Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Cowlitz County

For the period January 1, 2020 through December 31, 2020

Published August 30, 2021

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Office of the Washington State Auditor
Pat McCarthy

August 30, 2021

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

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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

Public Utility District No. 1 of Cowlitz County
January 1, 2020 through December 31, 2020

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund of Public Utility District No. 1 of Cowlitz County, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 24, 2021. The prior year comparative information has been derived from the District's 2019 basic financial statements, on which we issued our report dated July 1, 2020.

As discussed in Note 1 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

August 24, 2021

Public Utility District No. 1 of Cowlitz County
January 1, 2020 through December 31, 2020

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund of Public Utility District No. 1 of Cowlitz County, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Public Utility District No. 1 of Cowlitz County, as of December 31, 2020, and the respective 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.

Matter of Emphasis

As discussed in Note 1 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2019, from which such partial information was derived. We have previously audited the District's 2019 financial statements and we expressed unmodified opinions on the respective statements of each major fund in our report dated July 1, 2020. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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 August 24, 2021 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

August 24, 2021

FINANCIAL SECTION

Public Utility District No. 1 of Cowlitz County
January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2020

This discussion and analysis is designed to provide an overview of the financial activities of Public Utility District No. 1 of Cowlitz County, Washington (the District) for the year ended December 31, 2020 with comparable information for 2019 and 2018. This supplementary information is to be read in conjunction with the District's financial statements.

The District is a municipal corporation incorporated in 1936 to serve the citizens of Cowlitz County, Washington. The District is governed by a three-member board of locally elected commissioners, independent of county government. The District manages and operates two systems: Electric and Production (Swift No. 2 Hydroelectric).

Financial Policies and Controls

The District's financial management system consists of financial policies, financial planning and its internal control structure. This system set standards for rate sufficiency, rate stability, reserve funds, capital investment and debt management that guide the development of budgets, rates and debt issuance.

The District's Board has the exclusive right to determine rates and charges for services provided. Planning is guided by forecasts of operating and capital needs. Forecast results are used to identify the impacts of anticipated events and initiatives to develop strategies to meet the Board's financial objectives.

ELECTRIC SYSTEM

The Electric System provides electric service throughout Cowlitz County, which encompasses 1,144 square miles and approximately 52,000 customers. The District is among the largest PUDs in the state of Washington with total 2020, 2019 and 2018 retail power sales of 4,343,568 MWHs, 4,609,092 MWHs and 4,839,889 MWHs, respectively. Approximately 70% of the District's power and 50% of revenues are sold to four industrial customers. Extreme weather and economic conditions are the primary influences on electricity sales.

The Electric System power supply is provided through contracts with Bonneville Power Administration (BPA) and Grant County PUD, as well as the purchase of the output from the District's Swift No. 2 Hydroelectric Production System on the Lewis River and the power associated with a 2 MW share of Energy Northwest's Nine Canyon Wind Project. The District also receives and sells energy from interests in two wind projects; 46% of the 204.7 MW White Creek Wind Project (contractual interest) and 30% of the 98.9 MW Harvest Wind Project (tenant in common). Both projects are located in Klickitat County, WA. Approximately 80% of the District's power supply is purchased from BPA.

Since the majority of the District's power supply comes from hydroelectric generation, financial performance of the Electric System is largely influenced by the availability of water for generation and by prices obtainable for excess generation in the wholesale markets. Wholesale sales activity can complement sales to retail customers and provides a stabilizing portfolio effect in years when wholesale sales are at or higher than budget. Conversely, when wholesale sales are below budget, this activity will not provide the expected support for retail rates and may cause upward rate pressures. The District also uses forward physical power contracts and financial instruments that set a "floor" to protect the District from commodity price risk.

Overall, the Electric System's net position increased approximately $11.4 million or 6.6% for 2020 and increased approximately $3.5 million or 2.1% and $4.5 million or 2.7% for 2019 and 2018, respectively. The Electric System continued investing in plant infrastructure.

Selected Financial Data – Electric System

	2020	2019	2018
Current Assets	$ 121,360,704	$ 93,565,594	$ 79,484,982
Net Utility Plant	172,714,561	173,806,582	171,302,480
Other Assets and Deferred Outflows	116,894,662	147,274,252	176,315,984
Total Assets and Deferred Outflows	410,969,927	414,646,428	427,103,447
Current Liabilities	49,626,160	44,837,291	48,820,618
Long-Term Debt	94,255,367	113,808,241	125,550,714
Other Liabilities and Deferred Inflows	83,372,654	83,639,123	83,837,783
Total Liabilities and Deferred Inflows	227,254,181	242,284,655	258,209,114
Net investment in capital assets	85,801,371	71,975,993	59,439,003
Restricted	2,406,514	2,456,641	2,504,552
Unrestricted	95,507,861	97,929,139	106,950,776
Total Net Position	183,715,746	172,361,773	168,894,332
Operating Revenues	252,735,534	280,515,639	267,727,167
Operating Expenses	242,877,727	279,154,821	262,941,455
Net Operating Revenues	9,857,807	1,360,818	4,785,713
Other Income (Expense)	1,496,166	2,106,624	(303,398)
Change in Net Position	11,353,973	3,467,442	4,482,314

Results of operations are primarily impacted by changes in rates, retail load, net power supply costs, particularly generation levels and wholesale prices, conservation activities and rate stabilization decisions. Retail rates were unchanged in 2020, 2019 and 2018. 2020 was marked by COVID-19. Financial impacts from COVID-19 were most apparent in revenue collections due to the moratorium on disconnections for nonpayment and reduced retail load. Expenses were also impacted by less business travel and training and increased spending on cleaning, personal protective equipment and remote working. In addition, certain capital projects were delayed until 2021.

Capital Asset and Long-Term Debt Activity

As of year-end, the Electric System had $339 million invested in plant in service, an increase of 1% from prior year. Additions are primarily related to a planned construction program with a focus on safety and reliability. Capital construction is funded by a combination of rates, aid-to-construction paid by customers and long-term revenue bonds.

Total Electric System plant in service consisted of the following:

	2020	2019	2018
Intangible	$ 239,963	$ 239,963	$ 239,963
Land and Land Rights	3,644,390	3,316,970	3,309,767
Transmission & Distribution	280,546,972	275,580,794	263,102,550
General Plant	54,690,228	57,281,476	55,799,108
Total Plant In Service	$ 339,121,553	$ 336,419,203	$ 322,451,388

At December 31, 2020, the Electric System had outstanding revenue bonds totaling $94 million compared to $111 million and $120 million at December 31, 2019 and 2018, respectively. No new debt was issued in 2020, 2019 or 2018. In 2020, the District redeemed $7.4 million of its outstanding 2010B bonds prior to maturity, resulting in $2.1 million of interest savings.

PRODUCTION SYSTEM

The Production System operates the 66.8 MW Swift No. 2 Hydroelectric Project on the Lewis River. All of the output is sold to the District's Electric System at cost. The 50-year FERC license expires in June 2058. Overall, the Production System's net position decreased approximately $489 thousand or .5% for 2020 and decreased approximately $419 thousand or .5% and $613 thousand or .7% for 2019 and 2018, respectively.

Selected Financial Data – Production System

	2020	2019	2018
Current Assets	$ 22,242,427	$ 13,848,711	$ 5,436,413
Net Utility Plant	101,021,675	104,094,625	107,234,216
Other Assets and Deferred Outflows	21,944,092	29,248,309	36,364,177
Total Assets and Deferred Outflows	145,208,194	147,191,645	149,034,807
Current Liabilities	2,201,510	2,094,718	2,011,127
Long-Term Debt	43,538,640	45,236,262	46,887,531
Other Liabilities and Deferred Inflows	8,092,046	7,995,634	7,851,852
Total Liabilities and Deferred Inflows	53,832,196	55,326,614	56,750,510
Net investment in capital assets	53,791,553	55,240,251	56,721,447
Restricted	-	-	-
Unrestricted	37,584,445	36,624,780	35,562,849
Total Net Position	91,375,998	91,865,031	92,284,296
Operating Revenues	6,495,168	6,183,192	6,218,244
Operating Expenses	6,215,794	6,078,737	6,005,467
Net Operating Revenues	279,374	104,455	212,777
Other Income (Expense)	(768,407)	(523,720)	(826,163)
Change in Net Position	(489,033)	(419,265)	(613,386)

Operating revenues are set to cover operating and capital costs, debt service and to fund reserves over time. Fluctuations in operations from year to year are largely impacted by non-recurring or infrequent projects.

Capital Asset and Long-Term Debt Activity

No substantial capital activity in 2020, 2019 or 2018 and no new debt.

