceeds of an issue in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. These carry strict penalties for noncompliance including taxability of interest retroactive to the date of the issue. The District's management believes it is in compliance with these rules and regulations.

Intersystem Loan to Lebam Water System
In January of 2019 the District combined the Electric System and the three Water Systems to form one combined Utility System.

In 2004, the Electric Department issued a $50,000 Long Term loan to the Lebam Water System to help cover startup costs associated with the new system. The Lebam Water System incurred negative cash flow and operating losses for several years. A combined total of $160,852 was owed to the Electric System on December 31, 2019 when the water and electric systems were consolidated. Lebam Water customers pay a monthly $16 surcharge to repay the balance due to the Electric System. The balanced owed as of December 31, 2019 is $149,011. The loan and the corresponding receivable are eliminated in the combined financial statement and the amounts are not included in the totals presented in the accompanying financial statements.

NOTE 7 - PENSION PLAN
The following table represent the aggregate pension amount for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2019:

Aggregate Pension Amounts All Plans	2019
Pension liabilities	$1,861,790
Deferred outflows of resources	475,443
Deferred inflows of resources	(1,201,417)
Pension expense/expenditures	31,657

State Sponsored Pension Plans
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 98540-8380

or, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

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

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

Contributions
The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 are as follows:

PERS Plan 1 – January thru June 2019		
Actual Contribution Rates:	**Employer**	**Employee**
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	6.00%
Administrative Fee	0.18%	
Total	**12.83%**	**6.00%**

PERS Plan 1 – July thru December 2019		
Actual Contribution Rates:	**Employer**	**Employee**
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	6.00%
Administrative Fee	0.18%	
Total	**12.86%**	**6.00%**

The District's actual contributions to the plan was $253,804 for the year ended December 31, 2019.

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

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

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

Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 are as follows:

PERS Plan 2/3 - January thru June 2019		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.83%**	**7.41%**

PERS Plan 2/3 - July thru December 2019		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.86%**	**7.90%**

Both the District and its employees made the required contributions during fiscal years 2019. The District's actual contributions to the plan was $396,672 for the year ended December 31, 2019.

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 June 30, 2018 valuation date. 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 June 30, 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 service cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent 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 was one change in the methods and assumptions since the last valuation.

- **Cost of Living Adjustment (COLA):** The COLA programming was updated to reflect legislation signed during the 2018 Legislative Session (C151 L18). This law provides PERS annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5 percent 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 was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.50% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements.

A 7.40% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates for PERS Plans 2 and 3 whose rates include a component for the PERS Plan 1 liability. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40% was used to determine the total liability.

Sensitivity of Net Pension Liability/(Asset)
The table below presents the District's proportionate share of the net pension liability 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	1,758,131	1,403,901	1,096,559
PERS 2/3	3,511,832	457,890	2,048,072

Long-Term Expected Rate of Return

The Office of the State Actuary (OSA) selected a 7.40% long-term expected rate of return on pension plan investments using a building block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns the Washington State Investment Board (WSIB) provided. The CMAs contain three pieces of information for each class of assets WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class
The table below summarizes the 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. The inflation component used to create the table is 2.20% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long_term Expected Real Rate of Return Arithmetic
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%	

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 June 30, 2019, the District reported a total pension liability of $1,861,790 for its proportionate share of the net pension liabilities.

	Liability (or Asset)
PERS 1	$1,403,901
PERS 2/3	$457,890
TOTAL	$1,861,791

The District's proportionate share of the collective net pension liabilities is:

	Proportionate Share 6/30/2018	Proportionate Share 6/30/2019	Change in Proportion
PERS 1	0.038828%	0.036509%	0.002319%
PERS 2/3	0.049835%	0.047140%	0.002695%

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

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the District recognized pension expense as follows:

	Pension Expense
PERS 1	($43,782)
PERS 2/3	$75,439
TOTAL	$31,657

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual experience	$0	$0
Net difference between projected and actual investment earnings on pension plan investments	0	162,703
Changes of Assumptions	0	0
Changes in proportion and differences between contributions and proportionate share of contributions	0	
Contributions subsequent to the measurement date	124,372	
Total 1	**$124,372**	**$162,703**

