



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

October 18, 2021

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

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of Public Utility District No. 1 of Okanogan County for the fiscal years ended December 31, 2020 and 2019. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

**PUBLIC UTILITY DISTRICT NO. 1 OF
OKANOGAN COUNTY, WASHINGTON**

December 31, 2020 and 2019



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Report of Independent Auditors

To the Commissioners
Public Utility District No. 1
of Okanogan County, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Public Utility District No. 1 of Okanogan County, Washington (the District), which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial position of the District as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of proportionate share of the net pension liability, and schedule of employer contributions be presented to supplement the 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.

Supplemental Information

The supplemental information as presented in the table of contents has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 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 solely 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 the effectiveness of the District's 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.



Everett, Washington
May 28, 2021

Public Utility District No. 1 of Okanogan County, Washington

Management's Discussion and Analysis

The following discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of Public Utility District No. 1 of Okanogan County's (the District's) financial activity, and identify changes in the District's financial position during 2020 and 2019. Please consider the information presented here in conjunction with the financial statements as a whole, including the footnotes and other supplementary information that is provided.

The District, a municipal corporation of the state of Washington, was established in 1936 and began operations in 1945. The District is governed by a three-member board of commissioners locally elected to six-year terms. The District operates both electric and telecommunications systems that are accounted for in a single proprietary fund.

Overview of the Financial Statements

The financial statements include the management's discussion and analysis and financial statements with accompanying notes. In accordance with standards issued by the Governmental Accounting Standards Board (GASB), the District's financial statements are presented on an accrual basis of accounting, which recognizes revenues when earned and expenses when incurred, regardless of when cash is received or paid.

The basic financial statements are presented as of and for the years ended December 31, 2020 and 2019, and consist of:

Statements of net position – The statements of net position present information on the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at year-end. These statements also provide information about the nature and amounts of investments in resources (assets) and the District's obligations to its creditors (liabilities).

Statements of revenues, expenses, and changes in net position – The statements of revenues, expenses, and changes in net position account for the year's revenue and expense transactions. These statements measure the District's operations over the past year and may be used to determine whether the District has been successful in recovering its costs through rates and other charges.

Statements of cash flows – The statements of cash flows provide information on the District's cash receipts and disbursements during the year. The statements report changes in cash resulting from operations, investing, and capital and related financing activities.

The notes to the financial statements provide additional information that is an integral part of the financial statements. This information includes the disclosure of significant accounting policies, financial activities, risks, commitments, and obligations.

Public Utility District No. 1 of Okanogan County, Washington

Management's Discussion and Analysis (continued)

Selected Financial Information

	December 31,		
	2020	2019	2018
ASSETS			
Current and other assets	\$ 67,912,722	\$ 30,926,797	\$ 33,460,685
Net utility plant	114,937,136	112,563,273	110,383,214
Total assets	182,849,858	143,490,070	143,843,899
DEFERRED OUTFLOWS OF RESOURCES	1,177,435	1,032,587	1,036,599
Total assets and deferred outflows of resources	<u>\$ 184,027,293</u>	<u>\$ 144,522,657</u>	<u>\$ 144,880,498</u>
LIABILITIES			
Current liabilities	\$ 11,262,928	\$ 10,609,284	\$ 10,439,020
Long-term debt	61,583,812	26,409,826	28,612,298
Other long-term liabilities	2,903,355	2,964,405	3,879,743
Total liabilities	75,750,095	39,983,515	42,931,061
DEFERRED INFLOWS OF RESOURCES	1,059,008	1,933,465	1,839,477
NET POSITION			
Net investment in capital assets	51,169,220	84,130,786	79,892,289
Restricted	40,374,205	8,344,665	8,357,961
Unrestricted	15,674,765	10,130,226	11,859,710
Total net position	107,218,190	102,605,677	100,109,960
Total liabilities, deferred inflows of resources, and net position	<u>\$ 184,027,293</u>	<u>\$ 144,522,657</u>	<u>\$ 144,880,498</u>

Public Utility District No. 1 of Okanogan County, Washington
Management's Discussion and Analysis (continued)

Selected Financial Information (continued)

	Years Ended December 31,		
	2020	2019	2018
REVENUE			
Operating			
Electric - retail	\$ 46,271,092	\$ 45,810,067	\$ 44,579,946
Electric - wholesale	3,542,929	3,880,384	3,983,254
Telecommunications	3,182,638	2,831,472	2,978,557
Other operating revenue	1,748,733	1,773,699	1,753,999
Total operating income	54,745,392	54,295,622	53,295,756
Nonoperating			
Interest income	212,312	310,680	223,663
Other nonoperating income	1,034,331	1,300,664	433,708
Total nonoperating income	1,246,643	1,611,344	657,371
Income before contributed capital	55,992,035	55,906,966	53,953,127
Contributed capital	1,214,361	891,735	1,097,953
Total revenue	57,206,396	56,798,701	55,051,080
EXPENSES			
Operating			
Cost of power	25,358,054	28,755,100	25,801,958
Taxes	2,906,689	2,871,178	2,848,487
Depreciation and amortization	6,035,441	6,678,205	6,245,405
Other operating expenses	14,704,582	14,426,942	14,334,502
Total operating expenses	49,004,766	52,731,425	49,230,352
Nonoperating			
Interest expense	1,995,985	1,571,559	1,155,089
Other expense	1,593,132	-	360,736
Total nonoperating	3,589,117	1,571,559	1,515,825
Total expenses	52,593,883	54,302,984	50,746,177
CHANGE IN NET POSITION	4,612,513	2,495,717	4,304,903
EXTRAORDINARY ITEM	-	-	(18,793,376)
NET POSITION, beginning of period	102,605,677	100,109,960	114,598,433
NET POSITION, end of period	\$ 107,218,190	\$ 102,605,677	\$ 100,109,960

Public Utility District No. 1 of Okanogan County, Washington

Management's Discussion and Analysis (continued)

Financial Highlights

During 2020, the District's overall financial position stayed positive with only a slight decrease in retail electric load of 0.2%. The slight decrease in retail sales was driven by decreases in residential and commercial loads with smaller increases in all other classes.

Due to the COVID-19 pandemic emergency, the District suspended implementation of the 2% rate increase planned for May 1, 2020. In September 2020, the Board of Commissioners authorized the transfer of \$622,455 from the District's Rate Stabilization Reserve Fund to replace the 2020 revenue shortfall resulting from the 2% revenue increase suspension. In December 2020, the Board of Commissioners further directed the transfer of funds from the Rate Stabilization Reserve to make principal and interest payments on the District's 2016 Key Bank Note. The goal is to mitigate rate impact to customers and also provide a plan for repayment to return the Rate Stabilization Fund to \$6,000,000.

Wholesale energy sales increased in volume, but the average price per kilowatt-hour decreased. As a result, the District's wholesale revenues were down 8.7%. The District's net position increased \$4,612,513 compared with an increase in net position in 2019 of \$2,495,717.

The following is an analysis of key financial factors with an emphasis on changes between 2020 and 2019:

Cash and investments – The District had cash and investments totaling \$56,826,574 and \$20,261,812, as of December 31, 2020, and 2019, respectively. The increase in cash and investments of \$36,564,762 during 2020 was due to a \$40 million bond issue in November 2020. As noted in Note 1 to the financial statements, investments in the amount of \$43,391,815 are considered restricted as of December 31, 2020. The funds are restricted as follows: \$418,856 for debt service payments, \$1,944,500 for bond reserve requirements, \$2,700,000 for customer deposits and compensated absences, \$624,968 for vehicle replacement reserve, \$5,377,545 is restricted in a rate stabilization fund, and \$32,325,946 for the 2020 bond construction fund.

