



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Douglas County

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

Published September 27, 2021

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**Office of the Washington State Auditor
Pat McCarthy**

September 27, 2021

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

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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 Douglas County January 1, 2020 through December 31, 2020

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund of Public Utility District No. 1 of Douglas County, as of and for the year ended December 31, 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 September 9, 1999. The prior year comparative information has been derived from the District's 2019 basic financial statements, on which we issued our report dated July 8, 2020.

As discussed in Note 10 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 10.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

In addition, we noted certain matters that we will report to the management of the District in a separate letter dated September 24, 2021.

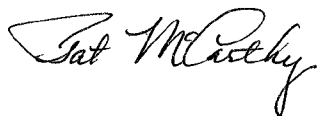
COMPLIANCE AND OTHER MATTERS

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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

September 22, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund of Public Utility District No. 1 of Douglas County, as of and for the year ended December 31, 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 Douglas County, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 10 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 10. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 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 financial statements of each major fund in our report dated July 8, 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 September 22, 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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

September 22, 2021

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2020

Statement of Revenues, Expenses, and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2&3 –
2020

Schedule of Employer Contributions – PERS 1, PERS 2&3 – 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) presents an overview and analysis of the financial activities of Public Utility District No. 1 of Douglas County (the District) during the calendar years ended December 31, 2020 and 2019. This supplementary information should be read in conjunction with the accompanying audited financial statements and related notes.

OVERVIEW OF FINANCIAL STATEMENTS AND OPERATIONS

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

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

- **Statement of Net Position:** The Statement of Net Position presents information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) of the District. The net position section is separated into three categories: net investment in capital assets, net position – restricted, and net position – unrestricted.
- **Statement of Revenues, Expenses, and Changes in Net Position:** This statement reflects the transactions and events that increase and decrease the economic resources of the District (operations). Revenues and expenses are summarized by major source and use. Revenues and expenses are further summarized as operating and non-operating based on the nature of the transaction.
- **Statement of Cash Flows:** The Statement of Cash Flows reflects the District's sources and uses of cash separated into operating, investing, and capital activities.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District produced a positive change in net position of \$49 million during 2020, with an end of year net position of \$447 million. Of this amount, \$152 million represents unrestricted net position, which may be used to meet the District's ongoing obligations. Net investment in capital assets was \$292 million and accounted for 65 percent of the District's net position.

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

DISTRIBUTION SYSTEM

The service area of the Distribution System includes Douglas County, with an area of 1,820 square miles. The assets of the Distribution System include 40 miles of 115-kV transmission lines, 27 miles of 34.5-kV transmission line and 13 miles 230-kV transmission line, 18 substations, 1,390 miles of overhead and underground distribution lines, 893 miles of fiber optic lines, and other buildings, equipment, inventories and related facilities.

Condensed Comparative Financial Information

Distribution System Balance Sheet					
(Dollars in Thousands)					
	12/31/2020	12/31/2019	Increase (Decrease) 2020-2019		12/31/2018
			\$	%	
Current & Other Assets	\$ 174,421	131,482	\$ 42,939	32.7%	\$ 87,542
Capital Assets	160,000	157,245	2,755	1.8%	154,234
Deferred Outflows	1,376	1,131	245	21.7%	1,047
Total Assets/Deferred Outflows	<u>335,797</u>	<u>289,858</u>	<u>45,939</u>	<u>15.8%</u>	<u>242,823</u>
Current Liabilities	16,205	15,283	922	6.0%	12,690
Noncurrent Liabilities	31,711	33,308	(1,597)	-4.8%	35,965
Deferred Inflows	1,203	2,165	(962)	-44.4%	2,022
Total Liabilities/Deferred Inflows	<u>49,119</u>	<u>50,756</u>	<u>(1,637)</u>	<u>-3.2%</u>	<u>50,677</u>
Net Investment in Capital Assets	135,962	127,680	8,282	6.5%	123,731
Restricted	2,645	2,645	-	0.0%	2,646
Unrestricted	148,071	108,777	39,294	36.1%	65,769
Total Net Position	<u>\$ 286,678</u>	<u>\$ 239,102</u>	<u>\$ 47,576</u>	<u>19.9%</u>	<u>\$ 192,146</u>

Distribution System Statement of Revenue, Expenses and Changes in Net Position

(Dollars in Thousands)

	12/31/2020	12/31/2019	Increase (Decrease) 2020-2019		12/31/2018
			\$	%	
Operating Revenues					
Retail Electric Sales	\$ 32,777	\$ 33,855	\$ (1,078)	-3.2%	\$ 29,439
Electric Sales For Resale	90,502	76,966	13,536	17.6%	44,737
Broadband	4,553	4,063	490	12.1%	3,863
Other	371	431	(60)	-13.9%	449
Nonoperating Revenues	5,031	4,946	85	1.7%	1,435
Total Revenues	<u>133,234</u>	<u>120,261</u>	<u>12,973</u>	<u>10.8%</u>	<u>79,923</u>
Operating Expenses					
Purchased Power	57,865	50,198	7,667	15.3%	39,059
Other	29,361	24,437	4,924	20.1%	21,388
Nonoperating Expenses	1,188	1,247	(59)	-4.7%	1,303
Total Expenses	<u>88,414</u>	<u>75,882</u>	<u>12,532</u>	<u>16.5%</u>	<u>61,750</u>
Capital Contributions	<u>2,756</u>	<u>2,577</u>	<u>179</u>	<u>6.9%</u>	<u>2,966</u>
Net Earnings	<u>47,576</u>	<u>46,956</u>	<u>620</u>	<u>1.3%</u>	<u>21,139</u>
Beginning Net Position	239,102	192,146	46,956	24.4%	171,007
Ending Net Position	<u>\$ 286,678</u>	<u>\$ 239,102</u>	<u>\$ 47,576</u>	<u>19.9%</u>	<u>\$ 192,146</u>

Financial Analysis

The Distribution System's overall financial condition improved during 2020 compared to 2019. Total revenues increased by \$12.9 million, and total expenses increased by \$12.5 million. The ending net position was \$287 million, a \$48 million increase from 2019. The reasons for this increase are discussed in the following sections.

Revenues

2019 to 2020:

Retail Electric Sales decreased slightly by \$1.1 million in 2020 compared to 2019. The lower retail sales in 2020 were due to lower usage resulting from weather and a single blockchain customer scaling back operations for a period of eight months. Overall energy demand declined around 3.7% in 2020.

In 2020, wholesale energy sales (Electric Sales for Resale) increased \$13.5 million or 17.6% compared to 2019. The power sales contracts for Wells Project output accounted for roughly 70% of the total wholesale energy revenue in 2020. Under the power sales contract, the District sells output at a monthly fixed rate and energy prices that escalate each year.