Total Production System plant in service consisted of the following:

	2020	2019	2018
Intangible	$ 3,113,155	$ 3,113,155	$ 3,113,155
Land and Land Rights	1,224,229	1,224,229	1,224,229
Production Plant	144,187,735	144,187,735	144,187,735
Transmission Plant	6,802,943	6,799,262	6,799,262
Total Plant In Service	$ 155,328,062	$ 155,324,381	$ 155,324,381

At December 31, 2020, the Production System had outstanding revenue bonds totaling $42 million compared to $43 million and $45 million at December 31, 2019 and 2018, respectively.

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2020 AND 2019

	Electric	Production	2020 Total	2019 Total
CURRENT ASSETS				
Cash and cash equivalents	$ 67,819,060	$ 15,889,240	$ 83,708,300	$ 57,206,887
Investments	16,199,561	5,018,909	21,218,470	21,054,180
Accounts receivable and unbilled revenues	31,317,196	-	31,317,196	22,268,287
Other accounts receivable	1,744,078	-	1,744,078	2,121,596
Allowance for uncollectible accounts	(1,031,374)	-	(1,031,374)	(1,047,253)
Accounts receivable from assoc. companies	31,428	-	31,428	10,849
Current portion of advances to others	-	861,242	861,242	823,414
Materials and supplies	3,912,511	-	3,912,511	3,689,253
Prepayments	471,946	433,195	905,141	736,579
Interest receivable	896,298	39,841	936,139	550,513
Total current assets	121,360,704	22,242,427	143,603,131	107,414,305
RESTRICTED ASSETS				
Cash and cash equivalents	11,658,865	4,617,854	16,276,719	16,041,854
Investments	-	-	-	3,360,000
Total restricted assets	11,658,865	4,617,854	16,276,719	19,401,854
UTILITY PLANT				
Plant in service	339,121,553	155,328,062	494,449,615	491,743,584
Construction in progress	4,661,845	71,550	4,733,395	3,888,118
Total utility plant	343,783,398	155,399,612	499,183,010	495,631,702
Less accumulated depreciation and amortization	171,068,837	54,377,937	225,446,774	217,730,495
Net utility plant	172,714,561	101,021,675	273,736,236	277,901,207
OTHER PROPERTY AND INVESTMENTS				
Investments	33,134,278	10,265,582	43,399,860	70,362,470
White Creek Wind Project Energy Purchase Agreement	29,082,004	-	29,082,004	33,399,729
Investment in associated organizations	30,461,048	-	30,461,048	32,124,979
Advances to other funds	-	6,064,929	6,064,929	6,926,170
Other charges	4,572,103	438,825	5,010,928	5,096,518
Total other property and investments	97,249,433	16,769,336	114,018,769	147,909,866
DEFERRED OUTFLOWS OF RESOURCES	7,986,364	556,902	8,543,266	9,210,841
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 410,969,927	$ 145,208,194	$ 556,178,121	$ 561,838,073

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2020 AND 2019

	Electric	Production	2020 Total	2019 Total
CURRENT LIABILITIES				
Current portion of long-term debt	$ 11,103,910	$ 1,355,000	$ 12,458,910	$ 11,915,331
Accounts payable	25,095,524	108,127	25,203,651	20,427,856
Accounts payable to assoc. companies	-	31,428	31,428	10,849
Accrued wages and benefits	2,804,252	-	2,804,252	2,184,887
Customer deposits	2,057,061	-	2,057,061	2,192,893
Taxes payable	6,951,452	46,859	6,998,311	7,588,496
Interest payable	1,613,961	660,096	2,274,057	2,611,697
Total current liabilities	49,626,160	2,201,510	51,827,670	46,932,009
LONG-TERM LIABILITIES				
Bonds payable	83,895,000	40,820,000	124,715,000	143,630,000
Premium on bonds payable	3,939,714	2,718,640	6,658,354	8,084,941
Advances from other funds	6,064,929	-	6,064,929	6,926,170
Loan payable	355,724	-	355,724	403,392
Total long-term liabilities	94,255,367	43,538,640	137,794,007	159,044,503
OTHER LIABILITIES AND CREDITS				
Net pension liability	5,407,852	-	5,407,852	5,851,018
Lewis River Cost-Share Agreement	-	7,208,147	7,208,147	7,208,147
Compensation reserve	49,962	-	49,962	80,240
Other credits	4,490,147	-	4,490,147	5,296,490
Post-retirement benefit obligation	5,913,680	-	5,913,680	5,458,780
Total other liabilities and credits	15,861,641	7,208,147	23,069,788	23,894,675
TOTAL LIABILITIES	159,743,168	52,948,297	212,691,465	229,871,187
COMMITMENTS AND CONTINGENCIES				
DEFERRED INFLOWS OF RESOURCES	67,511,013	883,899	68,394,912	67,740,082
NET POSITION				
Net investment in capital assets	85,801,371	53,791,553	139,592,924	127,216,244
Restricted	2,406,514	-	2,406,514	2,456,641
Unrestricted	95,507,861	37,584,445	133,092,306	134,553,919
TOTAL NET POSITION	183,715,746	91,375,998	275,091,744	264,226,804
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 410,969,927	$ 145,208,194	$ 556,178,121	$ 561,838,073

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Electric	Production	2020 Total	2019 Total
OPERATING REVENUES				
Retail sales	$ 245,866,781	$ 6,495,168	$ 252,361,949	$ 276,837,175
Wholesale sales	5,392,483	-	5,392,483	7,676,342
Other operating revenues	1,476,270	-	1,476,270	2,185,314
Total operating revenues	252,735,534	6,495,168	259,230,702	286,698,831
OPERATING EXPENSES				
Net power costs	187,182,819	-	187,182,819	222,903,058
Operations expense	20,746,545	1,996,276	22,742,821	22,104,074
Maintenance expense	8,267,856	1,027,982	9,295,838	9,074,004
Depreciation and amortization	12,228,291	3,144,500	15,372,791	15,127,519
Taxes	14,452,216	47,036	14,499,252	16,024,903
Total operating expenses	242,877,727	6,215,794	249,093,521	285,233,558
OPERATING INCOME	9,857,807	279,374	10,137,181	1,465,273
OTHER INCOME (EXPENSE)				
Interest and dividend income	2,058,863	953,551	3,012,414	4,138,796
Interest on long-term debt	(5,107,950)	(1,694,196)	(6,802,146)	(7,379,750)
Amortization of regulatory asset	(102,899)	(27,862)	(130,761)	(71,752)
Income from Harvest Wind Project	1,133,943	-	1,133,943	635,390
Miscellaneous nonoperating income (expense)	24,644	100	24,744	181,723
Total other income (expense)	(1,993,399)	(768,407)	(2,761,806)	(2,495,593)
CHANGE IN NET POSITION BEFORE CONTRIBUTIONS AND SUBSIDY	7,864,408	(489,033)	7,375,375	(1,030,320)
Contributions in aid of construction	2,569,872	-	2,569,872	3,155,018
BAB subsidy	919,693	-	919,693	923,479
CHANGE IN NET POSITION	11,353,973	(489,033)	10,864,940	3,048,177
TOTAL NET POSITION, beginning of year	172,361,773	91,865,031	264,226,804	261,178,627
TOTAL NET POSITION, end of year	$ 183,715,746	$ 91,375,998	$ 275,091,744	$ 264,226,804

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Electric	Production	2020 Total	2019 Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	$ 243,912,432	$ 6,495,168	$ 250,407,600	$ 290,754,734
Cash payments to suppliers	(191,646,832)	(3,075,108)	(194,721,940)	(240,899,525)
Cash payments to employees	(15,281,681)	-	(15,281,681)	(14,470,115)
Cash payments for taxes	(15,059,501)	(29,936)	(15,089,437)	(15,996,487)
Net cash from operating activities	21,924,418	3,390,124	25,314,542	19,388,608
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Inter-System Advances	(823,413)	823,413	-	-
Net cash from non-capital financing activities	(823,413)	823,413	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction and acquisition of utility plant, net	(11,136,270)	(71,550)	(11,207,820)	(14,492,029)
Principal paid on long-term debt	(17,161,917)	(1,295,000)	(18,456,917)	(10,515,000)
Interest paid on long-term debt and notes	(6,254,491)	(2,045,037)	(8,299,528)	(8,720,002)
Harvest Wind Project, net	2,847,077	-	2,847,077	2,559,077
Contributions in aid of construction	2,569,872	-	2,569,872	3,155,018
BAB subsidy	919,693	-	919,693	923,479
Materials and supplies	(223,258)	-	(223,258)	(1,750)
Other charges, net	1,032	-	1,032	106,569
Miscellaneous nonoperating	24,644	100	24,744	181,723
Net cash from capital and related financing activities	(28,413,618)	(3,411,487)	(31,825,105)	(26,802,915)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net investment activity	22,551,881	8,117,375	30,669,256	25,697,260
Interest and dividends on investments	1,655,644	971,144	2,626,788	4,160,115
Investment in associated organizations	(49,203)	-	(49,203)	2,213,618
Net cash from investing activities	24,158,322	9,088,519	33,246,841	32,070,994
NET CHANGE IN CASH	16,845,709	9,890,569	26,736,278	24,656,687
CASH AND CASH EQUIVALENTS, beginning	62,632,216	10,616,525	73,248,741	48,592,054
CASH AND CASH EQUIVALENTS, end of year	$ 79,477,925	$ 20,507,094	$ 99,985,019	$ 73,248,741