PERS 2/3	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual experience	$235,483	$247,419
Net difference between projected and actual investment earnings on pension plan investments	0	1,188,645
Changes of Assumptions	21,679	434,271
Changes in proportion and differences between contributions and proportionate share of contributions	351,071	(1,107,625)
Contributions subsequent to the measurement date	206,939	
Total 2/3	$464,101	$1,870,335
Total All Funds	$588,473	

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 1	PERS 2/3
2020	(20,705)	(231,647)
2021	(49,045)	(370,520)
2022	(17,502)	(180,153)
2023	(6,541)	(109,640)
2024		(59,515)
Thereafter		(12,017)
TOTAL	**(93,793)**	**(963,492)**

The District's payroll subject to PERS plans for the years ended December 31, 2019 $5,135,907.32. The District's total payroll for all employees for the same period was $5,279,571.39.

Deferred Compensation Plans

By resolution, the District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. These plans are with The Hartford Financial Services Group, Inc., and with the Washington State Department of Retirement Systems (DRS) Deferred Compensation Program (DCP). The plans, available to all active employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The IRC of 1986, as amended, required the District to establish a trust exempt from tax under IRC Section 457 (g) and 501 (a). A trust was established with each of the plan administrators and the plan is operated for the exclusive benefit of the participants and their beneficiaries. The assets in the plans are not subject to any claims of the District's general creditors. The District has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

Participation in the Districts deferred compensation plans is voluntary on the part of the employee. Contributions to these plans are 100% employee funded.

NOTE 8 - TELECOMMUNICATION SERVICES

The District has installed and continues to build out a fiber optic backbone system in its service area for internal use by the Electric Department. In July of 2003, the District connected its fiber optic system to Northwest Open Access Network's (NoaNet's) fiber optic communications system and began making excess capacity available at wholesale rates to retail service providers. These retail providers are in turn offering end users access to the District's fiber for Internet and point-to-point interconnections on a retail basis.

Wholesale Telecommunications operations and capital activity for the years ended

December 31, 2019.

Telecommunication Services	2019
Operating Revenues:	
Wholesale Fiber Services to ISP	$461,044
Installation Charges (Capital Contributions)	$36,475
Other	$52,200
Total Revenues	$549,719
Operating Expenses:	
Administration and General	$162,017
Repairs and Maintenance	$41,699
Network Coordinated Services	$51,700
Interconnection Access	$20,676
Other	$11,340
Total Operating Expenses	$287,432
Plant in Service	$13,159,792
Construction Work in Progress	$296,014

Northwest Open Access Network, Inc

The District, along with 9 other Washington State Public Utility Districts and Energy Northwest, is a member of the Northwest Open Access Network (NoaNet), a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over Public Benefit Fibers leased from the Bonneville Power Administration, throughout Washington. The network began commercial operation in January 2001.

As a member of NoaNet, and in accordance with Interlocal Cooperation Act, RCW 39.34, members are permitted to enter into agreements for joint or cooperative actions and undertakings, including the financing thereof. In March 2019, eight NoaNet members agreed to provide bridge financing in the amount of $1,560,000 for a certain capital expenditures of NoaNet. The District's funding commitment under the agreement is 12.82 percent or $200,000. In October 2019, the first draw was approved in the amount of $665,000 with the District's share equaling $85,256. The District remitted payment to NoaNet in October 2019 and recorded a Note Receivable equal to the District's share. Of this amount, $8,526 is expected to be received within one year. In 2019, the District recorded $876 of interest income in accordance with repayment terms of the agreement.

Operationally, NoaNet reported a net position of $51,872,093 as of December 31, 2019. and a decrease in net position of ($4,803,787) in 2019.

In accordance with generally accepted accounting principles, as well as a position statement issued by the Washington State Auditor concerning the appropriate accounting treatment for NoaNet, a proportionate share of the changes in net position has not been recorded by the District. In accordance with GASB 70 – Financial Reporting for Non-exchange Financial Guarantees, the District has included all required disclosures for its guarantee of NoaNet debt.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Chief Financial Officer: 5802 Overlook Ave NE, Tacoma, WA 98422.