Revenues from broadband services increased \$490,000 in 2020, as the District continues to build the Douglas County Community Network (DCCN) infrastructure throughout Douglas County. The number of customer connections to the District's DCCN has steadily increased over the past two years with 825 new connections in 2020 and 632 in 2019.

2018 to 2019:

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

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

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

Expenses**2019 to 2020:**

Purchased power, which accounted for nearly 66% of the total operating expenses, increased \$7.6 million in 2020. The Distribution System purchases the vast majority of its power from the Wells Project, which experienced roughly a 8% increase in total operating costs during 2020. Other power resources include Chelan County PUD's Rocky Reach hydroelectric project, Energy Northwest's Nine Canyon Wind Project and an energy exchange with Avista.

Other operating expenses include operations and maintenance, administrative and general, taxes and depreciation which increased \$4.9 million in 2020. In September 2020, the Pearl Hill Fire started near Bridgeport, Washington and quickly consumed more than 220,000 acres due to extreme winds in the northern part of Douglas County. The District's loss of infrastructure due to the fire was significant, amounting to over \$4.5 million in repair costs. The District expects to receive future reimbursements from the Federal Emergency Management Agency for 75% of the repair costs.

2018 to 2019:

Total expenses increased \$14.1 million from 2018 to 2019. Nearly 67% of the District's operating expenses are for purchased power. This is mainly attributed to a component of the Wells Power sales contract which requires monthly transfers of Wells Project

operating costs from the Distribution System to the Wells Project. The new power sales contract was effective for only four months in 2018 compared to 12 months in 2019.

Other operating expenses include operations and maintenance, administrative and general, taxes and depreciation, the balance of which increased \$3 million in 2019 to \$24 million. The difference in other operating expenses is due to normal fluctuations in the cost of doing business.

Capital Assets and Long-Term Debt Activity

As of December 31, 2020, the Distribution System had approximately \$160 million invested in capital assets, net of accumulated depreciation. The total increase in the Distribution System's investment in capital assets for 2020 was \$2.7 million. Capital additions are associated with a growing customer base, normal replacements of long-term electrical distribution facilities and rebuilding District facilities to accommodate road expansion projects.

As of December 31, 2020, the Distribution System had long-term liabilities of \$32 million. This includes \$26 million of revenues bonds outstanding, net of the current portion of \$1.4 million. Debt service payments for 2020 totaled \$2.5 million. Debt service coverage ratios for 2020 and 2019 were 22.5 and 22.1, respectively. The Distribution System's current bond ratings from the firms of Standard & Poor's and Moody's Investors Service are "AA+" and "Aa3," respectively.

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

Capital Contributions

District customers pay capital contributions that help fund new construction projects. In 2020, the District received \$2.8 million in capital contributions.

WELLS PROJECT

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

Condensed Comparative Financial Information

Wells Project Balance Sheet

(Dollars in Thousands)

	12/31/2020	12/31/2019	Increase (Decrease) 2020-2019		12/31/2018
			\$	%	
Current and Other Assets	\$ 23,451	\$ 22,263	\$ 1,188	5.3%	\$ 20,536
Capital Assets	362,166	336,218	25,948	7.7%	311,471
Deferred Outflows and Regulatory Assets	3,549	3,404	145	4.3%	3,413
Total Assets/Deferred Outflows	<u>389,166</u>	<u>361,885</u>	<u>27,281</u>	<u>7.5%</u>	<u>335,420</u>
Current Liabilities	15,423	17,051	(1,628)	-9.5%	14,642
Long-Term Liabilities	211,430	183,230	28,200	15.4%	160,554
Deferred Inflows	1,525	2,510	(985)	-39.2%	2,388
Total Liabilities/Deferred Inflows	<u>228,378</u>	<u>202,791</u>	<u>25,587</u>	<u>12.6%</u>	<u>177,584</u>
Net Investment in Capital Assets	156,488	159,702	(3,214)	-2.0%	159,374
Restricted for Debt Service	769	1,727	(958)	-55.5%	2,320
Unrestricted	3,530	(2,335)	5,865	-251.2%	(3,859)
Total Net Position	<u>\$ 160,787</u>	<u>\$ 159,094</u>	<u>\$ 1,693</u>	<u>1.1%</u>	<u>\$ 157,835</u>

Wells Project Statements of Revenue, Expenses, and Changes in Net Position

(Dollars in Thousands)

	12/31/2020	12/31/2019	Increase (Decrease) 2020-2019		12/31/2018
			\$	%	
Operating Revenues	\$ 44,572	\$ 40,278	\$ 4,294	10.7%	\$ 48,803
Nonoperating Revenues	779	1,232	(453)	-36.8%	930
Total Revenues	<u>45,351</u>	<u>41,510</u>	<u>3,841</u>	<u>9.3%</u>	<u>49,733</u>
Operating Expenses	35,146	32,887	2,259	6.9%	34,839
Nonoperating Expenses	8,510	7,688	822	10.7%	9,549
Total Expenses	<u>43,656</u>	<u>40,575</u>	<u>3,081</u>	<u>7.6%</u>	<u>44,388</u>
Capital Contributions	0	324	(324)	-100.0%	418
Net Earnings	1,693	1,259	434	34.5%	5,763
Beginning Net Position	159,094	157,835	1,259	0.8%	152,072
Ending Net Position	<u>\$ 160,787</u>	<u>\$ 159,094</u>	<u>\$ 1,693</u>	<u>1.1%</u>	<u>\$ 157,835</u>

Financial Analysis

Fluctuations in the Wells Project balance sheets as of December 31, 2020 compared to 2019 continues to be primarily due to construction additions (rebuilding of our generators), normal amortization of deferred outflows and regulatory assets, and construction related loan financing. Other significant items are discussed in further detail below and in the notes to the financial statements.

Revenues

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

Expenses

2019 to 2020:

Total operating expenses increased \$2.3 million to \$35 million. During 2020, the Project incurred higher operating expenses related to exploratory and diagnostic dam safety costs, which, during 2019 were much lower.

Non-operating expenses increased mostly due to the Project adding \$35.4 million of construction financing (inter-system loans). Investment income decreased due to lower market rates and minimal funds available to invest.

2018 to 2019:

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

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

Capital Assets and Long-Term Debt Activity

As of December 31, 2020 the Wells Project had approximately \$362 million invested in capital assets, net of accumulated depreciation, including its hydraulic generation and

transmission plant, fish rearing facilities, and related land, office buildings and equipment.