Utility plant – Net utility plant increased \$2,373,863, or 2.1%, during 2020, compared with an increase of \$2,180,059, or 2.0%, during 2019. A summary of utility plant in service is included in Note 3 to the financial statements.

Long-term debt – As of December 31, 2020, the District had \$59,015,128 in revenue bonds outstanding, compared with \$25,647,405 as of December 31, 2019. During 2020, the District issued additional \$40 million revenue bonds to fund projected capital outlay and to pay off the 2010 RUS Note as well as to repay the line of credit.

In 2010, the District authorized a not-to-exceed \$3,667,855 loan with the United States Department of Agriculture (USDA) for broadband improvements (the RUS Note) related to the American Recovery and Reinvestment Act (ARRA) award. As of December 31, 2020, the RUS Note had been paid in full in the amount of \$2,538,162.

Public Utility District No. 1 of Okanogan County, Washington

Management's Discussion and Analysis (continued)

Financial Highlights (continued)

In 2017, the District replaced its \$10,000,000 line of credit with a new line of credit with an aggregate principal amount not to exceed \$20,000,000, to cover operating costs and capital outlays as the need arises. During 2020, the District drew \$2.3 million from this line for purchase of the Chicken Creek Substation. As of December 31, 2020, the line of credit had been repaid and the line closed.

Net operating revenues – The District recorded revenues from operations of \$54,745,392, which was \$5,740,626 more than operating expenses of \$49,004,766 during 2020, in comparison with 2019, when operating revenues exceeded operating expenses by \$1,564,197. In 2018, operating revenues exceeded operating expenses by \$4,065,404.

Operating revenue – Revenues from the retail sale of electricity increased by 1.0%, from \$45,810,067 in 2019 to \$46,271,092 during 2020, compared with an increase in retail sales in 2019 of 2.8%. The increase during 2020 was due to the effect of a full year of the 1.5% rate increase that went into effect April 1, 2019.

During 2020, revenue from wholesale sales of electricity decreased by 8.7%, from \$3,880,384 in 2019 to \$3,542,929. The decrease in revenue from wholesale sales of electricity was due to a decrease in the average price per kilowatt-hour. In 2019, wholesale electricity decreased 2.6% from \$3,983,254 in 2018 to \$3,880,384.

In 2020, wholesale telecommunications revenue increased 12.4% to \$3,182,638, compared with \$2,831,472 in 2019 and \$2,978,557 in 2018. The increase in revenue during 2020 was due to an increased customer base and customers requesting higher levels of service that come with a higher cost.

Operating expenses – Operating expenses decreased by \$3,726,659, or 7.1%, from \$52,731,425 in 2019 to \$49,004,766 in 2020 in comparison to an increase in operating expenses during 2019 of 7.1%. The 2020 decrease in operating expenses is due in large part to a higher cost of power in 2019 caused by resource shortage compounded by inflated market prices.

Rates – During 2020, the District intended to implement rate adjustments for all service classes representing a 2% revenue increase effective May 1, 2020. However, due to the COVID-19 pandemic emergency, the District suspended implementation of the rate adjustment and transferred \$622,455 from the District's Rate Stabilization Fund to replace the shortfall. The District passes through increases in contracted power costs to its customers using a cost of power adjustment (COPA). The COPA was not increased during 2020 but was recalculated and reset to zero and adjusted to \$.0006/kWh effective April 1, 2021. Additionally, the Board of Commissioners authorized a 3.25% rate increase effective April 1, 2021.

Public Utility District No. 1 of Okanogan County, Washington

Management's Discussion and Analysis (continued)

Significant Capital Assets and Long-Term Debt

The District continues to invest in wholesale telecommunications infrastructure. As of December 31, 2020, the District has invested a total of \$15,762,458 in wholesale telecommunications plant in service, which is a decrease of \$266,851 over year-end 2019. The District's telecommunications network is connected to the Northwest Open Access Network, a fiber optic system that is member owned. The network is currently utilized by eight retail service providers, supporting over 3,500 end-user customers.

The District is the current owner of the Enloe Hydroelectric Dam, a small nonoperating hydroelectric project on the Similkameen River near Oroville, Washington. On July 9, 2013, the Federal Energy Regulatory Commission (FERC) issued the District a new 50-year operating license. During 2018, the District selected a design/build partner and signed an agreement for Phase 1 of the project. Phase 1 of the project was completed during the fall of 2018 and a 30% design, construction schedule and not to exceed construction costs was developed. On November 1, 2018, the District was informed by its design/build partner that the guaranteed maximum price would be \$70.4 million (plus tax and District costs during construction), more than twice initial estimates. At the District's board meeting on November 19, 2018, the Board directed staff not to pursue electrification Enloe Dam and granted staff 120 days to assess all option for owning and managing Enloe Dam. As a result of this action the District recorded project costs to date in the amount of \$18,793,376 as an extraordinary item for the year ended December 31, 2018, and transferred the licensing and engineering costs off of its books. During 2019, the District focused on dam safety, including a dewatering and inspection plan. The primary 2020 Enloe Dam safety work included completing the geotechnical site investigation, to advance engineering design to 60%. In addition, the majority of the necessary environmental permits were obtained. In 2021, the District accepted a Phase 2 Amendment, to the Design-Build Contract, from the Max J. Kuney Company for the Enloe Dam Safety Repair and Maintenance project, with a Guaranteed Maximum Price of \$6,996,688, plus sales tax. The Phase 2 Amendment included 90% engineering designs and all project permits obtained. The construction work began in April and is anticipated to go through December 2021.

The District has completed repairs as a result of damages caused by two years of wildfires. During 2014, the Carlton Complex Fire consumed more than 250,000 acres located in Okanogan County. The District's loss of infrastructure due to the fire was significant, amounting to almost \$3 million in historical costs and over \$11.5 million in replacement costs. The 2015 Okanogan Complex Fires burned over 300,000 acres located in Okanogan County. The District's loss of infrastructure due to the 2015 fire was in excess of \$1.6 million in historical costs and over \$4.5 million in replacement costs. At the end of 2019, all repairs had been completed for both fires. The District received \$883,862 in reimbursements from the Federal Emergency Management Agency in 2019 for the Carlton Complex fires and another \$624,265 in 2020 for repairs related to the Okanogan Complex fires.

In 2020, the District experienced a third wildfire, the Cold Springs Fire. This fire started September 6, 2020, near Omak, Washington, and spread quickly due to strong winds and low relative humidity. Total acres burned in Okanogan County were approximately 190,000. Okanogan County Public Utility District damage included 27 miles of distribution line and 89 poles, 18 miles of transmission line and 175 poles, and 20,000 feet of fiber optic line. Federal disaster declaration for the Cold Springs Fire was issued February 4, 2021. The District's estimated eligible costs are about \$7.7 million with 75% federally reimbursable and 12.5% state reimbursable. The District has reflected a loss in the 2020 financial statements amounting to \$1,593,944 due to forced premature retirement of plant property units destroyed by the 2020 Cold Springs Fire.