NOTE 9 - CONTINGENCIES AND LITIGATIONS

Pole Attachment Lawsuit

On December 28, 2007, the District filed a lawsuit in Pacific County Superior Court against three telecom companies (companies) that maintain their facilities as attachments on District owned poles. The suit alleged breach of contract, unjust enrichment and trespass and sought a declaratory judgment and injunctive relief. The lawsuit stems from the telecom company's refusal to enter into an agreement governing their attachment to District owned poles as well as their refusal to pay the District's approved fees for attachment to its poles~~.~~ A trial was held on this matter during October 2010.

In March 2011, the Superior Court of Pacific County ruled in favor of the District. The defendants appealed this decision thru the Appellate courts and ultimately the District prevailed. Court awarded fees and interest were received in 2019.

NOTE 10 – RISK MANGEMENT

PURMS

The District is a member of the Public Utility Risk Management Services (PURMS) formerly known as the Washington Public Utility District's Utilities System Joint Self Insurance Fund. RCW 48.62 authorizes the governing body of any one or more governmental entities to form or join a pool or organization for joint purchasing of insurance and/or joint self-insurance, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase the same. A decision to create a pooling agreement was made according to the provisions of RCW 54.16.200. The Pool was formed on December 31, 1976 when certain Washington State PUDs joined together by signing an Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. PURMS provides liability and property coverages to the participating members as well as health & welfare coverage for the District's employees. The District has never experienced any settlements that have exceeded its insurance coverage provided through the risk pools.

Liability Risk Pool

PURMS provides liability insurance coverage for its members participating in the Liability Risk Pool, and to a limited extent for the benefit of their employees, under an agreement entitled "PURMS Joint Self-Insurance Agreement" (SIA). Coverages include Commercial General Liability (CGL), Public Officials & Entity (PO&E), Automobile Liability (Auto), Pollution Liability (Pollution), Employment Practices Liability (EPL); and Cyber Security-Breach (CSB).

The Liability Pool has a self-insured retention (Liability Coverage Limit) of $1 million per occurrence and mandatory participation in a first layer of excess liability insurance in the amount of $35 million and a second layer of excess liability insurance in the amount of $25 million. All Liability Pool members are participating in both layers of protection as of 2019.

The Liability Pool offers self-insured public officials (PO&E) liability coverage to all members of the Pool. For 2019, the Excess D&O Coverage was $35 million excess of the liability pool's $1.0 million coverage limit. All Liability Pool members are participating in this coverage.

In 2019 the Liability Pool maintained excess insurance coverage for its joint self-insured EPL and CSB Coverages.

The Liability Pool is funded by automatic assessments of its members. These assessments occur periodically when the Liability Pool Balance falls below the current designated balance of $3.5 million by $500,000 or more. The $500,000 is operating funds used to pay claims costs as they are incurred, ongoing Liability Pool operating expenses, including program administration, and excess insurance premiums. Automatic interim assessments are triggered throughout the year whenever the balance falls $500,000 or more below the designated balance and an annual automatic assessment is triggered at December 31st to replenish the balance up to the $3.5 million balance. PURMS Resolution 11-3-16-4 allowed for Stepped-up Retention Assessments beginning November 2016 to increase the designated Liability Pool Balance from 3 million to $3.5 million incrementally over 4 years. The final step funding in 2019 is $50,000 and has resulted in a designated fund balance at December 31, 2019 of $3.5 million.

WAC 200-100-03001(1) requires each liability and property joint self-insurance program at the close of its fiscal year to obtain an actuarial report from an independent qualified actuary which estimates the expected confidence levels for the Pool's "unpaid claims" liability as of the fiscal year. Pools must establish and maintain assets at or above the levels as defined is WAC 200-100-03001(2) and (3). The State Risk Manager oversees adherence to these rules.