As of December 31, 2020 the Wells Project had long-term liabilities of \$211 million. This included \$118 million of revenue bonds outstanding, net of the current portion of approximately \$4.8 million. In August 2010 the District issued \$113 million of Wells Project revenue bonds (2010 Bonds) in order to finance the continuation of the rebuild of the generating units and other capital projects, and to refinance the remaining 1999 and 2000 Wells Project bonds. The 2010 Bonds included \$46 million of taxable Build America Bonds (BABs). The District receives a semi-annual interest rebate from the federal government equal to 35% of the corresponding semi-annual interest payment on the BABs. In August 2012 the District issued \$43 million of Wells Project revenue and refunding bonds (2012 Bonds) in order to refinance most of the outstanding 2003 Wells Project bonds. This resulted in a total debt service savings of \$3 million over the succeeding seven years. In June 2015 the District issued \$58 million of Wells Project revenue bonds (2015 Bonds) in order to refinance and legally defease \$67 million of the outstanding 2005 Wells Project bonds. The net present value savings of the 2005 refunding transaction were \$5,968,000. See the notes to the financial statements for further information regarding the Wells Project bonds.

In January of 2021, Moody's Investor Service performed a periodic review of the District's Aa3 rating and took no action. In April of 2021, S&P Global affirmed the Hydro's rating of AA/stable.

CONTACT INFORMATION

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

BALANCE SHEET
As of December 31, 2020

ASSETS		Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL	
Current Assets					2020	2019
Restricted:						
Debt Repayment Funds-Cash	\$	10,251,686	\$ 2,644,895	\$ -	12,896,581	13,112,671
Reserve & Contingency Fund-Cash		6,299,545	-	-	6,299,545	7,155,369
Wells Hydroelectric Project Licensing Fund-Cash		-	3,717,003	-	3,717,003	3,212,557
Wells Hydroelectric Project - Plan Species Cash		2,394,275	-	-	2,394,275	1,357,243
Wells Hydroelectric Project - Plan Species Investment		-	-	-	-	751,185
Capital Project Revolving Loan Fund - Cash		-	3,371,946	-	3,371,946	587,129
Total Restricted		18,945,506	9,733,844	-	28,679,350	26,176,154
Unrestricted:						
Cash		985,525	29,335,128	-	30,320,653	26,057,406
Rate Stabilization Fund-Cash		-	23,118,158	-	23,118,158	16,875,945
Rate Stabilization Fund-Investments		-	881,842	-	881,842	7,124,055
Receivables - Net		1,744,954	10,989,455	(715,810)	12,018,599	12,720,907
Receivables - Intercompany		533,453	14,631	(432,420)	115,664	-
Current Portion of Intradistrict Note Recievable		-	2,150,000	(2,150,000)	-	-
Materials and Supplies		-	6,592,856	-	6,592,856	6,911,443
Other Current & Accrued Assets		1,241,272	1,581,867	-	2,823,139	3,117,422
Total Unrestricted		4,505,204	74,663,937	(3,298,230)	75,870,911	72,807,178
Total Current Assets		23,450,710	84,397,781	(3,298,230)	104,550,261	98,983,332
Non-Current Assets						
Electric Plant:						
Plant In Service		476,438,993	287,970,034	-	764,409,027	724,293,436
Construction Work in Progress		30,740,396	15,880,573	-	46,620,969	42,983,548
Electric Plant - Gross		507,179,389	303,850,607	-	811,029,996	767,276,984
Less: Accumulated Depreciation & Amortization		145,013,358	143,849,968	-	288,863,326	273,814,045
Net Electric Plant		362,166,031	160,000,639	-	522,166,670	493,462,939
Regulatory Assets		2,204,058	4,363,104	-	6,567,162	7,437,666
Intradistrict Note Receivable, excluding current portion		-	85,660,000	(85,660,000)	-	-
Total Non-Current Assets		364,370,089	250,023,743	(85,660,000)	528,733,832	500,900,605
Total Assets		387,820,799	334,421,524	(88,958,230)	633,284,093	599,883,937
Deferred Outflows						
Pension related outflows		1,222,414	1,222,415	-	2,444,829	1,940,273
Unamortized Loss on Reacquired Debt		122,686	153,720	-	276,406	298,090
Total Deferred Outflows		1,345,100	1,376,135	-	2,721,235	2,238,363
TOTAL ASSETS & DEFERRED OUTFLOWS	\$	389,165,899	\$ 335,797,659	\$ (88,958,230)	\$ 636,005,328	\$ 602,122,300

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2020

LIABILITIES & NET POSITION	Wells		Distribution System	Intersystem Eliminations	TOTAL	
	Hydroelectric Project				2020	2019
Current Liabilities						
Accounts Payable	\$ 4,706,281	\$ 5,133,670	\$	\$	9,839,951	\$ 11,859,417
Accounts Payable-Intercompany	-	645,135	(432,420)		212,715	133,891
Other Accrued Liabilities	814,663	8,916,994	-		9,731,657	9,805,104
Payable from Restricted Assets:						
Accrued Interest Payable	2,917,006	94,344	(715,810)		2,295,540	2,404,721
Current Portion Long-Term Debt	6,985,000	1,415,000	(2,150,000)		6,250,000	6,420,000
Total Current Liabilities	15,422,950	16,205,143	(3,298,230)		28,329,863	30,623,133
Non-current Liabilities						
Bonds Payable, excluding current portion	117,890,000	23,170,000	-		141,060,000	151,910,000
Unamortized Bond Premiums (Discounts)	3,205,805	3,043,029	-		6,248,834	6,640,558
Bonds Payable, Net	121,095,805	26,213,029	-		147,308,834	158,550,558
Deposits and Contract Retainage	506,373	1,330,353	-		1,836,726	1,993,800
Intradistrict Note Payable, excluding current portion	85,660,000	-	(85,660,000)		-	-
Net Pension Liability	3,290,558	3,290,559	-		6,581,117	6,717,485
Compensated Absences, excluding current portion	877,349	877,349	-		1,754,698	1,366,182
Total Non-current Liabilities	211,430,085	31,711,290	(85,660,000)		157,481,375	168,628,025
Total Liabilities	226,853,035	47,916,433	(88,958,230)		185,811,238	199,251,158
Deferred Inflows						
Pension related inflows	1,203,107	1,203,107	-		2,406,214	4,330,487
Unamortized Gain on Redeemed Debt	322,256	-	-		322,256	344,228
Total Deferred Inflows	1,525,363	1,203,107	-		2,728,470	4,674,715
Total Liabilities and Deferred Inflows	228,378,398	49,119,540	(88,958,230)		188,539,708	203,925,873
Net Position						
Net Investment in Capital Assets	156,488,260	135,962,483	-		292,450,743	287,382,195
Restricted For Debt Service	769,761	2,644,895	-		3,414,656	4,372,077
Unrestricted	3,529,480	148,070,741	-		151,600,221	106,442,155
Total Net Position	160,787,501	286,678,119	-		447,465,620	398,196,427
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 389,165,899	\$ 335,797,659	\$ (88,958,230)	\$	636,005,328	\$ 602,122,300