Public Utility District No. 1 of Okanogan County, Washington Management's Discussion and Analysis (continued)

Significant Capital Assets and Long-Term Debt (continued)

During 2020, the District updated its equity management plan and performed a cost of service study. As part of the process four projects were identified which the District plans to fund with the 2020 debt issuance. The debt issuance of approximately \$40,000,000 will fund the Enloe Dam safety project, rebuild the Tonasket Substation rebuild a 26-mile transmission line between Brewster and Okanogan, and fund the purchase of substation power transformers. The District also used bond proceeds to retire the 2010 RUS Note and repay the 2018 line of credit which had been drawn to purchase the Chicken Creek Substation. The equity management plan further identifies a 10-year capital plan and a strategy including a combination of reserves, rate adjustments, and additional borrowing to fund the projects.

Additional information is contained in the notes to the financial statements. Please refer to Note 3, Utility Plant, and Note 4, Long-Term Debt.

Contacting the District's Financial Management

This financial report is designed to provide the District's ratepayers, investors, and other readers with a general overview of the District's finances and to show the District's accountability for money it receives. If you have questions about this report or need additional information, contact the District's Director of Finance at Public Utility District No. 1 of Okanogan County, P.O. Box 912, Okanogan, WA 98840, or phone (509) 422-3310.

Janet Crossland
Director of Finance/Auditor

Public Utility District No. 1 of Okanogan County, Washington

Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	2020	2019
CURRENT ASSETS		
Cash and temporary investments		
Cash and cash equivalents	\$ 12,179,724	\$ 8,410,880
Temporary investments	1,255,035	788,304
Accounts receivable, less allowance for doubtful accounts of \$25,000 for 2020 and 2019	4,205,703	4,223,692
Unbilled revenue	2,971,025	2,826,136
Materials and supplies	3,369,089	3,005,548
Prepayments and other	438,705	453,493
Total current assets	24,419,281	19,708,053
RESTRICTED ASSETS		
Cash and investments		
Bond reserve and debt service	2,363,356	2,227,628
Board-designated reserve and other	8,702,513	8,835,000
Bond construction funds	32,325,946	-
Total restricted assets	43,391,815	11,062,628
UTILITY PLANT, at cost		
Plant in service	205,357,072	199,158,276
Construction work in progress	5,998,737	4,282,872
	211,355,809	203,441,148
Less accumulated depreciation and amortization	96,418,673	90,877,875
Net utility plant	114,937,136	112,563,273
OTHER ASSETS		
Conservation loans and notes receivable	101,626	156,116
Total assets	182,849,858	143,490,070
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	1,081,739	861,945
Loss on refunding of debt	95,696	170,642
Total deferred outflows of resources	1,177,435	1,032,587
Total assets and deferred outflows of resources	\$ 184,027,293	\$ 144,522,657

Public Utility District No. 1 of Okanogan County, Washington
Statements of Net Position

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31,	
	2020	2019
CURRENT LIABILITIES		
Accounts payable	\$ 4,075,433	\$ 3,793,910
Accrued compensated absences	2,165,734	1,903,007
Accrued taxes	1,275,731	1,256,823
Customer deposits	623,005	701,184
Customer prepayments	614,352	647,285
Accrued bond interest	228,872	113,772
Current portion of long-term debt	2,279,801	2,193,303
	<u>11,262,928</u>	<u>10,609,284</u>
LONG-TERM DEBT		
Revenue bonds	56,735,327	23,615,128
Other long-term debt	-	2,511,227
Bond issue premium	4,873,714	298,943
Bond issue discount	(25,229)	(15,472)
	<u>61,583,812</u>	<u>26,409,826</u>
LONG-TERM LIABILITIES		
Net pension liability	2,903,355	2,964,405
	<u>75,750,095</u>	<u>39,983,515</u>
DEFERRED INFLOWS OF RESOURCES		
Pension deferred inflows	1,059,008	1,933,465
NET POSITION		
Net investment in capital assets	51,169,220	84,130,786
Restricted	40,374,205	8,344,665
Unrestricted	15,674,765	10,130,226
	<u>107,218,190</u>	<u>102,605,677</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 184,027,293</u></u>	<u><u>\$ 144,522,657</u></u>

Public Utility District No. 1 of Okanogan County, Washington
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2020	2019
OPERATING REVENUES		
Electric - retail	\$ 46,271,092	\$ 45,810,067
Electric - wholesale	3,542,929	3,880,384
Telecommunications	3,182,638	2,831,472
Other operating revenues	1,748,733	1,773,699
Total operating revenues	54,745,392	54,295,622
OPERATING EXPENSES		
Cost of power	25,358,054	28,755,100
Transmission	82,037	160,935
Distribution	7,928,387	7,463,671
Telecommunications	1,373,914	1,098,606
Customer accounts	1,513,978	1,513,945
Customer service and information	393,315	522,675
Administration and general	3,412,951	3,667,110
Depreciation and amortization	6,035,441	6,678,205
Taxes	2,906,689	2,871,178
Total operating expenses	49,004,766	52,731,425
Net operating revenues	5,740,626	1,564,197
NONOPERATING REVENUES (EXPENSES)		
Interest income	212,312	310,680
Grant revenue	624,265	883,862
Interest on long-term debt	(1,995,985)	(1,571,559)
Loss on disposition of property	(1,593,132)	7,824
Other revenue	410,066	408,978
Net nonoperating revenues (expenses)	(2,342,474)	39,785
CONTRIBUTED CAPITAL	1,214,361	891,735
CHANGE IN NET POSITION	4,612,513	2,495,717
ACCUMULATED NET POSITION		
Beginning of year	102,605,677	100,109,960
End of year	\$ 107,218,190	\$ 102,605,677

Public Utility District No. 1 of Okanogan County, Washington

Statements of Cash Flows

	Years Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 54,594,803	\$ 53,453,630
Payments to suppliers and employees	(43,943,154)	(47,054,083)
Net change in cash from operating activities	10,651,649	6,399,547
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net	(10,002,435)	(8,850,441)
Proceeds from line of credit	2,300,000	-
Proceeds from issuance of bonds	39,829,080	-
Cash contributions in aid of construction	1,214,361	891,735
Proceeds from grants	624,265	883,862
Payment on line of credit	(2,300,000)	-
Scheduled payments on debt	(4,704,530)	(2,124,248)
Interest paid on debt, net of refunded interest on Build America Bonds	(1,259,940)	(1,101,973)
Net change in cash from capital and related financing activities	25,700,801	(10,301,065)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(47,535,419)	(10,515,707)
Sales and maturities of investments	14,739,501	10,811,249
Interest on investments	212,312	310,680
Net change in cash from investing activities	(32,583,606)	606,222
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,768,844	(3,295,296)
CASH AND CASH EQUIVALENTS		
Beginning of year	8,410,880	11,706,176
End of year	<u>\$ 12,179,724</u>	<u>\$ 8,410,880</u>
RECONCILIATION OF NET OPERATING REVENUES		
TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating revenues	\$ 5,740,626	\$ 1,564,197
Adjustments to reconcile net operating revenues to net cash from operating activities		
Depreciation and amortization	6,035,440	6,678,205
Pension outflows / inflows	(1,155,301)	(892,283)
Cash from changes in operating assets and liabilities		
Receivables	17,990	(952,694)
Unbilled revenue	(144,889)	(5,189)
Materials and supplies	(363,541)	(126,840)
Prepayments and other	(18,730)	(30,519)
Other assets	54,490	80,307
Accounts payable	282,109	(55,690)
Accrued compensation, benefits, customer deposits, prepayments, and taxes	203,455	140,053
NET CHANGE IN CASH FROM OPERATING ACTIVITIES	<u>\$ 10,651,649</u>	<u>\$ 6,399,547</u>
SUPPLEMENTAL DISCLOSURES		
Gain (loss) on disposition of property	<u>\$ (1,593,132)</u>	<u>\$ 7,824</u>
Cash paid for interest on borrowings	<u>\$ (1,670,006)</u>	<u>\$ (1,510,950)</u>
Cash received as refund on interest on Build America Bonds	<u>\$ 410,066</u>	<u>\$ 408,978</u>

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

Organization – Public Utility District No. 1 of Okanogan County (the District) is a municipal corporation governed by an elected three-member board of commissioners. The District owns, operates, and maintains an electric distribution system incorporating both electrical and telecommunications facilities and equipment. Financial information for both divisions is presented as a single proprietary fund.