As of December 31, 2019, there were 93 known incidents or unresolved liability claims pending against one or more members or former members of the Liability Pool. The total dollar amount of the risk posed by these claims to such members and to the Liability Pool itself is unknown and can only be estimated. The case reserves set by the administrator for these Claims, as of December 31, 2019, was $244,342. The Liability Pool's actual balance was replenished to the $3.5 million designated balance via the automatic annual assessment issued in January 2020.

Commencing with fiscal year ending 2016, it is PURMS' policy to inform the Members of its Risk Pool in writing of their respective share of the actuarially-based "Claims Reserves Receivable" for the Risk Pool in which they participate ("CRR Allocation"), determined in accordance with a "10-Year Look-Back Period". PURMS' Administrator has calculated each Liability Pool Member's CRR Allocation for FY 2019, based on the 80% confidence level estimated by the March 12, 2020 Actuarial Report. The District's portion of the Liability Pool CRR Allocation for 2019 is $124,720.

District Official Bond

The District also maintains with a commercial carrier, additional Crime Bond protection in the amount of $1 million per loss. The policy indemnifies any District official, required by law to give bonds for the faithful performance of their service, against loss through the failure of any employees under the official's supervision to faithfully perform his or her duties as prescribed by law, when such failure results in loss of money or property.

Property Risk Pool

PURMS provides property insurance coverage for its members participating in the Property Risk Pool in accordance with the terms of the Self Insurance Agreement (SIA). The Pool is governed by the same requirements contained in WAC 200-100-03001 as the Liability Pool. Under the SIA the Property Pool has a self-insured retention or (Property Coverage Limit) of $250,000 per property loss.

PURMS also maintains excess property insurance for its members in the Property Pool. For 2019, the amount of the excess property insurance was $200 million with excess coverage attaching at the $250,000 property coverage limit for all property losses except those subject to increased retention levels for certain property risks.

The Property Pool also provides its members with automatic extended property coverage for property losses that exceed the Property Pool's $250,000 property coverage limit if those losses were also subject to increased retentions under the excess property insurance. Under the excess property insurance retentions in effect for 2019, the maximum exposure to the Property Pool from a property loss that exceeded $250,000, and that was subject to an increased retention, was $250,000, less the applicable deductible, or a maximum of $250,000 more than the Property Coverage Limit.

The Property Pool is funded to the amount of its designated Property Pool balance, which in 2019 was $750,000. Of this amount, $250,000 is Operating Funds used to pay claims costs as they are incurred and ongoing Property Pool operating expenses, program administration and excess insurance premiums. The $250,000 Operating Funds is replenished by interim assessments of property pool members whenever the balance falls below the $500,000 designated balance and an annual automatic assessment each December 31st. The remaining $500,000 of the Designated Balance is held by the Property Pool to meet regulatory reserve requirements.

The total paid for property claims in 2019 was $361,900, including claims adjustment expenses (but excluding Property Pool Operating Expenses). As of December 31, 2019, there were 7 known property claims pending from the members of the Property Pool. The total dollar amount of the risk posed by these claims to the Property Pool is unknown and can only be estimated. The case reserves set by the administrator for these claims, as of December 31, 2019 was $28,924.

Health & Welfare (H&W) Risk Pool

PURMS provides health and welfare insurance coverage for the employees of each of its Members participating in the Health & Welfare (H&W) Risk Pool in accordance with the terms of the Health & Welfare Coverage of the SIA and the terms of each Member's respective Coverage Booklet provided to its Employees.

The H&W Pools operations are financed through assessments of its Members under the H&W General Assessment Formula. Each month, each Member of the H&W Pool is assessed for the cost the H&W Pool incurred during the preceding month for such member's employees and for such member's share of Shared H&W Costs which includes administrative expenses, premiums for Stop-Loss Insurance, PPO charges and Shared H&W Claims.

The exposure of each H&W Pool Member to the H&W Claims Costs of its employees is limited by two stop-loss points. The first pair of Stop-Loss Points are established annually by the Excess Stop-Loss Insurance that the H&W Pool acquires and maintains for its Members. These Stop-Loss Points represent the dollar amounts at which the Stop-Loss Insurance attaches and begins paying either the H&W Claim Costs for an individual employee's total medical claims for the year or the H&W Claims Costs of all employees of all members for the year.