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For The Fiscal Year Ended December 31, 2020

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL	
				2020	2019
Operating Revenues					
Retail Sales of Electric Energy	\$ -	\$ 32,776,551	\$ -	\$ 32,776,551	\$ 33,855,126
Energy Sales for Resale	44,571,830	90,502,307	(44,571,830)	90,502,307	76,965,928
Broadband	-	4,553,024	-	4,553,024	4,063,025
Other	-	371,147	-	371,147	430,782
Total Operating Revenues	<u>44,571,830</u>	<u>128,203,029</u>	<u>(44,571,830)</u>	<u>128,203,029</u>	<u>115,314,861</u>
Operating Expenses					
Operations	19,396,642	65,270,780	(44,571,830)	40,095,592	35,281,532
Maintenance	7,023,899	10,426,671	-	17,450,570	12,837,708
Depreciation	7,911,440	9,044,848	-	16,956,288	15,928,936
Taxes	814,426	2,483,486	-	3,297,912	3,196,207
Total Operating Expenses	<u>35,146,407</u>	<u>87,225,785</u>	<u>(44,571,830)</u>	<u>77,800,362</u>	<u>67,244,383</u>
Operating Income	<u>9,425,423</u>	<u>40,977,244</u>	<u>-</u>	<u>50,402,667</u>	<u>48,070,478</u>
Non-operating Revenues (Expenses)					
Interest Income	(37,210)	2,514,125	(1,925,416)	551,499	2,729,467
Interest Expense	(8,473,421)	(1,188,225)	1,925,416	(7,736,230)	(8,582,276)
Amortization of Other Charges, Debt Discounts, Premiums and Costs	156,617	143,244	-	299,861	305,073
Other	621,996	2,373,854	-	2,995,850	2,790,801
Total Non-operating Revenues (Expenses)	<u>(7,732,018)</u>	<u>3,842,998</u>	<u>-</u>	<u>(3,889,020)</u>	<u>(2,756,935)</u>
Income Before Contributions	<u>1,693,405</u>	<u>44,820,242</u>	<u>-</u>	<u>46,513,647</u>	<u>45,313,543</u>
Capital Contributions	<u>-</u>	<u>2,755,546</u>	<u>-</u>	<u>2,755,546</u>	<u>2,901,373</u>
Change In Net Position	<u>1,693,405</u>	<u>47,575,788</u>	<u>-</u>	<u>49,269,193</u>	<u>48,214,916</u>
Net Position, Beginning of Year as restated	<u>159,094,096</u>	<u>239,102,331</u>	<u>-</u>	<u>398,196,427</u>	<u>349,981,511</u>
Net Position, End of Year	<u>\$ 160,787,501</u>	<u>\$ 286,678,119</u>	<u>\$ -</u>	<u>\$ 447,465,620</u>	<u>\$ 398,196,427</u>

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS

For The Fiscal Year Ended December 31, 2020

	Wells		Distribution System	Intersystem Eliminations	TOTAL	
	Hydroelectric Project				2020	2019
Cash Flow from Operating Activities						
Receipts from Customers	\$ 42,139,523	\$	129,811,185	\$ (42,139,523)	\$ 129,811,185	\$ 116,487,507
Receipts for Other Agencies	-		7,372,080		7,372,080	8,437,843
Payments to Employees & Payroll Related	(16,228,871)		(13,611,458)	-	(29,840,329)	(27,910,787)
Payments to Suppliers & Other Agencies	(14,270,622)		(71,773,217)	42,139,523	(43,904,316)	(31,974,237)
Net Cash Provided by Operating Activities	<u>11,640,030</u>		<u>51,798,590</u>	<u>-</u>	<u>63,438,620</u>	<u>65,040,326</u>
Cash Flows from Investing Activities						
Purchase of Investments	-		-	-	-	-
Proceeds from Sales and Maturities of Investments	758,063		6,242,213	(980,000)	6,020,276	22,862,875
Interest on Investments	56,880		2,218,842	(1,607,812)	667,910	2,220,014
Net Cash Provided by Investing Activities	<u>814,943</u>		<u>8,461,055</u>	<u>(2,587,812)</u>	<u>6,688,186</u>	<u>25,082,889</u>
Cash Flows from Capital and Related Financing Activities						
Additions to Electric Plant in Service	(781,411)		(6,561,836)	-	(7,343,247)	(3,524,121)
Net Additions to Construction Work in Progress	(33,108,121)		(445,725)	-	(33,553,846)	(36,679,251)
Intradistrict Note Payable-Principal Payments	(980,000)		-	980,000	-	-
Proceeds from Capital Contributions	-		2,755,546	-	2,755,546	2,901,373
Intradistrict Note - CPRLF	40,000,000		(40,000,000)	-	-	-
Principal Payments on Long-Term Debt: Scheduled Maturities	(9,660,000)		(1,360,000)	-	(11,020,000)	(6,275,000)
Interest Payments on Long-term Debt	(8,259,898)		(1,193,325)	1,607,812	(7,845,411)	(8,042,629)
Build America Bonds Interest Rebates	639,993		-	-	639,993	653,965
Net Cash Used in Capital and Related Financing Activities	<u>(12,149,437)</u>		<u>(46,805,340)</u>	<u>2,587,812</u>	<u>(56,366,965)</u>	<u>(50,965,663)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>305,536</u>		<u>13,454,305</u>	<u>-</u>	<u>13,759,841</u>	<u>39,157,552</u>
Cash & Cash Equivalents, Beginning of Year	<u>19,625,495</u>		<u>48,732,825</u>	<u>-</u>	<u>68,358,320</u>	<u>29,200,768</u>
Cash & Cash Equivalents, End of Year	<u>\$ 19,931,031</u>	<u>\$</u>	<u>62,187,130</u>	<u>\$ -</u>	<u>\$ 82,118,161</u>	<u>\$ 68,358,320</u>

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

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY
STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2020

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities						
Operating Income	\$	9,425,423	\$	40,977,244	\$	48,070,478
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation		7,911,440		9,044,848		15,928,936
Cash Provided by changes in Operating Assets and Liabilities:						
Accounts Receivable - Excluding Construction		(1,522,325)		1,608,156		4,799,095
Prepaid Expenses - Other Current and Accrued Assets		(134,375)		(461,974)		(594,570)
Materials and Supplies		-		143,280		(1,390,158)
Other Accrued Liabilities		(168,185)		(1,597,306)		1,358,614
Accounts Payable		(3,871,948)		1,366,971		(3,791,997)
Other Miscellaneous Assets		-		874,446		208,693
Retainage - Operating Only		-		(157,075)		451,235
Net Cash Provided by Operating Activities	\$	11,640,030	\$	51,798,590	\$	65,040,326