Reporting entity – For financial reporting purposes, the District includes activities over which it exercises oversight responsibility. As required by generally accepted accounting principles (GAAP), management has considered all potential component units in defining the reporting entity. The District has no component units.

Basis of accounting and presentation – The accounting policies of the District conform to GAAP as applicable to proprietary funds of governmental units. The District adheres to the accounting standards and pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for governmental entities and uses the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.

New accounting standards – In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An amendment of GASB Statements No. 14 and No. 84 and a Supersession of GASB Statement No. 32*, which provides guidance regarding component unit criteria and the reporting of certain defined contribution pension plans. This statement was early implemented effective December 31, 2020, with no impact on the financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, which establishes revised standards on lease accounting and financial reporting. The statement is effective for financial statements for fiscal years beginning after June 15, 2021. The District is evaluating the impact of this statement on its financial statements.

Cash and cash equivalents – The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments and restricted assets – The District records investments at fair value in accordance with GASB 72. The District's investment portfolio consists both of fully insured, interest-bearing institutional deposits with terms of one year or less and federal loan and mortgage securities where fair value can deviate from face/par value. For information on fair market value at year-end 2020, see Note 2.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

In accordance with board resolutions and bond covenants, a number of separate funds have been established, and cash and investments held in these funds are restricted for special uses as follows:

	2020	2019
Rate stabilization fund	\$ 5,377,545	\$ 6,000,000
Employee compensated absences fund	2,000,000	2,000,000
Customer deposit fund	700,000	700,000
Sinking funds - 2010 bonds	216,009	216,075
Vehicle replacement fund	624,968	135,000
Sinking funds - 2016 bonds	66,941	67,053
Sinking funds - 2020 bonds	135,906	-
Bond reserve fund	1,944,500	1,944,500
Construction fund	32,325,946	-
	<u>\$ 43,391,815</u>	<u>\$ 11,062,628</u>

Accounts receivable and allowance for doubtful accounts – The District renders billings for electrical consumption, sales, and services and for wholesale power and telecommunications sales and services on a monthly basis. Management reviews accounts receivable for collectability on a regular basis, and an allowance for uncollectible accounts is established based on evaluation of specific accounts and historical experience. If the account is determined to be uncollectible, it is turned over to the local credit bureau for collection.

Materials and supplies – Materials and supplies provide for additions, maintenance, and repairs to the utility plant and are valued at weighted-average cost.

Utility plant and depreciation – See Note 3 for asset capitalization, depreciation, and retirement policies.

Unamortized loss on refunding of debt – The difference between the cost to refund outstanding debt and the carrying value of bonds decreased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds, using the straight-line method and recorded as deferred outflow of resources.

Compensated absences – The District accrues unpaid personal leave benefit amounts as earned. Accrued personal leave is payable in full upon resignation, termination, retirement, or death.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Net position – Net position consists of the following:

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

Restricted – This component consists of net position on which constraints are placed as to its use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or through enabling legislation. Balances currently classified as restricted by enabling legislation include the rate stabilization fund, employee compensated absences fund, customer deposit fund, bond principal and interest (net of accrued interest) due in the upcoming year, and the debt service reserve fund.

Unrestricted – Unrestricted net position components are those that do not meet the definition of “restricted” or “net investment in capital assets.”

Revenue recognition – The District recognizes revenue as earned on a monthly basis based on rates established by the District’s board of commissioners. Because the customer meters are read and billed at various times during each month, the District estimates unbilled revenues for energy delivered to customers between their last respective cycle billing date and December 31, and it records that amount as unbilled revenue for the current year.

Revenues and expenses – The District distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses are derived directly from the provision of wholesale and retail electrical generation, transmission, and distribution sales and service and from providing wholesale telecommunications sales and service. Revenues and expenses ancillary to these purposes are treated as nonoperating.

Contributed capital – Contributions in aid of construction are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer. These payments are recognized in nonoperating revenue as contributed capital when the associated facilities are constructed or acquired.

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

Reclassifications – Certain reclassifications have been made to the balances represented in prior-year financial statements to conform to the current-year presentation.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

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 of the plan are reported at fair value by the plan.

Significant risk and uncertainties – The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include weather and natural-disaster-related disruptions; collective bargaining labor disputes; fish and other Endangered Species Act issues; Environmental Protection Agency regulations; federal government regulations or orders; deregulation of the electrical industry; concentration risk in the form of Wells Hydroelectric Project (Note 10); and, market risks inherent in buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

Note 2 – Deposits and Investments

The District held the following cash and investments at December 31:

	2020	2019
Cash and temporary investments		
Cash deposits	\$ 12,179,724	\$ 8,410,880
Money market accounts	500,000	500,000
Local government investment pool	755,035	288,304
	<u>13,434,759</u>	<u>9,199,184</u>
Total cash and temporary investments	<u>\$ 13,434,759</u>	<u>\$ 9,199,184</u>
Restricted cash and investments		
Restricted cash & cash equivalents		
Money market accounts	\$ 4,317,513	\$ 4,450,000
Local government investment pool	34,689,302	2,227,628
Bank certificates of deposit	3,885,000	2,785,000
	<u>42,891,815</u>	<u>9,462,628</u>
Total restricted cash	<u>42,891,815</u>	<u>9,462,628</u>
Restricted investments		
U.S. Treasuries	500,000	1,600,000
	<u>500,000</u>	<u>1,600,000</u>
Total restricted investments	<u>500,000</u>	<u>1,600,000</u>
Total restricted cash and investments	<u>\$ 43,391,815</u>	<u>\$ 11,062,628</u>

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 2 – Deposits and Investments (continued)

Custodial credit risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments. All District deposits and investments are either insured, registered, or held by the District or its agents in the District's name and are intended to be held to maturity.

Credit risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. As required by state law, all investments of District funds are obligations of the U.S. government, bankers' acceptances, deposits in the Washington State Treasurer's Local Government Investment Pool, or deposits with Washington State banks and savings and loan institutions. All deposits are either entirely covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District manages this risk by laddering investments and maintaining a variety of investments.

Investments – The District holds investments that are measured at fair value. The District categorized its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments in an external government investment pool, such as the Local Government Investment Pool (LGIP), are not subject to reporting within the level hierarchy.