For 2019, the H&W Pool Individual Stop-Loss Point was $325,000 per employee and the H&W Pool Aggregate Stop-Loss Point was $23,722,524 for the combined H&W Claims Costs of the employees of all members of the H&W Pool.

In Addition, each H&W Pool member's exposure to the H&W claims costs of its employees is further limited by even lower Stop-Loss Points determined by the H&W Pool for its members. Medical expenses that exceed these Stop-Loss Points become Shared H&W Claims and are paid by all H&W Pool members except the member whose employee's H&W Claim exceeded the applicable Stop-Loss Point. The member Stop-Loss Points are calculated annually under the H&W assessment formula.

The total paid by the H&W Pool for H&W Claims Costs in 2019 was $16,136,629 (including shared H&W claims but excluding H&W pool operating expenses). The District's portion of the CRR Allocation for the H&W Pool for the year ending December 31, 2019 is $117,653.

PURMS prepares an annual financial report. A copy of the report is available from the PURMS Joint Self Insurance C/O Pacific Underwriters Corp., P O Box 68787, Seattle, Washington 98618, or online at http://www.purms.org.

Unemployment Insurance

The District is self-insured for unemployment compensation, in that it reimburses the State of Washington for actual claims made. Unemployment claims are infrequent; the District recognized $2,769 unemployment compensation expense in 2019.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

In accordance with collective bargaining agreements, the District provides employer paid post-retirement medical, vision, prescription and dental benefits for qualified retired employees and their eligible dependents. For employees retiring before September 1, 2009 the District contributes the percentage of the annual cost that was paid at the time of their retirement, this percentage ranges from 95% to 100%. For employees retiring after September 1, 2009, the District pays the same percentage of annual cost that it contributes for active employees, currently 95%. The benefits are provided through the Public Utility Risk Management Services (PURMS).

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

As of December 31, 2019, the following employees were covered under the plan:

Active participants	57
Retired employees	44
Total participants	101

Plan Basis

The District contracted with Milliman to provide actuarial services for the District's OPEB Plan valuation and year end reporting. Milliman certifies "that their report, including all costs and liabilities is based on actuarial assumptions and methods, is complete and accurate and determined in conformance with generally recognized and accepted actuarial principles and practices, which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Code of Professional Conduct, amplifying Opinions and supporting Recommendations of the American Academy of Actuaries."

Milliman uses assumptions that the Office of the State Actuary (OSA) uses for the Washington State Public Retirement Systems valuations. The assumptions used were developed in the 2007-2012 Demographic Experience Study and the 2017 Economic Experience Study. The purpose of the experience study is to compare current demographic assumptions to the actual experience of the plan to determine if any adjustments are required to ensure the assumptions are reasonable. Assumptions for this valuation include mortality rates, retirement date, terminations of employment, salary scale, and spouse age differences.

Funding Policy

The District funds its post-retirement health care benefits when the actual health care costs are incurred for retirees and their eligible dependents. The District is currently evaluating the option of pre-funding all or a portion of the actuarial calculated total OPEB liability, but no decision has been made.

Change in total OPEB Liability

The following table shows the components for the District's changes in Total OPEB Liability.

Changes in Total OPEB Liability	Increase (decrease) in total OPEB Liability
Balance as of December 31, 2017	$45,011,650
Changes for the year:	
Service Cost	1,404,624
Interest on Total OPEB liability	1,581,450
Effect of plan changes	0
Effect of economic/demographic gains or losses	(3,629,649)
Effect of assumptions, changes, or inputs	(14,857,117)
Expected benefit payments	(895,353)
Balance as of December 31, 2018	28,615,605

Actuarial Assumptions

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

Valuation Date	January 1, 2019
Measurement Date	December 31, 2018
Actuarial Cost Method	Entry Age
Discount Rate	4.10%
20 Year Tax Exempt Municipal Bond Rate	4.10%
Inflation	2.30%
Projected Salary Increase	3.05%

Aggregate OPEB Amounts for All Plans	Balances as of December 31, 2018
OPEB Liabilities	$28,615,605
OPEB Assets	0
Deferred Outflows of Resources	2,796,312
Deferred Inflows of Resources	15,845,800

OPEB expenses/expenditures	748,266

Mortality Rates for healthy retirees and beneficiaries were based on the RP-2000 Sex-distinct tables with generational projections using 100% of Projection Scale BB, offset one year (-1).