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

Public Utility District No. 1 of Douglas County

Notes to Financial Statements

December 31, 2020 and 2019

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Accounting Policies:

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

Revenue Recognition:

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

Utility Plant and Depreciation:

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

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

Deferred Improvements to Recreational Facilities – Wells Project:

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

Public Utility District No. 1 of Douglas County

Notes to Financial Statements

December 31, 2020 and 2019

Restricted Assets:

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

The restricted assets of the enterprise funds are composed of the following:

Cash and Investments - Debt Service	\$	9,209,814
Cash and Investments - Construction	\$	19,463,536

Receivables:

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

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

Inventories:

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

Cash and Cash Equivalents:

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

Compensated Absences:

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

Accounting Estimates:

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

Insurance:

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

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

Public Utility District No. 1 of Douglas County

Notes to Financial Statements

December 31, 2020 and 2019

Intersystem Note:

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

Pensions:

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

NOTE 2 – DEPOSITS AND INVESTMENTS

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

As of December 31, 2020, the District's cash and cash equivalents are as follows:

Cash and cash equivalents:

Bank depository and checking accounts	\$5,657,143
Petty Cash	\$4,726
Local Government Investment Pool	\$76,456,292
Rate Stabilization Fund – Investments	\$881,842
Total cash and cash equivalents	<u>\$83,000,003</u>

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

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

Fair Value: The District categorizes its fair value measurement within the hierarchy established by GAAP. The hierarchy is based on the valuation inputs to measure the fair value of the asset. Level 1 inputs are quoted prices in the active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The difference of \$87,676 between the Distribution investment balance in this note and the financial statements is the fair market adjustment entry made at calendar year end. The valuation method for fair value measurements as of December 31, 2020 and 2019 are as followed:

Public Utility District No. 1 of Douglas County
Notes to Financial Statements
December 31, 2020 and 2019

Distribution Investments	Balance as of December 31, 2020			2020 Total	2019 Level 2
	Level 1	Level 2	Level 3		
Federal Agency Securities	\$ —	\$ —	\$ —	\$ —	2,501,950
Municipal Bond Securities	—	794,166	—	794,166	4,523,593
Total	\$ —	\$ 794,166	\$ —	\$ 794,166	7,025,543

Wells Project Investments	Balance as of December 31, 2020			2020 Total	2019 Level 2
	Level 1	Level 2	Level 3		
Federal Agency Securities	\$ —	\$ —	\$ —	\$ —	—
Municipal Bond Securities	—	—	—	—	751,185
Total	\$ —	\$ —	\$ —	\$ —	751,185

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

As of December 31, 2020 the average maturity of the investments are as follows:

Distribution Investments	Fair Value	Less than	
		1 year	1-5 years
Federal Agency Securities	—	\$ —	—
Municipal Bond Securities	794,166	794,166	—
Total	\$ 794,166	\$ 794,166	\$ —

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

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

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

Public Utility District No. 1 of Douglas County
Notes to Financial Statements
December 31, 2020 and 2019

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

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

As of December 31, 2020 the credit quality ratings of debt securities are as follows:

<u>Distribution Investments</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Federal Agency Securities	\$ —	AAA	S&P
Municipal Bond Securities	794,166	A1/Aa/AAA	S&P

<u>Wells Project Investments</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Federal Agency Securities	\$ —	AAA	S&P
Municipal Bond Securities	—	A1/Aa/AAA	S&P

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

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

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

Concentration of Credit Risk: As of December 31, 2020, the Distribution System had municipal bond investments in the amount of \$794,166 (100%) of the investment portfolio. As of December 31, 2019, the Distribution System had municipal bond investments in the amount of \$4,523,593 (approximately 64%) of the investment portfolio. As of December 31, 2020, the Wells Project had municipal bond zero investments in its portfolio. As of December 31, 2019, the Wells Project had municipal bond investments in the amount of \$751,185 (approximately 3.8%) of the investment portfolio. These municipal bonds are not guaranteed by the U.S. Government.

NOTE 3 – UTILITY PLANT

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

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property retired or otherwise disposed of, less salvage, is charged to accumulated depreciation. The following changes occurred in the District's utility plant:

Electric Plant Assets	December 31,	Increase	Decrease	December 31,
Distribution System	2019			2020
Utility plant not being depreciated:				
Land and land rights	\$ 5,923,798	\$ 2,360,848	\$ (1,953,070)	\$ 6,331,576
Construction work in progress	8,340,725	12,452,268	(4,912,420)	15,880,573
Subtotal	14,264,523	14,813,116	(6,865,490)	22,212,149
Utility plant being depreciated:				
Transmission	26,957,211	-	-	26,957,211
Distribution	186,999,062	2,651,154	(120,173)	189,530,043
General	64,431,068	1,561,750	(2,223,131)	63,769,687
Intangible	519,332	-	-	519,332
Miscellaneous	862,185	-	-	862,185
Subtotal	279,768,858	4,212,904	(2,343,304)	281,638,458
Accumulated depreciation	(136,788,402)	(9,542,458)	2,480,892	(143,849,968)
Net plant being depreciated	142,980,456	(5,329,554)	137,588	137,788,490
Net Utility Plant - Distribution	\$ 157,244,979	\$ 9,483,562	\$ (6,727,902)	\$ 160,000,639

Electric Plant Assets	December 31,	Increase	Decrease	December 31,
Wells Hydroelectric Project	2019			2020
Utility plant not being depreciated:				
Land and land rights	\$ 52,177,903	\$ -	\$ -	\$ 52,177,903
Construction work in progress	34,642,823	33,334,364	(37,236,791)	30,740,396
Subtotal	86,820,726	33,334,364	(37,236,791)	82,918,299
Utility plant being depreciated:				
Hydraulic generation	343,572,856	37,114,231	-	380,687,087
Transmission	18,953,002	-	-	18,953,002
General	12,840,694	839,752	(248,594)	13,431,852
Intangible plant	11,056,325	132,824	-	11,189,149
Subtotal	386,422,877	38,086,807	(248,594)	424,261,090
Accumulated depreciation	(137,025,644)	(8,236,281)	248,567	(145,013,358)
Net plant being depreciated	249,397,233	29,850,526	(27)	279,247,732
Net utility plant - Wells Project	\$ 336,217,959	\$ 63,184,890	\$ (37,236,818)	\$ 362,166,031