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Reconciliation of operating income to net cash from operating activities:	Electric	Production	2020 Total	2019 Total
Operating income	$ 9,857,807	$ 279,374	$ 10,137,181	$ 1,465,273
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization	12,228,291	3,144,500	15,372,791	15,127,519
Amortization of energy purchase agreement	4,317,725	-	4,317,725	4,317,725
Changes in assets and liabilities:				
Customer accounts receivable and unbilled	(9,064,788)	-	(9,064,788)	877,714
Other accounts receivable	377,518	-	377,518	3,067,219
Accounts receivable from assoc. companies	(20,579)	-	(20,579)	744
Prepayments	(66,431)	(102,131)	(168,562)	(17,702)
Accounts payable	4,745,093	30,702	4,775,795	(4,568,340)
Accounts payable to assoc. companies	-	20,579	20,579	(744)
Accrued wages and benefits	619,365	-	619,365	80,846
Net pension liability and related	(2,418,551)	-	(2,418,551)	(1,220,279)
Customer deposits	(135,832)	-	(135,832)	110,970
Taxes payable	(607,285)	17,100	(590,185)	28,417
Rate stabilization fund	1,800,000	-	1,800,000	-
Deferred compensation reserve	(30,278)	-	(30,278)	(24,298)
Other credits	(132,537)	-	(132,537)	(10,405)
Post-retirement benefit obligation	454,900	-	454,900	153,949
	$ 21,924,418	$ 3,390,124	$ 25,314,542	$ 19,388,608

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Public Utility District No. 1 of Cowlitz County, Washington (the District) was founded on November 3, 1936 and is a municipal corporation of the State of Washington. The District is governed by an elected three-member board of commissioners that have the responsibility to set rates and charges for services provided.

The District's reporting entity is comprised of the combined Electric System and Production System (66.8 MW Lewis River Swift Plant No. 2 Hydroelectric System). Inter-company balances and transactions have not been eliminated from the combined amounts reported. The District has no component units.

The District's wholesale activity is generated from the sale of the output from interests in two wind projects; 46% of the 204.7 MW White Creek Wind Project (contractual interest) and 30% of the 98.9 MW Harvest Wind Project (tenant in common). Both projects are located in Klickitat County, WA.

B. Basis of Accounting and Presentation

The District's accounting policies are in accordance with accounting principles generally accepted in the United States of America. The District applies accounting and reporting standards of the Governmental Accounting Standards Board (GASB), exclusively. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

C. New Accounting Standards

GASB has issued the following Statements for which the District is evaluating the impact on its combined financial statements:

- Statement No. 87, *Leases*, effective for financial statements for fiscal years beginning after June 15, 2021.
- Statement No. 91, *Conduit Debt Obligations*, effective for financial statements for fiscal years beginning after December 15, 2021.
- Statement No. 92, *Omnibus 2020,* effective for financial statements for fiscal years beginning after June 15, 2021.
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* effective for financial statements for fiscal years beginning after June 15, 2022.
- Statement No. 96, Subscription-Based Information Technology Arrangements, effective for financial statements for fiscal years beginning after June 15, 2022.

GASB has issued the following Statements which were fully or partially implemented during the current year:

- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement was early implemented. The Statement establishes requirements for interest costs incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred and should not be capitalized as part of the historical cost of the asset. The District applied the requirements of the Statement prospectively as of January 1, 2020.

- Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. Question 4.3 and 4.5 of Implementation Guide 2019-2, as amended and requirements in (1) paragraph 4 of this Statement were implemented with no effect. All other portions of the Statement are being evaluated to determine the impact on the combined financial statements.

D. Use of Estimates

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

E. Cash Equivalents

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

F. Investments

The District records investments at fair value, with changes in unrealized gains and losses reported as a regulatory liability or asset (See Notes 2 and 6). The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs. The District's fair market measurements are classified as Level 2.

At December 31, 2019 the District did not report investments at fair value as the increase in fair value was determined to be quantitatively and qualitatively immaterial and as a general rule the District has the ability and intent to hold to maturity. For 2020, the District has decided to report at fair value and defer the unrealized gain as allowed under regulatory accounting. The comparative 2019 balances have been restated resulting in an increase in previously reported investments and deferred inflows of resources of $1,945,111.

G. Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable are recorded when invoices are issued and are written-off when they are determined to be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available information, of customers that may be unable to meet their financial obligations, and a reserve based on historical experience. Actual losses between twelve and fifteen months old are then charged against the provision for uncollectible accounts quarterly.

At December 31, 2020, accounts receivable and payable includes $7 million deferred under a BPA program. Such amount will be billed and collected from April through September 2021.

In response to COVID-19, the Governor of the State of Washington implemented a moratorium on disconnection of service for non-payment and imposing late fees. This has resulted in growing arrearages. The District continues to educate customers on obtaining government assistance and has plans in place once the moratorium is lifted to address outstanding balances. The moratorium proclamation is set to end September 30, 2021 unless extended. The ultimate financial impact of COVID-19 on the District is unknown at this time.

H. Other Accounts Receivable

Other accounts receivable consists of certain wholesale transactions, conservation reimbursements, aid to construction billings and other miscellaneous customer and non-customer items that may require invoicing that would not normally be entered into the customer service billing system.

I. Interfund Balances and Transactions

The District's Electric System makes payments for goods, services and taxes on behalf of the Production System. This is reflected in the statement of net position as "accounts receivable from associated companies." Alternatively, the amounts due by the Production System to the Electric System are reflected in the statement of net position as "accounts payable to associated companies." These accounts include only short-term obligations, which are paid monthly and are not interfund loans. A description of loans and long-term advances between funds is contained in Note 7.

J. Materials and Supplies

Materials and supplies consist of items for plant maintenance and construction and are stated at average cost.

K. Restricted Assets

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

L. Utility Plant and Depreciation

Utility plant is stated at original cost or, if donated, fair value (See Note 3). Cost includes labor, materials and related indirect costs. Additions, renewals and betterments with a minimum cost of $1,000 per item are capitalized. Repairs and minor replacements are charged to operating expenses. When an asset is removed from service and retired, unless it is a major retirement or a general plant asset, the cost of property plus removal cost less salvage is charged to accumulated depreciation. No material utility plant impairments were noted for the years ended December 31, 2020 and 2019.

Contributions by developers and customers are recorded at contract price or cost as contributions in aid-of-construction and recorded in the statement of revenues, expenses and changes in net position.

Depreciation is computed on the straight-line method over estimated useful lives as follows: Distribution Plant - 20 to 33 years; Transmission Plant - 33 to 40 years; General Plant - 4 to 50 years; Production Plant - 10 to 50 years; FERC License - 50 years.

M. Asset Retirement Obligations (ARO)

The District has evaluated potential asset retirement obligations associated with the retirement of tangible capital assets and has identified the following:

- Removal of certain transmission and distribution assets on leased or licensed property
- Decommissioning of the Swift No. 2 Hydroelectric generation facility
- Decommissioning of the Harvest Wind Project

As the District has no plans to retire or remove the transmission and distribution assets or Swift No. 2 Hydroelectric generation facility, the timing and extent of any liabilities associated with operations is not determinable at this time. An ARO will be recorded if future events warrant a change.

An ARO has been determined for the Harvest Wind Project (See Note 4).

N. White Creek Wind Project Energy Purchase Agreement

In November 2007, the White Creek Wind Project began energy production and the District paid $85,572,237 under the Amended and Restated White Creek Wind Project Energy Purchase Agreement to receive a 46% share of the energy for 20 years. With certain exceptions, the Agreement stipulates a minimum Annual Energy Quantity (225,917 MWh). The payment was made with unrestricted funds ($70,354,497) and a loan from the Production System to the Electric System ($15,217,740 – See Note 7). The prepayment is being amortized on a straight-line basis over the life of the contract. In addition, the District is responsible for its share of annual operating costs.

O. Regulatory Assets

The District has deferred costs to be charged to future periods matching the time periods when the expenses are included in rates.

P. Unamortized Bond Premiums

Bond premiums are amortized to interest expense using the effective interest method over the term of the bonds.