The following tables show the District's investments measured at fair value as of December 31, 2020 and 2019:

	Total as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
U.S. agency securities				
Federal Home Loan Bank	\$ 400,000	\$ -	\$ 400,000	\$ -
Federal Farm Credit Bank	100,000	-	100,000	-
Total	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ -</u>

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 2 – Deposits and Investments (continued)

	Total as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
U.S. agency securities				
Federal Home Loan Bank	\$ 600,000	\$ -	\$ 600,000	\$ -
Federal Home Loan Mortgage Corporation	400,000	-	400,000	-
Resolution Funding Corporation	100,000	-	100,000	-
Federal National Mortgage Corporation	500,000	-	500,000	-
Total	<u>\$ 1,600,000</u>	<u>\$ -</u>	<u>\$ 1,600,000</u>	<u>\$ -</u>

Note 3 – Utility Plant

Utility plant in service and other capital assets are recorded at cost when the historical cost is known. When historical cost is not known, assets are recorded at estimated fair value. Costs include labor, materials, overhead, and related indirect costs. The District capitalizes assets with cost in excess of \$5,000. Depreciation expense is computed using the straight-line method employing useful lives of 4 to 50 years. Repairs are charged to operating expenses.

The original cost of operating property retired or otherwise disposed of and the cost of removal, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and net gain or loss on disposition is credited or charged to income.

Preliminary costs incurred for proposed projects are deferred pending construction of the asset and included in construction work in process. Costs relating to projects ultimately constructed are transferred to utility plant, whereas charges that relate to abandoned projects are expensed.

In July 2020, the District purchased a new substation near Chicken Creek in South Okanogan County to accommodate additional services and to provide better reliability. Total capitalized costs for the Chicken Creek substation were \$2,499,788 in 2020.

During 2020, the District experienced significant infrastructure damage due to wildfire. The District has completed the replacement of the damaged electrical distribution and fiber optic systems. The most significant damage was to the District's Okanogan to Brewster transmission line, which was already scheduled to be replaced in 2023. The scheduled project will now be accelerated with completion expected by the end of 2021. The District expects partial reimbursement from the State of Washington and the Federal Emergency Management Agency (FEMA).

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 3 – Utility Plant (continued)

In April 2020, the District received the final reimbursement payment in the amount of \$624,265 for the repairs of the 2015 Okanogan Complex Fire. Relative to the 2015 fire damages, there were \$883,862 in recoveries in the previous year 2019.

Capital asset activity for the years ended December 31, 2020 and 2019, was as follows:

	Balance January 1, 2020	Additions	Retirements and Transfers	Balance December 31, 2020
Intangible plant	\$ 92,297	\$ -	\$ -	\$ 92,297
Generation plant	588,394	-	-	588,394
Transmission plant	25,047,406	19,761	(25,682)	25,041,485
Distribution plant	123,416,939	6,742,295	(723,358)	129,435,876
General plant	33,351,387	630,860	(178,229)	33,804,018
Telecommunications plant	16,029,309	893,395	(1,160,246)	15,762,458
Acquisition adjustment	632,544	-	-	632,544
	199,158,276	8,286,311	(2,087,515)	205,357,072
Construction work in progress	4,282,872	10,111,809	(8,395,944)	5,998,737
Total utility plant	203,441,148	18,398,120	(10,483,459)	211,355,809
Accumulated depreciation	(90,877,875)	(6,412,985)	872,187	(96,418,673)
Net utility plant	<u>\$ 112,563,273</u>	<u>\$ 11,985,135</u>	<u>\$ (9,611,272)</u>	<u>\$ 114,937,136</u>
	Balance January 1, 2019	Additions	Retirements and Transfers	Balance December 31, 2019
Intangible plant	\$ 92,297	\$ -	\$ -	\$ 92,297
Generation plant	588,394	-	-	588,394
Transmission plant	25,076,867	729,269	(758,730)	25,047,406
Distribution plant	117,257,651	7,100,483	(941,195)	123,416,939
General plant	34,342,654	1,035,850	(2,027,117)	33,351,387
Telecommunications plant	15,538,121	582,590	(91,402)	16,029,309
Acquisition adjustment	632,544	-	-	632,544
	193,528,528	9,448,192	(3,818,444)	199,158,276
Construction work in progress	2,862,352	9,163,024	(7,742,504)	4,282,872
Total utility plant	196,390,880	18,611,216	(11,560,948)	203,441,148
Accumulated depreciation	(86,007,666)	(6,976,591)	2,106,382	(90,877,875)
Net utility plant	<u>\$ 110,383,214</u>	<u>\$ 11,634,625</u>	<u>\$ (9,454,566)</u>	<u>\$ 112,563,273</u>

Plant-in-service balances presented above include non-depreciable land of \$1,274,090 and \$1,243,224 as of December 31, 2020 and 2019, respectively.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 4 – Long-Term Debt

During 2010, the District issued \$9,105,000 in 10-year Series A bonds with interest rates ranging from 2.00% to 4.50%, and \$23,355,000 in 30-year Series B taxable Build America Bonds with interest rates ranging between 1.095% and 6.046%. The Build America Bond interest is payable when due, but is subject to federal subsidy rebates of 35%. Subsequent to the time of bond issuance, the Build America Bond interest rebates have become subject to federal financial sequestration policies that have eroded their benefit by an initial high of 8.7% to the current low of 5.9%. From this issuance, \$5,285,000 was used to defease the 2002 bonds, which were fully repaid in 2011. The remaining \$27,175,000 of the new debt was earmarked for capital projects including, but not limited to, the new District headquarters facility constructed in 2010 and the Pateros-Twisp transmission line is complete. This debt is subject to certain covenants.

In 2010, the District authorized a not-to-exceed \$3,667,855 loan with the United States Department of Agriculture (USDA) for broadband improvements related to the American Recovery and Reinvestment Act (ARRA) award granted in 2010. During 2011, the District began drawing funds on the loan and as of December 31, 2015, a total of \$3,602,640 in loan funds related to this award had been received. No further draws have been made since. The loan was paid off with proceeds from the 2020 Series B refunding bonds and no balance was outstanding as of December 31, 2020.

Late in 2016, the District made the decision to exercise the option of redeeming its outstanding 2003 Series A Parity Bonds through the issuance of a direct-placement junior-lien refunding bond. The 2016 Junior Lien Refunding Revenue Bond was placed with Key Government Finance, Inc. at an interest rate of 1.82% and will be repaid over the exact same term as the 2003 Series A Bonds that it replaced. Final installments of principal and interest are scheduled be made in 2022. Although this is a direct-placement bond, it contains no disparate termination, call, or acceleration provisions that would differentiate it from the District's other outstanding revenue bonds excepting its junior lien status. The bond carries a debt covenant requiring the District to maintain net revenues in each fiscal year that are at least equal to 1.25 times the annual debt service on all outstanding net revenue bonds.

During 2020, the District issued \$32,815,000 in tax exempt Series A Bonds with a 4% coupon rate and \$2,585,000 in Series B (Taxable) Refunding Bonds with interest rates ranging from .875% to 2.6%. A portion of the Series A Bonds was used to repay a \$2,300,000 outstanding Line of Credit amount that was used to purchase the Chicken Creek Substation and the 2020 Series B Bond proceeds were used to repay the USDA RUS Note, outstanding in the amount of \$2,538,162. Capital projects to be funded by the 2020 Series A Bond issuance include the penstock construction at Enloe Dam, Tonasket Substation rebuilds, the rebuild a 26-mile transmission line between Brewster, Washington, and Okanogan, Washington, substation power transformer replacements and other capital renewals, replacements and extensions. The bond carries a debt covenant requiring the District to maintain net revenues in each fiscal year that are at least equal to 1.25 times the annual debt service on all outstanding net revenue bonds.