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NOTE 4 – LONG-TERM DEBT

Wells Hydroelectric Project

	Purpose	Balance 12/31/2019	Additions	Reductions	Balance 12/31/2020	Due Within One Year
Revenue Bonds:						
Series of 2010A, serial bonds maturing annually to September 1, 2022 and term bonds maturing September 1, 2030 and 2040, interest at 1.484% - 5.450%	Capital Improvements	44,435,000	-	1,230,000	43,205,000	1,280,000
Series of 2010B, serial bonds maturing annually to September 1, 2020 and term bonds maturing September 1, 2030 and 2040, interest at 1.484% - 5.495%	Capital Improvements	36,320,000	-	1,215,000	35,105,000	1,250,000
Series of 2010C, serial bonds maturing annually to September 1, 2029, interest at 3.00% - 5.00%	Refunding	5,015,000	-	5,015,000	-	-
Series of 2015A, serial bonds maturing annually to September 1, 2025, and term bonds maturing September 1, 2030 and 2035, interest at 3.70% - 5.00%	Refunding	27,025,000	-	1,170,000	25,855,000	1,230,000
Series of 2015B, serial bonds maturing annually to September 1, 2026, and term bonds maturing September 1, 2022, 2030, and 2035, interest at 3.60% - 5.25%	Refunding	19,590,000	-	1,030,000	18,560,000	1,075,000
Revenue bonds payable		<u>132,385,000</u>	<u>-</u>	<u>9,660,000</u>	<u>122,725,000</u>	<u>4,835,000</u>

Following is a summary of future debt service requirements for Wells Project revenue bonds outstanding at December 31, 2020:

	Principal	Interest	Total
2021 \$	4,835,000	6,225,302	\$ 11,060,302
2022	5,025,000	6,010,635	11,035,635
2023	5,225,000	5,792,438	11,017,438
2024	5,435,000	5,548,755	10,983,755
2025	5,665,000	5,291,870	10,956,870
2026-2030	31,905,000	22,078,571	53,983,571
2031-2035	38,115,000	13,453,654	51,568,654
2036-2040	26,520,000	4,482,241	31,002,241
Total \$	122,725,000	\$ 68,883,466	\$ 191,608,466

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Interest on all bonds for the Wells Hydroelectric Project is payable on March 1 and September 1. All bond covenants were complied with for calendar years 2020 and 2019.

Following is a summary of the debt service requirements for the intra-district loan payable at December 31, 2020:

		Principal		Interest		Total
2021	\$	145,000		338,367	\$	483,367
2022		150,000		332,736		482,736
2023		155,000		326,913		481,913
2024		160,000		320,897		480,897
2025		170,000		314,641		484,641
2026-2030		945,000		1,469,689		2,414,689
2031-2035		1,140,000		1,271,270		2,411,270
2036-2040		1,375,000		1,032,041		2,407,041
2041-2045		1,665,000		743,194		2,408,194
2046-2050		2,000,000		394,625		2,394,625
2051-2052		920,000		44,660		964,660
Total	\$	8,825,000	\$	6,589,033	\$	15,414,033

Following is a summary of the debt service requirements for the intra-district Capital Projects Revolving Loan Fund payable at December 31, 2020:

		Principal		Interest		Total
2021	\$	2,005,000		2,187,207	\$	4,192,207
2022		2,060,000		2,263,004		4,323,004
2023		2,130,000		2,204,739		4,334,739
2024		2,190,000		2,144,416		4,334,416
2025		2,260,000		2,082,385		4,342,385
2026-2030		11,780,000		9,409,443		21,189,443
2031-2035		11,345,000		7,753,524		19,098,524
2036-2040		13,395,000		5,946,096		19,341,096
2041-2045		15,875,000		3,798,232		19,673,232
2046-2050		15,945,000		1,260,776		17,205,776
Total	\$	78,985,000	\$	39,049,822	\$	118,034,822

Advance Debt Refunding

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

Debt service on all outstanding Wells Project bonds, which have been refinanced and legally defeased is met by cash and investments held in irrevocable trust with escrow agents. As of December 31, 2020, all outstanding Wells Project legally defeased bonds were fully funded. Trust accounts assets and the liabilities for legally defeased bond issues are not included in the District's financial statements.

Distribution System

Long-term liability activity for the year ended December 31, 2020 was as follows:

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	Balance 12/31/2019	Decrease	Increase	Balance 12/31/2020	Due Within One Year
Revenue bonds payable	\$ 25,945,000	\$ 1,360,000	\$ -	\$ 24,585,000	\$ 1,415,000
Unamortized bond premiums (discounts)	3,193,593	150,564	-	3,043,029	
Total bonds payable	29,138,593	1,510,564	-	27,628,029	1,415,000
Deposits and Contract Retainage	1,487,427	312,004	154,930	1,330,353	
Net Pension Liability	3,358,743	296,846	228,662	3,290,559	
Compensated absences	1,514,021	1,078,271	1,285,047	1,720,797	843,448
Non-current liabilities	\$ 35,498,784	\$ 3,197,685	\$ 1,668,639	\$ 33,969,738	\$ 2,258,448

In August 2012, the Distribution System issued its Electric Distribution System Revenue and Refunding Bonds, Series 2012, in the total amount of \$32,650,000. A portion of the 2012 Bonds refinanced \$7,075,000 of the outstanding 2004 Bonds. The remaining portion of the 2012 Bonds were issued for construction of a new transmission line and capital improvements to electrical facilities. The following is a summary of future debt service requirements for Distribution System revenue bonds outstanding at December 31, 2020:

	Principal	Interest	Total
2021	1,415,000	1,132,125	2,547,125
2022	1,470,000	1,068,450	2,538,450
2023	1,535,000	1,024,350	2,559,350
2024	715,000	947,600	1,662,600
2025	750,000	911,850	1,661,850
2026-2030	4,365,000	3,956,500	8,321,500
2031-2035	5,605,000	2,748,000	8,353,000
2036-2041	8,730,000	1,304,900	10,034,900
Total	\$ 24,585,000	\$ 13,093,775	\$ 37,678,775

The 2012 Distribution bonds are serial bonds through 2023 and term bonds maturing in 2041. Interest rates range from 2.0% to 5.0% and interest is payable on June 1 and December 1. The bondholders' resolution requires the District to maintain at least 125% coverage for debt service. The required coverage was maintained in 2020 and 2019.

NOTE 5 – OTHER COMMITMENTS AND CONTINGENCIES

a) Power Sales Contracts

The District has 10-year contracts with Puget Sound Energy, Portland General Electric, and Avista Corporation for the sale of Wells Project output. Under the agreements, the Wells' output is sold at cost to the District's Distribution System; however, previous obligations (share of output) to the Colville Tribes (5.5%) and Okanogan County PUD (currently 9.45%) remain in place. Okanogan County PUD is able to ramp up their percentage, over time, based upon load growth (up to 30%, conditionally in 2028).

b) Endangered Species

Several species of fish in the vicinity of the Wells Project are listed as threatened or endangered under the Endangered Species Act (ESA). Upper Columbia River (UCR) Steelhead and UCR spring Chinook were listed as endangered species on August 18, 1997 and March 24, 1999, respectively. Subsequently the endangered status of UCR spring Chinook was reaffirmed and the status of UCR steelhead was upgraded to threatened.