Health Care Cost Trend

The health care cost trend starts at 6.4% for retirees that are under age 65 and increases to 6.1% after age 65. Future years vary between 4.8% and 5.7% due to the timing of the excise tax scheduled to affect health care benefits. The trend then settles to an ultimate rate of 3.8%.

Sensitivity Analysis

The following presents the total OPEB liability of the District as of December 31, 2018, calculated using both the discount rate and the 20 Year Tax Exempt Municipal Bond Rate of 4.10%, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.10%) or 1 percentage point higher (5.10%) than the current rate in the first year.

	1% Decrease 3.10%	Discount Rate 4.10%	1% Increase 5.10%
Balance	$34,120,618	$28,615,605	$24,294,480

The following presents the total OPEB liability of the District as of December 31, 2018, calculated using the current healthcare cost trend rates as well as what the employer's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percental point higher than the current trend rates.

	1% Decrease 3.10%	Current Trend Rates	1% Increase 5.10%
Balance	$23,888,725	$28,615,605	$34,828,948

OPEB Expense for December 31, 2019 Financial Reporting

Measurement Period	Jan 1st - Dec 31st, 2018
Service Cost	$1,404,624
Interest on total OPEB liability	1,581,450
Effect of plan changes	0
Recognition of deferred inflows/outflows:	
Recognition of economic/demographic gains or losses	(518,521)
Recognition of assumption changes or inputs	(1,719,287)

Effect of economic/demographic gains or losses	**748,266**

Deferred Inflows/Outflows of Resources

As of the December 21,2018 Measurement Date, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	($3,111,128)	$0
Changes of Assumptions or Inputs	(12,734,672)	2,015,788
Contributions made subsequent to the measurement date	0	780,524
Total	**($15,845,800)**	**$2,796,312**

Deferred outflows of resources are reported for benefits that come due subsequent to the measurement date, but prior to the reporting date. Per GASB these amounts are not reported in the schedule below or the following schedule.

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the OPEB expense below. Additional future deferred inflows and outflows or resources may impact the numbers.

Measurement Period Ending December 31:	OPEB Expense
2019	$2,237,808
2020	2,237,808
2021	2,237,808
2022	2,237,808
2023	2,237,810
Thereafter	2,640,970

HRA VEBA

In 2006, the Commissioners approved Resolution No. 1248 authorizing participation in a Health Reimbursement Arrangement / Voluntary Employees' Beneficiary Association Plan., as allowed under IRS Code section 501(C)(9).

Under the plan, the District participates in the Voluntary Employees' Beneficiary Association (VEBA) for Public Service Employees in the Northwest trust, commonly referred to as the HRA VEBA Plan that was established on October 21, 1992 for public sector employees with updated IRS letter of determination March 14, 2000. Contributions are made for the benefit of District employees under three different VEBA groups - for

“A” Group or “B” Group IBEW Local Union No. 77 employees, and for non-union employees.

The plan covers all District employees. All employees within their respective VEBA group contribute an amount as described in the plan’s documentation. Contributions may be adjusted from time-to-time by a majority vote of the specific VEBA group.

For 2019, employee contributions totaled $82,927 and the District contributed an additional $37,118 on behalf of its employees.

NOTE 12 - POWER SUPPLY

BPA Power Contract

The District is a preference customer of the, Bonneville Power Administration (BPA) which operates under the authority of the U.S. Department of Energy. The BPA supplies the primary source of the District's power under a contract that was approved by the District’s Board of Commissioners (Resolution No. 1274) at its November 18, 2008 meeting. Resolution No. 1274 authorized the execution of a Slice/Block Power Sales Agreement with the BPA commencing on October 1, 2011 and expiring on September 30, 2028.