Total long-term debt principal outstanding at December 31, 2020, is \$59,015,128, for which substantially all revenues of the District are pledged as security.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 4 – Long-Term Debt (continued)

The following are changes in long-term debt for the years ended December 31, 2020 and 2019:

	Balance January 1, 2020	Additions	Payments/ Amortization	Balance December 31, 2020	Current Portion
2010 revenue bonds	\$ 23,320,000	\$ -	\$ (1,270,000)	\$ 22,050,000	\$ 1,320,000
2016 refunding bond - direct placement	2,327,405	-	(762,277)	1,565,128	774,801
2011 ARRA loan	2,672,253	-	(2,672,253)	-	-
2020 Revenue Bonds	-	35,400,000	-	35,400,000	185,000
Unamortized bond premium	298,943	4,614,700	(39,929)	4,873,714	-
Unamortized bond discount	(15,472)	(15,108)	5,351	(25,229)	-
Total long-term debt	<u>\$ 28,603,129</u>	<u>\$ 39,999,592</u>	<u>\$ (4,739,108)</u>	<u>\$ 63,863,613</u>	<u>\$ 2,279,801</u>
	Balance January 1, 2019	Additions	Payments/ Amortization	Balance December 31, 2019	Current Portion
2010 revenue bonds	\$ 24,540,000	\$ -	\$ (1,220,000)	\$ 23,320,000	\$ 1,270,000
2016 refunding bond - direct placement	3,075,271	-	(747,866)	2,327,405	762,277
2011 ARRA loan	2,828,635	-	(156,382)	2,672,253	161,026
Unamortized bond premium	313,235	-	(14,292)	298,943	-
Unamortized bond discount	(20,629)	-	5,157	(15,472)	-
Total long-term debt	<u>\$ 30,736,512</u>	<u>\$ -</u>	<u>\$ (2,133,383)</u>	<u>\$ 28,603,129</u>	<u>\$ 2,193,303</u>

During 2017, the District replaced its \$10 million operating line of credit with a new \$20 million aggregate principal line with a maturity date of December 31, 2020. The line of credit is comprised of a \$10 million tax-exempt 2018A Note bearing an interest rate of 2.85% and a \$10 million taxable 2018B Note bearing an interest rate of 3.61%. In 2020, the District drew \$2.3 million to finance the purchase of the Chicken Creek Substation. A portion of the proceeds from the 2020 Series A Bond issuance was used to repay the draw. As of December 31, 2020, there was no outstanding balance and the line of credit is now closed.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 4 – Long-Term Debt (continued)

The annual debt service payment requirements (principal and interest) on debt outstanding as of December 31, 2020, are as follows:

	2020(A) Bonds		2020(B) Bonds		2016 Bond - Direct Placement		2010 Bonds		
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Total
2021	\$ 1,349,818	\$ -	\$ 50,870	\$ 185,000	\$ 28,485	\$ 774,801	\$ 1,249,661	\$ 1,320,000	\$ 4,958,635
2022	1,306,275	-	47,610	190,000	14,384	790,327	1,208,069	730,000	4,286,665
2023	1,306,275	630,000	45,710	190,000	-	-	1,170,313	765,000	4,107,298
2024	1,281,075	660,000	43,525	195,000	-	-	1,130,747	805,000	4,115,347
2025	1,254,675	685,000	40,990	195,000	-	-	1,089,113	845,000	4,109,778
2026-2030	5,762,875	3,930,000	149,488	1,030,000	-	-	4,690,916	4,800,000	20,363,279
2031-2035	4,775,675	4,915,000	29,510	600,000	-	-	3,174,810	5,780,000	19,274,995
2036-2040	3,710,875	5,980,000	-	-	-	-	1,303,216	7,005,000	17,999,091
2041-2045	3,364,713	16,015,000	-	-	-	-	-	-	19,379,713
	<u>\$ 24,112,256</u>	<u>\$ 32,815,000</u>	<u>\$ 407,703</u>	<u>\$ 2,585,000</u>	<u>\$ 42,869</u>	<u>\$ 1,565,128</u>	<u>\$ 15,016,845</u>	<u>\$ 22,050,000</u>	<u>\$ 98,594,801</u>

Note 5 – Retirement and Deferred Compensation Plans

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

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

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

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

The following table represents the aggregate pension amounts for all plans for the years ended December 31:

	Aggregate Pension Amounts - All Plans	
	2020	2019
Net pension liability	\$ 2,903,355	\$ 2,964,405
Deferred outflows of resources	1,081,739	861,945
Deferred inflows of resources	1,059,008	1,933,465
Pension expense	22,974	168,098

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1-member contribution rate is established by state statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

<u>PERS Plan 1</u> <u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
January through August 2020	12.86%	6.00%
September through December 2020	12.97%	6.00%

The District's actual contributions to the plan were \$0 for both years ended December 31, 2020 and 2019.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

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

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

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the consumer price index), capped at 3% annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service or after five years of service if 12 months of that service is earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers.

As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarial accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

<u>PERS Plan 2/3 Actual Contribution Rates</u>	<u>Employer 2/3</u>	<u>Employee 2</u>	<u>Employee 3</u>
January through August 2020	12.86%	7.90%	Varies
September through December 2020	12.97%	7.90%	Varies

The District's actual contributions to the plan were \$1,194,948 and \$1,075,451 for the years ended December 31, 2020 and 2019, respectively.

Actuarial Assumptions

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

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

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

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis, meaning that each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation. Those applicable to the District are listed below:

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

Discount Rate

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4% 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 the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	Percent 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 Net Pension Liability (Asset)

The table below presents the District's proportionate share of the Net Pension Liability (NPL) calculated using the discount rate of 7.4%, as well as what the District's proportionate share of the NPL 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	\$ 2,474,532	\$ 1,975,584	\$ 1,540,451
PERS 2/3	5,772,839	927,771	(3,062,145)

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

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

At December 31, 2020 and 2019, the District reported a net pension liability of \$2,903,355 and \$2,964,405, respectively, for its proportionate share of the net pension liabilities as follows:

	Liability	
	2020	2019
PERS 1	\$ 1,975,584	\$ 2,235,036
PERS 2/3	927,771	729,369

At December 31, 2020, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.058123%	0.055957%	-0.002166%
PERS 2/3	0.075089%	0.072542%	-0.002547%

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

Pension Expense

For the years ended December 31, 2020 and 2019, the District recognized pension expense as follows:

	Pension Expense	
	2020	2019
PERS 1	\$ 7,771	\$ 91,260
PERS 2/3	15,203	76,838

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>PERS 1</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(10,999)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	274,284	-
	<u>\$ 274,284</u>	<u>\$ (10,999)</u>
<u>PERS 2/3</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 332,129	\$ (116,272)
Net difference between projected and actual investment earnings on pension plan investments	-	(47,117)
Changes of assumptions	13,214	(633,748)
Changes in proportion and differences between contributions and proportionate share of contributions	12,010	(250,872)
Contributions subsequent to the measurement date	450,102	-
	<u>\$ 807,455</u>	<u>\$ (1,048,009)</u>

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

Combined PERS 1 and PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 332,129	\$ (116,272)
Net difference between projected and actual investment earnings on pension plan investments	-	(58,116)
Changes of assumptions	13,214	(633,748)
Changes in proportion and differences between contributions and proportionate share of contributions	12,010	(250,872)
Contributions subsequent to the measurement date	724,386	-
	<u>\$ 1,081,739</u>	<u>\$ (1,059,008)</u>

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, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PERS 1	PERS 2/3	Combined
2021	\$ (49,915)	\$ (449,669)	\$ (499,584)
2022	(1,570)	(156,721)	(158,291)
2023	15,231	(48,210)	(32,979)
2024	25,255	57,791	83,046
2025	-	(41,056)	(41,056)
Thereafter	-	(52,791)	(52,791)
	<u>\$ (10,999)</u>	<u>\$ (690,656)</u>	<u>\$ (701,655)</u>

Deferred compensation plans – The District offers its employees two deferred compensation plan options created in accordance with Internal Revenue Code Section 457, covering all eligible employees of the District, as defined in the plan documents. These plans allow employees to defer a portion of their salary until future years. Plan assets are held in trust for the exclusive benefit of the plan participants and their designated beneficiaries and are not subject to the claims of the District's general creditors. Deferred compensation funds are not available to employees until retirement, termination, death, or unforeseeable emergency.