The District has negotiated with state and federal fisheries resource agencies and Indian tribes, a multispecies Anadromous Fish Agreement and Habitat Conservation Plan (HCP). The Plan Species are spring Chinook, summer/fall Chinook, steelhead, sockeye,

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and Coho salmon. The purpose of the HCP is to have legally enforceable measures in place to either avoid a listing under the ESA or, in the event of a listing, allow continued operation of the Wells Project under an incidental take permit. The HCP satisfies all FERC relicensing and ESA requirements for the Plan Species. FERC approved the HCP in June of 2004 and amended the Wells Project license accordingly. At the District's request, FERC also issued an Order on Rehearing in November 2004, clarifying several technical items.

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

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

c) Plan Species Account

In accordance with the Tributary Conservation Plan, formed under the HCP, a Plan Species Account was established to fund projects for the protection and restoration of Plan Species habitat. The HCP requires a Tributary Committee, composed of one representative of each party to the HCP, to select the projects and approve the project budgets from the Plan Species Account for purposes of implementing the Tributary Conservation Plan. All budget and spending decisions must be made by unanimous vote of the Tributary Committee members. The HCP requires the District to make monetary contributions to the Plan Species Account. In 2004 a required initial contribution of \$2,272,740 was made to the Plan Species Account. In January 2010 the District began making required annual payments to the Plan Species Account. The amounts transferred in 2020 and 2019 were \$292,037 and \$284,794, respectively. Outflows for Plan Species projects from the account are expensed to the Wells Project as incurred.

d) Energy Northwest – Nine Canyon Wind Project

The Nine Canyon Wind Project is a wind energy generation project located eight miles southwest of Kennewick, Washington in the Horse Heaven Hills. The project was developed in three phases. Energy Northwest issued bonds to finance each phase of the Wind Project System, some of which have been refunded, and currently has \$20,500,000 of Phase I bonds outstanding, \$6,305,000 of Phase II bonds outstanding and \$42,760,000 of Phase III bonds outstanding. The District is obligated to pay 6.251%, 43.59% and 0% of the debt service for Phase I, II, and III bonds, respectively, and is entitled to 10.23% of the aggregate output of the project (9.8 MW of generating capacity) until July 1, 2030.

e) Douglas PUD – Chelan PUD Power Sales Contract

The District has a long term power sales contract with Chelan PUD to purchase 5.54% of the output of Chelan PUD's Rocky Reach Project. The contract is a take-or-pay contract requiring the District to pay costs associated with operation, maintenance, renewals and replacements to Rocky Reach, whether or not the project is operable or operating. The current term of the power sales contract expires on October 31, 2031. The District has the option to extend the term of the contract for up to three successive 10-year periods thereafter.

f) Avista Corporation Energy Exchange

The District entered into a purchase and sale agreement with Avista Corporation in which the District will sell a 9.45% slice of the total Wells Output to Avista in exchange for a flat block of firm power from Avista. The energy received in return from Avista exceeds expected generation by approximately 18%. The five-year agreement expires on December 31, 2023.

g) Portland General Electric Power Sales Contract

In 2020, the District entered into a five-year slice agreement with PGE for the remainder of its Wells Project allocation net of the Avista slice as well as its share of Chelan Public Utility District's Rocky Reach Hydroelectric Project, extending through December 31, 2026. Under the power sale agreement, PGE is responsible for managing the District's load and will perform related marketing, power resource and supply functions for any surplus output

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h) Relicensing

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

i) Generator and Turbine Refurbishment

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

NOTE 6 – PENSION PLANS, DEFERRED COMPENSATION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68 for the year 2020:

Aggregate Pension Amounts – PERS Plans 1/2/3		
Net pension liabilities*	\$	(6,581,117)
Pension assets		—
Deferred outflows of resources		2,444,828
Deferred inflows of resources		(2,406,214)
Pension expense		(868,890)

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

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

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

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

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

Plan Description

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

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

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

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

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

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

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

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

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

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

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

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

Public Utility District No. 1 of Douglas County Notes to Financial Statements December 31, 2020 and 2019

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2020 and 2019, are as follows:

2020:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer	12.86%	12.86%	12.86%
Employee	6.00	7.90	*

2019:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer	12.86%	12.86%	12.86%
Employee	6.00	7.90	*

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 19.16% for Plan 1 and 12.86% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 7.41% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

		<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2020	\$	-	2,450,944	263,868
2019	\$	-	2,189,714	241,135
2018		-	2,087,993	236,762

Deferred Compensation Plans

The District also offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(a) permitting employees to defer a portion of their salary until future years. The District provides a 50% match of employee contributions capped at 3% for Union employees and 5% for Non-union employees of regular straight-time wages. The deferred compensation is not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 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) 2007-2012 Experience Study and the 2017 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

Public Utility District No. 1 of Douglas County

Notes to Financial Statements

December 31, 2020 and 2019

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 (active, retiree, or survivor), as the base table. 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 of Actuaries, to project mortality rates for every year after the 2010 base table. Under 'generational' mortality, a member is assumed to receive additional mortality improvements in each future year through their lifetime.

There were 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 was 7.40% for all plans included in this publication. 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 the assumptions described in OSA's certification letter within the DRS CAFR, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.40% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

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

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

Sensitivity of NPL

The table below presents the District's proportionate share* of the net pension liability as of June 30, 2020 calculated using the discount rate of 7.4%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4%) or 1-percentage point higher (8.4%) than the current rate.

	1% Decrease (6.4%)	Current discount rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 5,600,984	4,471,641	3,486,737
PERS 2/3	13,125,724	2,109,476	(6,962,410)

Pension Plan Fiduciary Net Position

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

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

At December 31, 2020, the *District* reported a total pension liability of \$6,581,117 for its proportionate share of the net pension liabilities as follows:

	Net pension liability
PERS 1	\$ 4,471,641
PERS 2/3	2,109,476

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

	Proportionate share June 30, 2019	Proportionate share June 30, 2020	Change in proportion
PERS 1	0.131726%	0.126656%	0.005070%
PERS 2/3	0.170090	0.164939	0.005151

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.