These agreements incorporate provisions of the Pacific Northwest Electric Power Planning and Conservation Act of 1980 (Public Law 96-501) and the Bonneville Project Act of 1937 such as preference and priority in the distribution and marketing of BPA’s federal power to publicly owned preference customers, such as the District. The contract provides federal power in amounts based on the District’s annual Net Requirements in the form of two products: Slice and Block.

The Slice product provides for the combined sale of power services to the District based on the actual generation shape of the Federal Columbia River Power System (FCRPS). As a Slice purchaser, the District accepts the risk of fluctuations in the actual output of the FCRPS and accepts responsibility for managing its percentage share of the output to serve load. There is no guarantee that the amount of the Slice output, combined with Firm Requirements Power made available under Block are sufficient to meet the Districts native load at any given time. As part of the BPA agreement, the District agrees to meet its load with its own resources and/or purchases beyond what BPA supplies.

The Block product provides power in pre-agreed upon flat, but shaped monthly amounts. The District’s annual Block power rate for 2019 is $1,980,553 per 1%. Our Block percentage is .23282. The rate for Block power is the lowest applicable Priority Firm Rate made available to BPA’s preference customers. The Slice product provides the District with a 0.28159% share of the output of the FCRPS output made available to Slice customers.

The currently applicable base-rate for Slice purchases is $1,980,553 per month for each percent of Slice, with the adjusted base rate subject to an annual true up by BPA based upon updated actual costs allocated to the Slice System. Technical Operating Procedures have been established to provide Slice purchasers with the ability to calculate, schedule, and account for their share of Slice Output on an hourly basis. This product does not include transmission services. Moreover, by its nature, there is a greater degree of potential for exposure – and benefit – depending upon snow-pack amount and timing of runoff and other conditions that affect water, and therefore hydroelectric system output.

BPA reserves the right to implement a Load Based Cost Recovery Adjustment Charge (LBCRAC). The current LBCRAC is 0%.

BPA Transmission Services

The District traditionally purchased bundled electric power and transmission services from BPA under the District's power purchase contract. However, in response to changes in Federal Energy Regulatory Commission regulations in the late 1990s, BPA unbundled their electric power and transmission services, and required that transmission services be purchased separately.

As a result of BPA unbundling its Power Services from Transmission Services, the District entered into a Service Agreement for Network Integration Transmission Service with BPA on June 8, 2001. This agreement is set to expire on October 1, 2031. The agreement specifies that the transmission is used to serve the District's Net Requirements Load.

As a result of execution of the new Slice/Block Power Sales agreement, the District also executed a Point to Point Transmission (PTP) Service Agreement with BPA on September 8, 2011. The PTP agreement allows the District to move power and gives greater flexibility in transporting electricity.

The Energy Authority

The Energy Authority (TEA) provides professional power supply management services including wholesale market purchases and sales of electricity on behalf of the District. TEA also provides power scheduling services to the District.

Power Market Risk Management Policies and Procedures

In early 2010 the District commenced with a comprehensive assessment of its risk profile, and the development of policies and procedures for risk management and trading operations. The results of this effort, completed in September 2011, are detailed guidelines for considering and/or engaging in any Power Trading Agreements. The District's Risk Management Committee, with oversight and review by the Board of Commissioners, actively manages financial risk. The District periodically updates the risk management policy to incorporate improved procedures and practices.

Total power cost for the year ending December 31, 2019 was $14,598,643. Power transmission cost for the year ending December 31, 2019 was $1,448,650.

NOTE 13 – SUBSEQUENT EVENTS

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new 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.

The District offices have remained open for employees to work but have been closed to the public. Proper social distancing and good hygiene have been practiced safeguarding employees from the virus. The District has implemented a staggered starting and closing time for line crew members, implemented remote attendance to all meetings, stopped all charging of late fees and disconnection of electric service, and purchased safety supplies for employees.

The length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time.