Q. Debt Refundings

For current and advance refundings, the difference between the reacquisition price and the net carrying amount of the old debt (gain or loss) is deferred and amortized as a component of interest expense over the remaining life of the old debt or the new debt, whichever is shorter. These amounts are reported as deferred inflows or outflows of resources on the statement of net position.

R. Fair Value of Financial Instruments

The carrying amounts of current assets, including restricted cash and investments, and current liabilities approximate fair value due to the short-term maturity of those instruments. The fair value of the District's investments and debt are estimated based on quoted market prices for the same or similar issues.

S. 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.

Subject to certain exceptions, GASB 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 exception under GASB. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity and option contracts that require physical delivery and 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 under GASB and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity are considered to be derivatives under GASB, but do not generally meet the "normal purchases and normal sales" criteria.

As of December 31, 2020 and 2019, the District had the following derivative instruments outstanding. Options are amortized to power costs over the exercise period of the option. Fair value of derivative assets are recorded under other charges and fair value of derivative liabilities are recorded under other credits on the statement of net position.

Options and Swaps Hedging Derivatives

	2020	2019
Notional value	$ 30,107,778	$ 31,551,569
Volumes (MWH)	1,227,350	1,552,337
Fair value - asset	$ 4,123,176	$ 4,076,973
Fair value - liability	$ 3,998,504	$ 4,672,310
Reference rates	Mid-C index	Mid-C index
Dates entered into	5/17 - 12/20	11/16 - 12/19
Dates of maturity	1/21 - 12/24	1/20 - 12/23
Cash paid	$ -	$ -

The fair values used for the mark-to-market amounts are based on the futures price curve for the Mid-Columbia Intercontinental Exchange. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value. Level 1 inputs are quoted prices in active markets for identical instruments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's fair market measurements are classified as Level 2.

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 Agreements (ISDA) 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, 2020. As of December 31, 2020, 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, 2020.

T. Compensated Absences

The District accrues personal leave benefits as the obligation is incurred. For the years ended December 31, 2020 and 2019, amounts reported in accrued wages and benefits on the statement of net position are $2,174,618 and $1,736,082, respectively.

U. Rate Stabilization Fund

The District's Board of Commissioners deferred amounts as allowed for under regulatory accounting and bond covenants. Such amounts will be amortized to income consistent with ratemaking decisions. For the years ended December 31, 2020 and 2019 the District deferred $1,800,000 and $0 related to power costs, respectively.

V. Compensation Reserve

Personal leave accruals may be transferred, according to the District's Banked Personal Leave Plan, into the Banked Personal Leave Fund. Employee amounts in the Banked Personal Leave Fund are no longer tied to the employee's wage rate, but accrue interest according to the earnings of the Banked Personal Leave Fund investments.

W. Net Position

Net position consists of:

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

- Restricted – This component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

- Unrestricted – This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets," including the White Creek Wind Project Energy Purchase Agreement and joint venture in the Harvest Wind Project (net of inter-system advances).

X. Operating Revenues and Expenses

Operating revenues and expenses result from providing services in connection with the District's principal ongoing operations. Operating revenues are recognized when billed and expenses are recognized when incurred. In addition, the District recognizes unbilled revenue, revenues from services provided, but not yet billed. The principal operating revenues of the District are charges to customers for electric service. Operating expenses for the District include the cost of power, operations, maintenance, administrative expenses, depreciation on capital assets and taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Approximately 50% of Electric System retail sales were from four industrial customers.

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

Y. Significant Risks and Uncertainties

The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster related disruptions; employee matters; collective bargaining labor disputes (contract expires March 31, 2024); fish and other Endangered Species Act issues; Environmental Protection Agency regulations; federal and state government regulations or orders; deregulation of the electric industry; and market risks inherent in buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

The District maintains insurance coverage for property, casualty and liability claims and is self-insured for employee health benefits up to certain stop-loss limits ($100,000 per individual in both 2020 and 2019 and $3.7 million and $3.9 million aggregate in 2020 and 2019, respectively). Health benefit claims paid for the years ended December 31, 2020 and 2019 totaled approximately $3.0 million, each year. The District participates in a State of Washington plan for workers compensation and is self-insured for unemployment benefits.

2. DEPOSITS AND INVESTMENTS

The District's deposits are entirely secured by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Deposits and investments as of December 31, 2020 and 2019 consisted of the following:

	2020 Electric System	2020 Production System	2020 Total	2019 Total
Cash in banks	$ 24,705,830	$ 3,377,142	$ 28,082,972	$ 27,914,986
Investment in Local Government Investment Pool	49,040,503	15,465,912	64,506,415	37,824,575
Securities	55,065,431	16,948,531	72,013,962	102,285,830
Total deposits and investments	$ 128,811,764	$ 35,791,585	$ 164,603,349	$ 168,025,391
Unrestricted:				
Cash and cash equivalents	$ 67,819,060	$ 15,889,240	$ 83,708,300	$ 57,206,887
Investments	49,333,839	15,284,491	64,618,330	91,416,650
Total unrestricted, includes ES rate stabilization fund of $60 million	$ 117,152,899	$ 31,173,731	$ 148,326,630	$ 148,623,537
Restricted:				
Cash and cash equivalents:				
Debt service and reserve accounts	$ 9,252,351	$ 4,617,854	$ 13,870,205	$ 13,585,213
Escrow funds	906,514	-	906,514	956,641
Self-insured health coverage reserve	1,500,000	-	1,500,000	1,500,000
Total cash and cash equivalents	11,658,865	4,617,854	16,276,719	16,041,854
Investments:				
Debt service and reserve accounts	-	-	-	3,360,000
Total investments	-	-	-	3,360,000
Total restricted	$ 11,658,865	$ 4,617,854	$ 16,276,719	$ 19,401,854
Total deposits and investments	$ 128,811,764	$ 35,791,585	$ 164,603,349	$ 168,025,391

Investments as of December 31, 2020 consisted of the following:

Investment Type - Electric System	Fair Value	Investment Maturities Less Than 1 Year	Investment Maturities 1 to 5 Years
Federal Home Loan Bank	$ 360,562	$ 360,562	$ -
US Treasury Notes	54,704,869	21,570,591	33,134,278
Totals	$ 55,065,431	$ 21,931,153	$ 33,134,278

Investment Type - Production System	Fair Value	Investment Maturities Less Than 1 Year	Investment Maturities 1 to 5 Years
US Treasury Notes	$ 16,948,531	$ 6,682,949	$ 10,265,582
Totals	$ 16,948,531	$ 6,682,949	$ 10,265,582

Investments as of December 31, 2019 consisted of the following:

Investment Type - Electric System	Fair Value	Investment Maturities Less Than 1 Year	Investment Maturities 1 to 5 Years
Federal Farm Credit Bank	$ 997,651	$ -	$ 997,651
Federal Home Loan Bank	1,725,779	-	1,725,779
Federal Home Loan Mortgage Corp	-	-	-
Federal National Mortgage Association	1,127,560	499,310	628,250
US Treasury Notes	75,151,563	21,425,922	53,725,641
Totals	$ 79,002,553	$ 21,925,232	$ 57,077,321

Investment Type - Production System	Fair Value	Investment Maturities Less Than 1 Year	Investment Maturities 1 to 5 Years
US Treasury Notes	$ 23,283,277	$ 6,638,128	$ 16,645,149
Totals	$ 23,283,277	$ 6,638,128	$ 16,645,149

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All the aforementioned investments are held in the District's name by a third-party custodian. As required by state law and District policy, all District investments are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions. The District has an investment policy that addresses diversification of investments by security type and institution and limits its exposure to fair value losses resulting from rising interest rates.

Investments in Local Government Investment Pool (LGIP)

The District is a participant in the Local Government Investment Pool. 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 reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost, which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

3. UTILITY PLANT AND DEPRECIATION

A schedule of changes in utility plant and depreciation for the year ended December 31, 2020:

Electric System Utility Plant	Balance Jan. 1, 2020	Increases	Decreases	Balance Dec. 31, 2020
Intangible (1)	$ 239,963	$ -	$ -	$ 239,963
Land and Land Rights (1)	3,316,970	334,205	6,785	3,644,390
Transmission	38,479,311	1,389,765	507,868	39,361,208
Distribution	237,101,483	6,756,613	2,672,332	241,185,764
General Plant	57,281,476	3,108,928	5,700,176	54,690,228
Plant in Service	336,419,203	11,589,511	8,887,161	339,121,553
Construction in Progress	3,884,437	13,302,087	12,524,679	4,661,845
Total Utility Plant	340,303,640	24,891,598	21,411,840	343,783,398
Less Accumulated Depreciation	166,497,058	12,228,291	7,656,512	171,068,837
Net Electric System Utility Plant	$ 173,806,582	$ 12,663,307	$ 13,755,328	$ 172,714,561

Production System Utility Plant	Balance Jan. 1, 2020	Increases	Decreases	Balance Dec. 31, 2020
Intangible	$ 3,113,155	$ -	$ -	$ 3,113,155
Land and Land Rights (1)	1,224,229	-	-	1,224,229
Production	144,187,735	-	-	144,187,735
Transmission	6,799,262	3,681	-	6,802,943
Plant in Service	155,324,381	3,681	-	155,328,062
Construction in Progress	3,681	71,550	3,681	71,550
Total Utility Plant	155,328,062	75,231	3,681	155,399,612
Less Accumulated Depreciation and Amortization	51,233,437	3,144,500	-	54,377,937
Net Production System Utility Plant	$ 104,094,625	$ (3,069,269)	$ 3,681	$ 101,021,675

(1) Plant not being depreciated.