Public Utility District No. 1 of Douglas County
Notes to Financial Statements
December 31, 2020 and 2019

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended December 31, 2020, the District's recognized deferred inflows/outflows are as follows:

PERS Plan 1	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ —	—
Net difference between projected and actual investment earnings on pension plan investments	—	(24,896)
Changes of assumptions	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	—	—
Contributions subsequent to the measurement date	555,119	—
Total	<u>\$ 555,119</u>	<u>(24,896)</u>

PERS Plan 2/3	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 755,162	(264,368)
Net difference between projected and actual investment earnings on pension plan investments	—	(107,131)
Changes of assumptions	30,045	(1,440,955)
Changes in proportion and differences between contributions and proportionate share of contributions	—	(458,384)
Contributions subsequent to the measurement date	931,087	—
Total	<u>\$ 1,716,294</u>	<u>(2,270,838)</u>

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

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

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

Public Utility District No. 1 of Douglas County

Notes to Financial Statements

December 31, 2020 and 2019

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>PERS Plan 1</u>
Year ended December 31:	
2021	112,980
2022	3,554
2023	(34,474)
2024	(57,164)
Thereafter	—
Total	\$ <u><u>24,896</u></u>

	<u>PERS Plan 2</u>
Year ended December 31:	
2021	\$ 696,798
2022	30,720
2023	(216,001)
2024	(404,386)
Thereafter	—
Total	\$ <u><u>107,131</u></u>

NOTE 7 – DEFERRED OUTFLOW OF RESOURCES AND REGULATORY ASSETS

Distribution System

The Distribution System had deferred outflows of \$1,376,135 and \$1,131,177 respectively at December 31, 2020 and 2019. The deferred outflows consist of pension related outflows and unamortized losses on reacquired debt.

The Distribution System had regulatory assets of \$4,363,104 and \$5,141,458 respectively, at December 31, 2020 and 2019. Regulatory assets consist of preliminary survey and investigation, such as wind development costs, undistributed balances in clearing accounts and miscellaneous work in progress.

Wells Hydroelectric Project

The Wells Hydroelectric Project had deferred outflows of \$1,345,100 and \$1,107,186 respectively at December 31, 2020 and 2019. Deferred outflows consist of unamortized losses on reacquired debt.

The Wells Project had regulatory assets of \$2,204,058 and \$2,296,208 respectively, at December 31, 2020 and 2019. Regulatory assets amortized by the Wells Project are primarily recreation facilities improvements (on land not owned by the District) and miscellaneous fish improvements (Coho Mitigation under the HCP). Regulatory assets are amortized using the sinking fund method.

NOTE 8 – BROADBAND SERVICES

Douglas County Community Network (DCCN):

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

Public Utility District No. 1 of Douglas County

Notes to Financial Statements

December 31, 2020 and 2019

communication services to customers of the District. As of December 31, 2020 the District has capitalized \$38.2 million dollars of community network equipment.

Douglas County Community Network	2020
Operating Revenue:	
Wholesale Broadband Residential & Business	\$ 3,546,462
Broadband Governmental	612,149
Colocation & Bandwidth	230,927
Television	163,486
	<u>\$ 4,553,024</u>
Operating Expenses:	
Operation & Maintenance	\$ 1,850,416
Administration & General	278,272
	<u>\$ 2,128,688</u>

NOTE 9 – CONTINGENT LIABILITIES

Pole Attachment Lawsuit

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

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

Note 10 – COVID 19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

These collective actions may impact financial results for the District in 2021, but did not impact financial results for 2020.

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

Public Utility District No. 1 of Douglas County
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 1
As of June 30, 2020
Last 10 Fiscal Years

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Employer's proportion of the net pension liability (asset)	% 0.162184%	0.154055%	0.138455%	0.134405%	0.131726%	0.126656%			
Employer's proportionate share of the net pension liability	\$ 8,483,732	8,058,509	6,569,798	6,002,573	5,065,332	4,471,641			
TOTAL	\$ 8,483,732	8,058,509	6,569,798	6,002,573	5,065,332	4,471,641			
Employer's covered employee payroll	\$ 17,173,115	17,359,459	17,355,869	18,646,736	17,437,527	18,451,267			
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	% 49.40%	46.42%	37.85%	32.19%	29.05%	24.23%			
Plan fiduciary net position as a percentage of the total pension liability	% 59.10%	57.03%	61.24%	63.30%	67.12%	70.55%			

Notes to Schedule:

There are no factors that significantly affect trends in the amounts reported above. Sixth year reporting.

Public Utility District No. 1 of Douglas County
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 2 & 3
As of June 30, 2020
Last 10 Fiscal Years

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset) %	0.191162%	0.185707%	0.178088%	0.172521%	0.170090%	0.164939%				
Employer's proportionate share of the net pension liability \$	6,830,329	9,350,201	6,187,707	2,945,643	1,652,152	2,109,476				
TOTAL \$	6,830,329	9,350,201	6,187,707	2,945,643	1,652,152	2,109,476				
Employer's covered employee payroll \$	17,173,115	17,359,459	17,355,869	18,646,736	17,437,527	18,451,267				
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll %	39.77%	53.86%	35.65%	15.80%	9.47%	11.43%				
Plan fiduciary net position as a percentage of the total pension liability %	89.20%	85.82%	90.97%	95.63%	97.77%	91.72%				

Notes to Schedule:

There are no factors that significantly affect trends in the amounts reported above. Sixth year reporting.

Public Utility District No. 1 of Douglas County
Schedule of Employer Contributions
PERS Plan 1
As of December 31, 2020
Last 10 Fiscal Years

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contractually required contributions	\$ 745,396	856,049	864,162	926,932	896,828	970,279				
Contributions in relation to the contractually required contributions	\$ (745,396)	(856,049)	(864,162)	(926,932)	(896,828)	(970,279)				
Contribution deficiency (excess)	\$ -	-	-	-	-	-				
Covered Employer Payroll	\$ 17,173,115	17,359,459	16,714,899	19,047,535	18,123,747	20,216,744				
Contributions as a percentage of covered employee payroll	% 4.34%	4.93%	5.17%	4.87%	4.95%	4.80%				

Notes to Schedule:

There are no factors that significantly affect trends in the amounts reported above. Sixth year reporting.

Public Utility District No. 1 of Douglas County
Schedule of Employer Contributions
PERS Plan 2 & 3
As of December 31, 2020
Last 10 Fiscal Years

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contractually required contributions	\$ 851,534	1,072,067	1,086,126	1,373,696	1,398,495	1,601,166				
Contributions in relation to the contractually required contributions	\$ (851,534)	(1,072,067)	(1,086,126)	(1,373,696)	(1,398,495)	(1,601,166)				
Contribution deficiency (excess)	\$ -	-	-	-	-	-				
Covered Employer Payroll	\$ 17,173,115	17,359,459	16,714,899	19,047,535	18,123,747	20,216,744				
Contributions as a percentage of covered employee payroll	% 4.96%	6.18%	6.50%	7.21%	7.72%	7.92%				

Notes to Schedule:

There are no factors that significantly affect trends in the amounts reported above. Sixth year reporting.

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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.

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