NOTE 14 – SIGNIFICANT COMMITMENT DISCLOSURE

Bond proceeds of 14 million were received in 2014 to complete major capital projects. In March 2017, the board of commissioner abandoned a large project which was expected to cost 10 million dollars. The District is required to use the bond proceeds for capital projects. In lieu of spending bond funds on the cancelled project, the District used bond funds to reimburse smaller completed projects. Restricted bond funds were moved to a designated bond repayment fund, a designated reserve fund and the District savings account.

Required Supplementary Information

Pension Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 1
As of June 30, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014
Employer's portion of the net pension liability (asset)	0.036509%	0.038828%	0.039612%	0.041024%	0.040220%	0.039931%
Employers Proportionate share of the net pension liability	1,403,901	1,734,075	1,879,620	2,203,182	2,103,880	2,011,543
Employers' Covered Employee Payroll	5,114,662	5,158,918	5,012,859	4,918,736	4,611,316	4,422,412
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	27%	34%	38%	45%	46%	46%
Plan Fiduciary net position as a percentage of the total pension liability (DRS PEFI)	67%	63%	61%	57%	59%	61%

Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 2/3
As of June 30, 2019
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Employer's portion of the net pension liability (asset)	0.047140%	0.049835%	0.050952%	0.052569%	0.040220%	0.039931%
Employers Proportionate share of the net pension liability	457,890	850,888	1,770,338	2,646,808	1,856,203	1,039,202
Employers' Covered Employee Payroll	5,114,662	5,158,918	5,012,859	4,918,736	4,611,316	4,422,412
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	9%	16%	34%	54%	39%	23%
Plan Fiduciary net position as a percentage of the total pension liability (DRS PEFI)	98%	96%	91%	86%	89%	93%

Notes to Schedules:
There are no factors at year-end that significantly affect trends in the amounts reported above.

*The ten-year information will be provided as it is available.

Schedule of Employer Contributions
PERS Plan 1
As of December 31, 2019
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Statutorily required contributions	253,804	260,933	252,359	232,691	210,911	183,792
Contributions in relation to Statutorily required contributions	(253,804)	(260,933)	(252,359)	(232,691)	(210,911)	(183,792)
Contribution deficiency (excess)	-	-	-	-	-	-
Covered employer payroll	5,135,907	5,153,410	5,148,970	4,878,230	4,791,219	4,555,486
Contributions as a percentage of covered employee payroll	4.94%	5.06%	4.90%	4.77%	4.40%	4.03%

Schedule of Employer Contributions
PERS Plan 2/3
As of December 31, 2019
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Statutorily required contributions	396,672	386,505	353,504	303,914	271,015	227,569
Contributions in relation to Statutorily required contributions	(396,672)	(386,505)	(353,504)	(303,914)	(271,015)	(227,569)
Contribution deficiency (excess)	-	-	-	-	-	-
Covered employer payroll	5,135,907	5,153,410	5,148,970	4,878,230	4,791,219	4,555,486
Contributions as a percentage of covered employee payroll	7.72%	7.50%	6.87%	6.23%	5.66%	5.00%

Notes to Schedules:
There are no factors at year-end that significantly affect trends in the amounts reported above.
*The ten-year information will be provided as it is available.

OPEB Supplementary Information

Schedule of Changes in Total OPEB Liability and Related Ratios
Public Utility District No. 2 of Pacific County OPEB Plan
For the year ended December 31, 2019
Last 10 Fiscal Years*

Total OPEB Liability (Dollars in thousands)	2019	2018
Service Cost	1,405	1,215
Interest on total OPEB liability	1,581	1,552
Changes of benefit terms	0	0
Effect of economic/demographic gains (losses)	(3,630)	0
Effect of assumption changes or inputs	(14,857)	2,822
Expected benefit payments	(895)	(860)
Net Change in OPEB Liability	(16,396)	4,730
Total OPEB liability, beginning	45,012	40,282
Total OPEB liability, ending	28,616	45,012
Covered employee payroll	5,153	5,149
Total OPEB liability as a % of covered employee payroll	555.28%	874.19%

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

Notes to Schedule:

Changes of benefit terms: There are no changes of benefit terms.

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

*The ten-year information will be provided as it is available.

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.

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