A schedule of changes in utility plant and depreciation for the year ended December 31, 2019:

Electric System Utility Plant	Balance Jan. 1, 2019	Increases	Decreases	Balance Dec. 31, 2019
Intangible (1)	$ 239,963	$ -	$ -	$ 239,963
Land and Land Rights (1)	3,309,767	7,203	-	3,316,970
Transmission	32,733,096	7,339,897	1,593,682	38,479,311
Distribution	230,369,454	9,693,800	2,961,771	237,101,483
General Plant	55,799,108	2,603,865	1,121,497	57,281,476
Plant in Service	322,451,388	19,644,765	5,676,950	336,419,203
Construction in Progress	9,094,144	14,952,310	20,162,017	3,884,437
Total Utility Plant	331,545,532	34,597,075	25,838,967	340,303,640
Less Accumulated Depreciation	160,243,052	11,984,246	5,730,240	166,497,058
Net Electric System Utility Plant	$ 171,302,480	$ 22,612,829	$ 20,108,727	$ 173,806,582

Production System Utility Plant	Balance Jan. 1, 2019	Increases	Decreases	Balance Dec. 31, 2019
Intangible	$ 3,113,155	$ -	$ -	$ 3,113,155
Land and Land Rights (1)	1,224,229	-	-	1,224,229
Production	144,187,735	-	-	144,187,735
Transmission	6,799,262	-	-	6,799,262
Plant in Service	155,324,381	-	-	155,324,381
Construction in Progress	-	3,681	-	3,681
Total Utility Plant	155,324,381	3,681	-	155,328,062
Less Accumulated Depreciation and Amortization	48,090,165	3,143,272	-	51,233,437
Net Production System Utility Plant	$ 107,234,216	$ (3,139,591)	$ -	$ 104,094,625

(1) Plant not being depreciated.

4. INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations at December 31, 2020 and 2019 consisted of the following:

Electric System	2020	2019
Harvest Wind Project	$ 29,991,522	$ 31,704,656
White Creek Project, LLC	469,526	420,323
Totals	$ 30,461,048	$ 32,124,979

Harvest Wind Project

The District is party to a Joint Ownership Agreement whereby the District made an equity investment in the Harvest Wind Project, a 98.9 MW wind generating facility located in Klickitat County, WA. The District's share of the Project is 30%. During 2009, the joint owners of Harvest Wind elected to classify the Project as a taxable corporation. At the time of the election all project assets were treated as contributed to the corporation and the joint owners received shares in proportion to their ownership. Owners share in power output, income and expenses according to their ownership shares. Commercial operations began on December 15, 2009.

The District is committed, through an energy purchase agreement, to purchase its share of the output from the Project and pay its share of Project expenses through the year 2029. Additionally, the District is committed, through a transmission service agreement and a transmission payment agreement, to subsidize the initial construction of transmission lines, deposit funds to ensure contract performance and purchase transmission from the owner of the transmission lines through the year 2029.

The investment in Harvest Wind consists of the District's share of the costs to develop the Project, 30% of the Project's net income and losses and any distributions. Summarized financial information of the joint venture for December 31, 2020 and 2019, is as follows:

	2020	30% Share:	2019	30% Share:
Current Assets	$ 4,966,000	$ 1,489,800	$ 3,677,000	$ 1,103,100
Long Term Assets	94,794,000	28,438,200	99,974,000	29,992,200
Total Assets	$ 99,760,000	$ 29,928,000	$ 103,651,000	$ 31,095,300
Current Liabilities	$ 1,666,000	$ 499,800	$ 1,232,000	$ 369,600
Asset Retirement Obligation	3,493,000	1,047,900	3,249,000	974,700
Other Long Term Liabilities	501,000	150,300	-	-
Participant Equity December 31	94,100,000	28,230,000	99,170,000	29,751,000
Total	$ 99,760,000	$ 29,928,000	$ 103,651,000	$ 31,095,300

During 2020 and 2019, the District received $2,655,000 and $2,367,000 in distributions, respectively. Also included is $1,760,704 and $1,952,781, respectively, in prepaid transmission system and related costs, which are being amortized on a straight-line basis over 20 years.

White Creek Project, LLC

The District has a 46% contractual interest in the 204.7 MW White Creek Wind Project located in Klickitat County, WA. The investment in White Creek Project, LLC (WCP, LLC) is being carried as an equity investment. Assets of WCP, LLC consist of cash and other assets related to the White Creek Wind Project Phases I and II. Commercial operations began in November 2007 (See Note 1).

5. OTHER CHARGES AND CREDITS

Other charges consist of the following:

Electric System	2020	2019
Regulatory asset	$ 454,067	$ 556,966
Derivatives at fair value	4,123,176	4,076,973
Miscellaneous charges	(5,140)	(4,108)
Total Other Charges	$ 4,572,103	$ 4,629,831

Production System	2020	2019
Regulatory asset	$ 438,825	$ 466,687
Total Other Charges	$ 438,825	$ 466,687

Other credits consist of the following:

Electric System	2020	2019
Derivatives at fair value	$ 3,998,504	$ 4,672,310
Other credits	491,643	624,180
Total Other Credits	$ 4,490,147	$ 5,296,490

6. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred outflows of resources consist of the following:

Electric System	2020	2019
Unamortized loss on reacquired debt	$ 2,267,565	$ 2,521,040
Pension - See Note 10	1,720,295	1,425,042
Accum. decrease in fair value of hedging derivatives	3,998,504	4,672,310
Total Deferred Outflows of Resources	$ 7,986,364	$ 8,618,392

Production System	2020	2019
Unamortized loss on reacquired debt	$ 556,902	$ 592,449
Total Deferred Outflows of Resources	$ 556,902	$ 592,449

Deferred inflows of resources consist of the following:

Electric System	2020	2019
Rate stabilization fund	$ 60,000,000	$ 58,200,000
Investment fair market value adjustment	1,875,239	1,482,892
Accum. increase in fair value of hedging derivatives	4,123,176	4,076,973
Pension - See Note 10	1,512,598	3,192,730
Total Deferred Inflows of Resources	$ 67,511,013	$ 66,952,595

Production System	2020	2019
Investment fair market value adjustment	$ 580,808	$ 462,219
Unamortized gain on reacquired debt	303,091	325,268
Total Deferred Inflows of Resources	$ 883,899	$ 787,487

7. LONG-TERM DEBT

Electric System

Revenue Bonds

In August 2006 the District issued $61.465 million in Electric System Revenue and Refunding Bonds to fund capital improvements, repay $8 million on a line of credit, pay for bond issuance costs (including bond insurance), fund the bond reserve account and to refund $11.635 million of outstanding 2001 Electric Distribution System Revenue Bonds (Series 2001 Bonds). In May 2015 these bonds were partially refunded with the issuance of the 2015 Electric System Revenue and Refunding Bonds for $41.5 million. Additionally the proceeds of the 2015 Bonds were used to establish a $6 million construction fund for capital improvements and pay costs of issuing the bonds. The bonds mature beginning in 2016 through 2036 and have interest rates varying from 2.00% to 5.00%.

In October 2007 the District issued $64.755 million in Electric System Revenue Bonds to fund capital improvements, pay for bond issuance costs (including bond insurance) and fund bond debt service and reserve accounts. In November 2015 these bonds were partially refunded with the issuance of the 2015B Electric System Revenue Refunding Bonds for $38.305 million. Additionally the proceeds of the 2015B Bonds were used to pay costs of issuing the bonds (including bond insurance). The bonds mature beginning in 2018 through 2027 and have an interest rate of 5.00%.