Additionally, the District adopted a 401(a) defined contribution plan (the 401(a) Plan) effective January 1, 2000. Participation in the 401(a) Plan is open to eligible employees of the District as defined in the plan document. The District makes matching contributions to the 401(a) Plan at a rate of 50% of the employee's contribution to their 457 deferred compensation plan. The match is capped at 4% of gross wages for nonexempt employees and 6% of gross wages for exempt employees. During 2020 and 2019, the District contributed \$255,721OK and \$189,619, respectively, to the 401(a) Plan.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

VEBA plan – In August 2005, the District implemented a voluntary employees' beneficiary association (VEBA) plan designed to provide limited employer funding on a tax-free basis for employee medical premiums and benefits for all eligible employees of the District, as defined in the plan document. The District's current VEBA contribution rate is \$150 per month per employee for all employees having met the annual qualification requirements. And an additional monthly contribution of \$50 per month, which is not subject to the wellness program requirements. Plan assets, although under District control, are held in trust for the exclusive benefit of the plan participants and their designated beneficiaries and are not subject to the claims of the District's general creditors. During 2020 and 2019, the District contributed \$209,700 and \$172,500, respectively, to the VEBA plan.

Note 6 – Self Insurance

The District is a member of Public Utility Risk Management Services Joint Self Insurance Fund (the Fund). Chapter 48.62 RCW authorizes the governing body of one or more governmental entities to form together into or join an organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. The Fund was formed on December 31, 1976, when certain Washington Public Utility Districts signed an agreement to pool their self-insured losses and jointly purchase insurance and administrative services. There are currently 19 active members in the Fund.

The Fund operates three separate insurance pools: the Liability Pool, the Property Pool, and the Health and Welfare Pool. Fund members may belong to one, two, or all three pools according to their insurance needs. The Liability Pool insures on a \$1,000,000 self-insured retention with a \$250 deductible. Coverage is on an occurrence basis. In addition, the Liability Pool purchases excess general liability and excess public official liability coverage. The Property Pool operates on a maximum \$500,000 self-insured retention, with a \$75,000 deductible on listed major generating units and a \$250 deductible on all other listed items of property. Coverage is on an occurrence basis and the Property Pool purchases excess property coverage above the self-insured retention level. The Health and Welfare Pool is funded by paid claims reimbursement from the member generating the claim and by pooled assessment for administration and excess stop-loss insurance coverage. In all pools, members are assessed as necessary to maintain designated minimum pool balances. Because the Fund is a cooperative program, there is joint liability among the participants of each pool. The District participates in only the Liability and Property Pools. In 2020 and 2019, the District contributed \$148,499 and \$70,297, respectively, to the Liability Pool and \$25,699 and \$55,004, respectively, to the Property Pool. Should any member terminate its affiliation with the Fund, it remains financially responsible to the Fund for any unresolved, unreported, and in-process claims for the period that it was a signatory to the agreement.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 6 – Self Insurance (continued)

Self-insured retentions are fully funded by current and former members, and claims settlements have rarely exceeded retention levels resulting in escalation to excess coverage policies. Claims are processed by Pacific Underwriters Corporation, P.O. Box 68787, Seattle, WA 98168, a private entity contracted to perform administrative, claims adjustment, and loss prevention services, and which also compiles an annual financial report for the Fund. The Fund is governed by a board of directors that consists of one designated representative from each participating member. The Fund administrator and an elected six-member administrative committee (on which a District representative currently serves) are responsible for business decision-making and conducting the daily business affairs of the Fund.

Note 7 – Conservation Programs

The District has historically offered a variety of energy conservation programs. These have included both residential and commercial weatherization loan programs, energy-use efficiency programs, and residential and commercial energy audits. Loan programs provided five-year loans of up to \$10,000 to residential customers and up to \$25,000 to commercial enterprises for qualifying conservation measures. Due to the satisfactory achievement of the loan program's intended purposes and declining utilization, as of October 31, 2019, the District made the decision to terminate the issuance of new loans and let the outstanding ones run their normal repayment course. The District carried loan balances receivable of \$101,626 and \$156,116 at December 31, 2020 and 2019, respectively, and incurred net general conservation program costs of \$(56,580) and \$(84,649), respectively, in those fiscal years, which were charged to operations.

Note 8 – Telecommunications

The District has recognized the necessity of a modern and reliable communications infrastructure in managing its core electric distribution function and now operates and maintains a telecommunications network providing these services for internal use. Additionally, it provides wholesale telecommunications services, in accordance with Washington State law, to qualified retail merchants who, in turn, provide services to end users in the District's service territory.

The ongoing construction and the operations of the telecommunications network are being accomplished using the District's own workforce. The District has established separate detailed accounting for wholesale telecommunications activities and has developed a financing arrangement under which the continuing construction of telecommunications infrastructure and the operations of the telecommunications network are accomplished using funds loaned from the District's electric reserves.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 8 – Telecommunications (continued)

Condensed telecom revenue/expenditure, assets/liabilities, and net position information follows:

	2020	2019
Operating revenues	\$ 3,192,354	\$ 2,844,369
Operating expenses	(2,376,019)	(2,872,835)
Nonoperating revenues	45,115	56,046
Nonoperating expenses	(179,383)	(109,836)
	<u>682,067</u>	<u>(82,256)</u>
Change in net position	\$	\$
Total assets	\$ 8,125,522	\$ 7,801,797
Total liabilities	(2,587,913)	(2,946,256)
	<u>5,537,609</u>	<u>4,855,541</u>
Total net position	\$	\$

During 2010, the District applied for and awarded ARRA funding to further deploy broadband communication services in the underserved areas of Okanogan County. The award package consisted of \$5,501,782 in grant money and a \$3,667,855 loan. The project was designed to bring high-speed broadband to approximately 6,543 premises that previously lacked access, and called for placement of approximately 170 access nodes and 179 miles of fiber backbone. The project was completed in 2015 with the District having received a total of \$5,403,960 in grant funding and \$3,602,640 in loan funding against the accumulated project expenditures. In 2020, the District issued \$2,538,370 in Series B (Taxable) refunding bonds to repay the loan (see Note 4 for detail of debt service on this loan).