In February 2010 the District issued Electric System Revenue Bonds consisting of $17.805 million in tax-exempt bonds (2010A) and $46.18 million in taxable “Build America Bonds” (2010B) to fund capital improvements, pay for bond issuance costs and fund bond debt service and reserve accounts. Principal payments on these bonds began in September 2013, maturing annually in varying amounts through September 2032. The 2010A bonds are not subject to redemption prior to maturity and carry a coupon rate of 5.00%. The 2010B bonds are subject to redemption by the District prior to their stated maturities and carry coupon rates of 2.52% – 6.884% before a thirty-five percent subsidy payment from the United States Treasury, subject to certain conditions. The all-in true interest cost for the 2010A and 2010B bonds is 4.26%. The District redeemed $7.4 million prior to maturity in December 2020, resulting in $2.1 million of interest savings.

The District has pledged future gross revenues of the Electric System, exclusive of earnings on money in any arbitrage rebate account or any bond account, which may be retained in such funds and or transferred to other funds as required by bond resolutions, and net of maintenance and operations costs including costs of Resource Obligations as collateral to repay outstanding revenue bonds.

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

	Principal	Interest	Total
2021	$ 10,195,000	$ 4,822,521	$ 15,017,521
2022	10,705,000	4,312,771	15,017,771
2023	11,115,000	3,839,056	14,954,056
2024	11,550,000	3,325,790	14,875,790
2025	12,015,000	2,791,529	14,806,529
2026-2030	27,165,000	8,005,316	35,170,316
2031-2035	10,945,000	1,248,521	12,193,521
2036	400,000	16,000	416,000
Total	$ 94,090,000	$ 28,361,504	$ 122,451,504

Loan Payable

In 2007 the District entered into a contract for a general obligation loan in the amount of $800,000 from the State of Washington Community Economic Revitalization Board. The loan is to be repaid at the rate of 1.60% per annum over a twenty-year term. Scheduled principal maturities and interest requirements on the loan are as follows:

	Principal	Interest	Total
2021	$ 47,668	$ 6,454	$ 54,122
2022	48,430	5,692	54,122
2023	49,205	4,917	54,122
2024	49,992	4,129	54,121
2025	50,792	3,330	54,122
2026-2028	157,305	5,060	162,365
Total	$ 403,392	$ 29,582	$ 432,974

Production System

In May 2014 the District issued $33.56 million in Production System Revenue Refunding Bonds to refund the 2004 Production System Revenue Bonds (used for Swift No. 2 Hydroelectric Project reconstruction), fund the reserve account requirement and pay costs of issuing the bonds. The bonds mature serially over a 20-year period beginning in 2015 and have interest rates varying from 2.00% to 5.00%.

In August 2006 the District issued $27.54 million in Production System Revenue Bonds for continuing expenditures for Swift No. 2 Hydroelectric Project reconstruction and to provide for capital expenditures associated with FERC licensing. In May 2015 these bonds were partially refunded with the issuance of the 2015 Production System Revenue Refunding Bonds for $15.645 million. Additionally the proceeds of the 2015 Bonds were used to fund the reserve account requirement and pay costs of issuing the bonds. The bonds mature beginning in 2025 through 2036 and have interest rates varying from 3.25% to 5.00%.

The District has pledged future net revenues (revenues less operation and maintenance costs) of the Production System, exclusive of any money credited to a fund or account for the purpose of paying arbitrage rebate to the federal government and the money and investments, if any, credited to the Revenue Fund, the Bond Account, and income therefrom.

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

	Principal	Interest	Total
2021	$ 1,355,000	$ 1,980,288	$ 3,335,288
2022	1,425,000	1,912,538	3,337,538
2023	1,490,000	1,841,288	3,331,288
2024	1,570,000	1,766,788	3,336,788
2025	1,735,000	1,688,288	3,423,288
2026-2030	18,520,000	6,510,950	25,030,950
2031-2035	15,150,000	1,997,500	17,147,500
2036	930,000	37,200	967,200
Total	$ 42,175,000	$ 17,734,840	$ 59,909,840

Interfund Advances

In 2007 the District's Board of Commissioners approved a loan from the Production System to the Electric System for up to $16 million. Proceeds from this loan were used to partially fund the White Creek Wind Project Energy Purchase Agreement (See Note 1). The interest rate is 4.50% and the obligation is to be repaid over a period not to exceed twenty years. Net revenues associated with the White Creek Wind Project within the Electric System are pledged as collateral to repay the loan. Scheduled principal maturities and interest requirements on this loan follow:

	Principal	Interest	Total
2021	$ 861,242	$ 294,058	$ 1,155,300
2022	900,807	254,493	1,155,300
2023	942,190	213,110	1,155,300
2024	985,474	169,826	1,155,300
2025	1,030,746	124,554	1,155,300
2026-2027	2,205,712	104,875	2,310,587
Total	$ 6,926,171	$ 1,160,916	$ 8,087,087

Long-term debt activity for the year ended December 31, 2020 follows:

Electric System	Date of Original Issue	Date of Maturity	Outstanding Debt as of Jan. 1, 2020	Amount Issued	Amount Redeemed	Outstanding Debt as of Dec. 31, 2020
Revenue Bonds:						
Electric Revenue Bonds, 2.52% to 6.884%	Feb-10	Sep-32	$ 47,645,000	$ -	$ 10,155,000	$ 37,490,000
Electric Revenue & Refunding Bonds, 2.00% to 5.00%	May-15	Sep-36	31,495,000	-	3,600,000	27,895,000
Electric Revenue Refunding Bonds, 5.00%	Nov-15	Sep-27	32,065,000	-	3,360,000	28,705,000
Direct Borrowing and Placements:						
Loan Payable - State of Washington, 1.60%	Jun-07	Jun-28	450,309	-	46,917	403,392
Interfund Advances:						
Loan Payable - Production System, 4.50%	Dec-07	Dec-27	7,749,584	-	823,413	6,926,171
Total Electric System Long-Term Debt			$ 119,404,893	$ -	$ 17,985,330	$ 101,419,563

Production System	Date of Original Issue	Date of Maturity	Outstanding Debt as of Jan. 1, 2020	Amount Issued	Amount Redeemed	Outstanding Debt as of Dec. 31, 2020
Revenue Bonds:						
Production System Revenue Refunding Bonds, 2.00% to 5.00%	May-14	Sep-34	$ 27,825,000	$ -	$ 1,295,000	$ 26,530,000
Production System Revenue Refunding Bonds, 3.25% to 5.00%	Jun-15	Sep-36	15,645,000	-	-	15,645,000
Total Production System Long-Term Debt			$ 43,470,000	$ -	$ 1,295,000	$ 42,175,000

Long-term debt activity for the year ended December 31, 2019 follows:

Electric System	Date of Original Issue	Date of Maturity	Outstanding Debt as of Jan. 1, 2019	Amount Issued	Amount Redeemed	Outstanding Debt as of Dec. 31, 2019
Revenue Bonds:						
Electric Revenue Bonds, 2.52% to 6.884%	Feb-10	Sep-32	$ 50,305,000	$ -	$ 2,660,000	$ 47,645,000
Electric Revenue & Refunding Bonds, 2.00% to 5.00%	May-15	Sep-36	34,925,000	-	3,430,000	31,495,000
Electric Revenue Refunding Bonds, 5.00%	Nov-15	Sep-27	35,260,000	-	3,195,000	32,065,000
Direct Borrowing and Placements:						
Loan Payable - State of Washington, 1.60%	Jun-07	Jun-28	450,309	-	-	450,309
Interfund Advances:						
Loan Payable - Production System, 4.50%	Dec-07	Dec-27	8,536,831	-	787,247	7,749,584
Total Electric System Long-Term Debt			$ 129,477,140	$ -	$ 10,072,247	$ 119,404,893

Production System	Date of Original Issue	Date of Maturity	Outstanding Debt as of Jan. 1, 2019	Amount Issued	Amount Redeemed	Outstanding Debt as of Dec. 31, 2019
Revenue Bonds:						
Production System Revenue Refunding Bonds, 2.00% to 5.00%	May-14	Sep-34	$ 29,055,000	$ -	$ 1,230,000	$ 27,825,000
Production System Revenue Refunding Bonds, 3.25% to 5.00%	Jun-15	Sep-36	15,645,000	-	-	15,645,000
Total Production System Long-Term Debt			$ 44,700,000	$ -	$ 1,230,000	$ 43,470,000

8. LEWIS RIVER COST-SHARE AGREEMENT

The District reached a cost-sharing agreement with PacifiCorp, assigning the operational and capital expenditure payments to be made by the District for fish passage and other aquatic measures, which are required under the Lewis River Settlement Agreement and under the FERC License for Swift No. 2. Operational payments are made annually for each year of the 50-year license and range from $197,000 to $291,000 (2003 dollars) indexed for inflation. During 2020 and 2019, the District paid $315,758 and $310,582 on this obligation, respectively. The Agreement requires capital payments to be made according to the following schedule, which has been indexed for inflation using 2003 dollars. Actual payments using a 3% escalator are estimated to be $10 million.

Production System	
2022	$ 2,252,546
2023	2,252,546
2024	2,252,546
2037	450,509
Total	$ 7,208,147

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) OBLIGATION

Plan Description

In addition to pension benefits, the District provides (subject to eligibility requirements) as a single-employer post-employment health care benefits to its retirees until the earlier of age 65 or eligible for Medicare. The District covers the medical insurance premium for those eligible retirees. The District does not pay for a Medicare supplement for any retiree eligible for Medicare. The Plan is established and may be amended by action of the Board of Commissioners.

Eligibility

To be eligible, the employee must (this benefit is a one-time election):

- Voluntarily retire, be age 55 or older at the time of retirement, have been employed with the District full-time for at least ten consecutive years and not be eligible to receive medical insurance coverage through another employer (even if coverage is declined).
- Voluntarily retire drawing Washington PERS benefit and be age 55 or older at the time of retirement.

Number of Covered Employees	
Active	137
Inactive Employees Receiving OPEB Benefits	13
	150

Funding Policy

The District pays, on a pay-as-you-go basis, medical insurance for retirees and there are no assets accumulated in a qualifying trust. Such payments are limited to premiums for coverage not in excess of coverage made available for active employees and limited to payments for a number of months not to exceed the number of months the retiree actually worked for the District; provided, however, such retiree may pay their own premiums for the balance of time up to age 65 or when they become eligible for Medicare, whichever occurs first. As long as the retired employee is afforded coverage, medical will be made available to the spouse paid by the employee.

Methods and Assumptions

The Districts Total OPEB Liability was determined by the actuarial valuation using a measurement and valuation date of December 31, 2020. The District's Total OPEB Liability is calculated using The Entry

Age Normal Level Percent of Pay Cost Method. Under this method, the actuarial present value of the projected benefits of each active employee included in the valuation is allocated on a level percent of pay basis over the service of the active employee between assumed entry age (date of hire) and assumed exit age(s). The portion of this actuarial present value allocated to the valuation year is called the service cost for that active employee. The sum of these individual service costs is the Plan's Service Cost for the valuation year. The present value of benefits for current retirees plus the accumulated value of all prior Service Costs is the Total OPEB Liability. Under this method, the actuarial gains (losses), as they occur, reduce (increase) the Total OPEB Liability.

Rates of retirement and mortality are the rates applicable for general public employees used in the June 30, 2019 actuarial valuation published by the Office of the State Actuary in Olympia, Washington. The discount rate assumption is the December 31, 2020 rate in the 20-Year General Obligation Municipal Bond Index published by Bond Buyer. Future premiums are projected from the 2021 premiums by assuming an annual increase due to health care inflation. Medical premiums are assumed to increase by 5% annually. This health care trend includes the assumed general inflation rate of 2.75%.

Assumptions	
Discount Rate	2.12%
Inflation Rate	2.75%
Salary Scale	3.50%
Health Care Trend Rate	5.00%

In the prior valuation, the discount rate was 4.10%. Other assumptions were the same in the prior valuation.

Total OPEB Liability

The following table shows the components of the District's Total OPEB Liability, fiduciary net position, percent of covered payroll and expense for the years ended December 31, 2020 and 2019.

Electric System	2020	2019
Beginning Total OPEB Liability	$ 5,458,780	$ 5,304,831
Benefit Payments - Explicit Medical	(139,345)	(198,173)
Benefit Payments - Implicit Medical	(169,770)	(131,361)
Service Cost	419,449	272,740
Interest on Total OPEB Liability	112,450	210,743
Change of Benefit Terms	-	-
Change in Assumptions	328,381	-
Experience (Gain)/Loss	(96,265)	-
Ending Total OPEB Liability	$ 5,913,680	$ 5,458,780
Fiduciary Net Position - Funded Status	0%	0%
Covered Payroll	$ 16,402,774	$ 15,914,598
Total OPEB Liability as a Percent of Covered Payroll	36%	34%
OPEB Expense	$ 454,900	$ 153,949

Slight changes in assumptions, experience, interest and service costs resulted in an increase to the liability. The effects of the deferred outflows and inflows of resources from the change in assumptions and experience are not material and have been recognized in income and not amortized.

Sensitivity

The tables below present the District's Total OPEB Liability calculated using a discount rate and health care trend rate 1-percentage point lower and 1-percentage point higher than the current rate:

Discount Rate Sensitivity Analysis	1% Decrease	Current	1% Increase
Total OPEB Liability on December 31, 2020	$ 6,405,467	$ 5,913,680	$ 5,444,383
Total OPEB Liability on December 31, 2019	$ 5,993,883	$ 5,458,780	$ 4,965,339

Health Care Trend Sensitivity Analysis	1% Decrease	Current	1% Increase
Total OPEB Liability on December 31, 2020	$ 5,183,498	$ 5,913,680	$ 6,778,144
Total OPEB Liability on December 31, 2019	$ 4,738,268	$ 5,458,780	$ 6,317,315

10. RETIREMENT PLANS

Public Employees Retirement System – Plans 1, 2 and 3

Aggregate Pension Amounts - Electric System	2020	2019
Net Pension Liability		
PERS 1	$ 3,671,162	$ 4,466,265
PERS 2 & 3	1,736,690	1,384,753
	$ 5,407,852	$ 5,851,018
Deferred Outflows of Resources		
PERS 2 & 3	$ 646,445	$ 432,194
PERS Contributions (PERS 1, 2 & 3)	1,073,850	992,848
	$ 1,720,295	$ 1,425,042
Deferred Inflows of Resources		
PERS 1	$ 20,440	$ 298,384
PERS 2 & 3	1,492,158	2,894,346
	$ 1,512,598	$ 3,192,730
Pension Expense - PERS 1, 2 & 3	$ (303,462)	$ 795,180

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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380, Olympia, WA 98504-8380

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

Public Employees' Retirement System (PERS)

PERS members include elected officials, state employees, 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 5 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.

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.

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 one 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 5 years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 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 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service 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.

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 required contribution rates expressed as a percentage of covered payroll as of December 31, 2020 were:

2020	Plan 1	Plan 2	Plan 3
Employer 1/20 - 8/20	12.86%	12.86%	12.86%
Employer 9/20 - 12/20	12.97%	12.97%	12.97%
Employee 1/20 - 8/20	6.00%	7.90%	Varies
Employee 9/20 - 12/20	6.00%	7.90%	Varies

The required contribution rates expressed as a percentage of covered payroll as of December 31, 2019 were:

2019	Plan 1	Plan 2	Plan 3
Employer 1/19 - 6/19	12.83%	12.83%	12.83%
Employer 7/19 - 12/19	12.86%	12.86%	12.86%
Employee 1/19 - 8/19	6.00%	7.41%	Varies
Employee 9/19 - 12/19	6.00%	7.90%	Varies

Both the District and the employees made the required contributions. The District's required contributions for the years ended December 31, 2020, 2019 and 2018 were as follows:

	Plan 1	Plan 2	Plan 3
2020	$ 786,463	$ 1,222,578	$ 106,047
2019	$ 804,470	$ 1,120,370	$ 90,619
2018	$ 777,571	$ 1,050,913	$ 86,598

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Experience Study and the 2019 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. 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.

Changes in methods and assumptions since the last valuation:

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See leg.wa.gov/osa for more information on this method change.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans 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. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 and 2019 are summarized in the tables below. The inflation component used to create the tables is 2.2 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

2020

Asset Class	Target Allocation	Long-Term Expected Real Rate of Arithmetic Return
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%	

2019

Asset Class	Target Allocation	Long-Term Expected Real Rate of Arithmetic Return
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of NPL

The tables below present the District's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, 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 percent) or 1-percentage point higher (8.4 percent) than the current rate.

2020

	1% Decrease 6.40%	Current Rate 7.40%	1% Increase 8.40%
PERS 1	$ 4,598,338	$ 3,671,162	$ 2,862,568
PERS 2 & 3	$ 10,806,147	$ 1,736,690	$ (5,732,014)

2019

	1% Decrease 6.40%	Current Rate 7.40%	1% Increase 8.40%
PERS 1	$ 5,593,185	$ 4,466,265	$ 3,488,512
PERS 2 & 3	$ 10,620,498	$ 1,384,753	$ (6,193,788)

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.

District's Proportionate Allocation

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

Proportionate Allocation of Collective Pension Amounts	2020	2019	Change
Net Pension Liability			
PERS 1	0.103983%	0.116147%	-0.012164%
PERS 2 & 3	0.135791%	0.142561%	-0.006770%

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

Deferred Outflows of Resources and Deferred Inflows of Resources

The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows/Inflows - Electric System	2020	2019
Deferred Outflows of Resources		
PERS 2 & 3		
Differences between expected and actual experience	$ 621,710	$ 396,735
Change of assumptions	24,735	35,459
PERS 1, 2 & 3 Contributions - July - December	1,073,850	992,848
	$ 1,720,295	$ 1,425,042
Deferred Inflows of Resources		
PERS 1		
Net difference between projected and actual investment earnings	$ 20,440	$ 298,384
PERS 2 & 3		
Differences between expected and actual experience	217,650	297,715
Net difference between projected and actual investment earnings	88,199	2,015,635
Change of assumptions	1,186,309	580,996
	$ 1,512,598	$ 3,192,730

Deferred outflows of resources related to 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, 2021. The effect of change in the District's proportionate allocation percentage and differences between actual and proportionate share of contributions are not material and have been expensed. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	PERS 1
2021	$ (92,755)
2022	(2,917)
2023	28,302
2024	46,930
2025	-
Thereafter	-
	$ (20,440)

Year Ending December 31	PERS 2 & 3
2021	$ (720,465)
2022	(172,096)
2023	31,024
2024	156,363
2025	(62,716)
Thereafter	(77,823)
	$ (845,713)

Deferred Compensation – 401(k) and 457 Plans

The District offers its employees a 401(k) Deferred Compensation Plan created in accordance with Internal Revenue Code Section 401(k) which permits employees to defer a portion of their salary. Assets of the plan are deposited, as specified by each participating employee, with Fidelity Investments as trustee. The District matches employee contributions to the plan up to four percent of eligible employee compensation. During 2020 and 2019, the District made matching contributions of $548,169 and $516,068, respectively.

The District also offers its employees the State of Washington Department of Retirement System's Deferred Compensation Program. This Deferred Compensation Plan is in accordance with Internal Revenue Code Section 457, which permits employees to defer a portion of their salary. Distributions from the plan can be made after separation from service or upon the death of the participant. Participants can elect to receive an in-service distribution once every two years for an amount not to exceed $5,000.

11. COMMITMENTS AND CONTINGENCIES

Bonneville Power Administration (BPA)

During 2008 the District entered into purchase power agreements with BPA for Block and Slice running from October 1, 2011 through September 30, 2028. The Block Product provides a set amount of energy delivered in a flat block over all hours of the month, with the blocks of energy varying from month-to-month to correspond to seasonal variations in the District's loads. The Slice Product represents a specified percentage (or "slice") of the output of the Federal System, so that the District receives increased or decreased energy supply depending on the output of the Federal System. The District is required to pay a corresponding percentage of the costs of the portion of the Federal System allocated to the Slice Product. The amounts payable by the District under the 2011 Power Sales Agreement are subject to adjustment from time to time by BPA to recover the costs of the Federal System.

Swift Plant No. 2 Power Contract

The Swift No. 2 Hydroelectric Production System is located on the Lewis River and consists of a 3.2-mile long power canal with an adjacent power house and transmission switchyard. It operates in conjunction with the Swift No. 1 Project, which is owned by PacifiCorp. Swift No. 1 consists of an earthen dam and power house, which discharges into the Swift No. 2 power canal.

Swift No. 2 is operated under contract by PacifiCorp. The operating agreement provides that the District is entitled to 26% of the combined output of Swift No. 1 and Swift No. 2. The District's share of the output is purchased by the Electric System at the cost of production of the energy, whether or not it is producing energy.

Grant County PUD

The District acquires power from Grant County PUD pursuant to the "New Power Sales Contracts", which became effective on November 1, 2005. The New Power Sales Contracts, which apply to both the Priest Rapids Development (as of November 1, 2005) and the Wanapum Development (as of November 1, 2009), consist of three separate contracts with terms that extend until expiration of the new long-term license for the Priest Rapids Project (April 1, 2052). The power available to the District is about 1 aMW on a firm basis.

Energy Northwest's Nine Canyon Wind Project

The District entered into a contract with Energy Northwest in December 2003 for the purchase of the output associated with 2 megawatts of the Nine Canyon Wind Project. The District utilizes the power to serve its customers by use of a BPA wind integration product. The "green tags" or "renewable energy credits" associated with the District's share of output are used for District load.

White Creek Wind Project Transmission Service Agreement

In 2006 the District entered into a Transmission Service Agreement with Klickitat PUD (KPUD) for power transmission from the White Creek Project Substation to the Rock Creek Substation where the transmission line and the facilities of BPA are connected. The District is billed and pays for services under this Agreement monthly. In accordance with the Agreement, the District was to provide KPUD an irrevocable standby Letter of Credit and for the contract year commencing August 1, 2010 and for the contract years thereafter, the District petitioned and KPUD has waived the requirement for a Letter of Credit or an alternate Letter of Credit.

The Energy Authority Services Agreement

The District entered into an agreement with The Energy Authority (TEA) to provide power energy trading, risk management and hedging services and power management services for the District's power supply.

Claims and Litigation

The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material impact on its financial position, results of operations or cash flows.

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2020

Electric System	2020	2019	2018
Beginning Total OPEB Liability	$ 5,458,780	$ 5,304,831	5,884,915
Benefit Payments - Explicit Medical	(139,345)	(198,173)	(193,743)
Benefit Payments - Implicit Medical	(169,770)	(131,361)	(106,134)
Service Cost	419,449	272,740	263,517
Interest on Total OPEB Liability	112,450	210,743	235,134
Change of Benefit Terms	-	-	-
Change in Assumptions	328,381	-	(304,224)
Experience (Gain)/Loss	(96,265)	-	(474,634)
Ending Total OPEB Liability	$ 5,913,680	$ 5,458,780	$ 5,304,831
Fiduciary Net Position - Funded Status	0%	0%	0%
Covered Payroll	$ 16,402,774	$ 15,914,598	$ 15,031,073
Total OPEB Liability as a Percent of Covered Payroll	36%	34%	35%
OPEB Expense	$ 454,900	$ 153,949	$ (580,084)

Notes:

Until a full 10-year trend is compiled, only information for those years available is presented.

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

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND CONTRIBUTIONS
AS OF JUNE 30, 2020

	2020	2019	2018	2017	2016	2015	2014
PERS 1							
Proportion of the Net Pension Liability	0.103983%	0.116147%	0.112188%	0.118119%	0.122105%	0.126423%	0.124742%
Proportionate share of the Net Pension Liability	$ 3,671,162	$ 4,466,265	$ 5,010,355	$ 5,604,839	$ 6,557,614	$ 6,613,099	$ 6,283,937
Covered Payroll - July to June (measurement period)	$ 15,809,528	$ 15,818,889	$ 14,620,499	$ 14,556,068	$ 14,306,440	$ 14,253,911	$ 13,477,320
Net Pension Liability as a percent of covered payroll	23.22%	28.23%	34.27%	38.51%	45.84%	46.39%	46.63%
Covered Payroll - Calendar Year	$ 16,402,774	$ 15,914,598	$ 15,031,073	$ 14,571,887	$ 14,423,122	$ 14,510,348	$ 13,665,452
Required Contributions - All Funded	$ 786,463	$ 804,470	$ 777,571	$ 726,864	$ 707,113	$ 682,908	$ 651,965
Contributions as a percent of covered payroll	4.79%	5.05%	5.17%	4.99%	4.90%	4.71%	4.77%
Plan fiduciary net position as a percent of the total pension liability	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%
PERS 2 & 3							
Proportion of the Net Pension Liability	0.135791%	0.142561%	0.139485%	0.145650%	0.152243%	0.158658%	0.154939%
Proportionate share of the Net Pension Liability	$ 1,736,690	$ 1,384,753	$ 2,381,583	$ 5,060,641	$ 7,665,315	$ 5,668,941	$ 3,131,877
Covered Payroll - July to June (measurement period)	$ 15,809,528	$ 15,495,199	$ 14,410,535	$ 14,288,086	$ 14,129,560	$ 14,074,925	$ 13,259,767
Net Pension Liability as a percent of covered payroll	10.99%	8.94%	16.53%	35.42%	54.25%	40.28%	23.62%
Covered Payroll - Calendar Year	$ 16,402,774	$ 15,702,550	$ 14,812,467	$ 14,366,002	$ 14,124,690	$ 14,420,062	$ 13,423,770
Required Contributions - All Funded	$ 1,328,625	$ 1,210,989	$ 1,137,511	$ 1,006,979	$ 905,393	$ 793,343	$ 604,913
Contributions as a percent of covered payroll	8.10%	7.71%	7.68%	7.01%	6.41%	5.50%	4.51%
Plan fiduciary net position as a percent of the total pension liability	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

Notes:

Factors that significantly affect trends in the amounts reported include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate (See Note 10).

10-year trend information will be presented prospectively.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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