Note 9 – Energy Northwest

ENW Nuclear Project Nos. 1, 2, and 3 – The District has entered into “net billing agreements” with Energy Northwest (ENW, formerly Washington Public Power Supply System) and the Bonneville Power Administration (BPA). Under terms of these agreements, the District has purchased a maximum of .255% and 1.042% of the capability of ENW’s Nuclear Project Nos. 1 and 2, respectively, and .143% of the capability of ENW’s 70% ownership share of its Nuclear Project No. 3, and has assigned this capability to BPA. BPA is unconditionally obligated to pay the District, and the District is unconditionally obligated to pay ENW, the pro rata share of the total annual costs of each project, including debt service on revenue bonds issued to finance the projects, whether or not the projects are completed, operable, or operating and notwithstanding the suspension, reduction, or curtailment of the projects’ output.

Nuclear Project Nos. 1 and 3 were approximately 63% and 75% complete, respectively, and had both been in a state of extended construction delay for many years, with all systems being maintained in condition to resume construction at any time. However, on May 13, 1994, the ENW full board of directors voted to declare termination of both projects. At this juncture, there has been no resolution concerning the final dispensation of the assets and liabilities associated therewith.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 9 – Energy Northwest (continued)

Nuclear Project No. 2 was completed and placed in operation on December 13, 1984.

The District's net billing obligations in 2020 (2021 ENW Budget Year) and 2019 (2020 ENW Budget Year) were as follows:

ENW Fiscal 2021 Budget Year	No. 1	No. 2	No. 3	Total
Annual budget	\$ 22,335,000	\$ 458,270,000	\$ 26,420,000	\$ 507,025,000
District's share	0.00255	0.01042	0.00143	
District's net billing obligation	56,954	4,775,173	37,781	4,869,908

ENW Fiscal 2020 Budget Year	No. 1	No. 2	No. 3	Total
Annual budget	\$ 41,676,000	\$ 668,852,000	\$ 46,288,000	\$ 756,816,000
District's share	0.00255	0.01042	0.00143	
District's net billing obligation	106,274	6,969,438	66,192	7,141,903

Hanford Project – In accordance with agreements between ENW, BPA, and 76 participants and between ENW and the U.S. Department of Energy (DOE), ENW constructed the Hanford Project, which began commercial operation in 1966 with a capacity of approximately 860 MW.

Pursuant to an exchange agreement entered into between the District, ENW, and BPA, the District had purchased 0.424% of the output of the Hanford Project and is obligated to pay ENW the same percentage of the annual costs.

Under an exchange agreement with the other participants in the Hanford Project, BPA had acquired the capability of the Hanford Project, including the District's share, in exchange for power from BPA. A decision was made in February 1988 by the DOE to maintain the project in a "cold standby" mode of operation.

ENW has evaluated alternative energy uses for the plant to no avail. Current options include a transfer to DOE for removal and site restoration, or removal and site restoration by ENW. At this time, it is unknown what the eventual disposition of the Hanford Project will be. ENW has reduced the project's assets to net realizable value and accrued the estimated cost of removal and site restoration.

Nine Canyon Wind Project – On October 1, 2001, the District entered into a power purchase agreement with ENW for output from the Nine Canyon Wind Project. The original project consisted of 37 wind turbines, with an aggregate generating capacity of approximately 48 MW, and was launched into commercial operation in fall 2002. During 2003, a second phase of the project was completed, adding an additional 12 turbines and bringing the project capacity up to about 63.7 MW. During 2006, a third phase of the project was completed, adding an additional 14 turbines and bringing the current total project capacity up to about 96 MW.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 9 – Energy Northwest (continued)

The District is currently one of 10 public utility Districts participating in the power purchase agreements for project output. The District purchased a 25% share of the generation output from Phases 1 and 2 and no output at all from Phase 3, bringing its combined share of total project output to 16.61%. The District is committed to paying its pro rata share of debt service on the Nine Canyon Wind Project Revenue Bonds issued by ENW for Phases 1 and 2. A bond refunding/reissuance process commenced in 2004 and completed in 2005, thereby establishing the District's estimated liability for project bond principal at \$23,312,500. That amount could escalate to as much as \$29,140,625 after a step-up provision that could trigger in the event that other purchasers defaulted on their contractual obligations. The District pays its share of the ongoing project operational costs through monthly power purchase agreement assessment invoices, which were consistently \$220,021 throughout both 2020 and 2019.

Financial and operating information regarding Energy Northwest may be obtained from Energy Northwest at PO Box 968, Richland, WA, 99352.

Note 10 – Other Power Supply Agreements

Wells Hydroelectric Project – Since the initial construction of the Wells Hydroelectric Project, the District has been a party to a power sales contract governing the apportionment of the project output. The District's current share of the total output from Wells Hydroelectric Project is 8.88%, which represents 44.25% and 36.62% of the District's total power purchases in 2020 and 2019, respectively. During the 1980s, both the District and Public Utility District No. 1 of Douglas County (Douglas PUD) contested several provisions of the 1963 agreement and sought resolution of the disputed issues in Chelan County Superior Court. Disputes between the parties were resolved with a Memorandum of Understanding signed on August 5, 1991, requiring the two Districts to negotiate a new power sale contract commencing in September 2018 and extending for an additional 50 years. Negotiations on this contract concluded with the placement of the final signatures on May 15, 2017. The terms of the contract will allow the District's portion of the project output to grow relative to its increasing loads until peaking at a 30% share. The District's annual contractual purchases are to be priced at its respective output percentage multiplied by the actual annual Wells Project cost of production and operation. The District expended \$4,511,153 and \$3,831,803 on Wells power purchases in 2020 and 2019, respectively.

Enloe Hydroelectric Project – For several decades the District has been pursuing the possible rehabilitation of Enloe Hydroelectric Dam on the Similkameen River near Oroville, Washington. The District is the present owner of the dam, and relicensing attempts prior to 2005 were intended to revive an existing facility with its original output of 26,000 MWh annually and installed capacity of 4,100 KW.

On March 3, 1983, and again on September 13, 1996, the District obtained FERC licenses for renovation and resumed operation of the Enloe project. In both cases, the licenses were later rescinded due to appeals of the licensing provisions, open-ended opportunities for federal agencies to modify the terms, the potential of requiring fish passage after the fact, and the listing of new endangered species.

On January 21, 2005, the District again submitted a new application to FERC for a preliminary permit on the project using the FERC Traditional Licensing Process (TLP). The proposed configuration would approximately double the project output to 47,300 MWh of energy per year and 9,000 KW of capacity.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 10 – Other Power Supply Agreements (continued)

After spending the better part of a decade on environmental assessments, resource studies, permitting issues, and litigation the District received a new 50-year operating license on July 9, 2013, and began preparing for final design, financing, bidding, and construction of the project. While continuing its compliance with all license terms, in early 2015 it was determined that the District was encountering significant time constraints so, on March 19, 2015, the District submitted a request for a two-year extension of the commencement-of-construction deadline. The extension was granted on July 31, 2015, and on May 9, 2016, the District Board of Commissioners formally declared by Resolution #1620 their intent to construct a new powerhouse and reenergize Enloe Dam. Utilizing the Design-Build contract methodology, a Phase 1 agreement was executed April 16, 2018, that was to complete 30% of the project design and deliver a firm not-to-exceed estimate of cost. Upon receipt of the Phase 1 Report, noting the complexity, controversy, risk, and considerable escalation in anticipated cost, the District Board of Commissioners made the decision on November 19, 2018, to forego further pursuit of reenergizing the facility and to focus strictly on site preservation and safety concerns while exploring alternative uses or dispossession of the asset. Enloe related activities pursued during 2019 included updating the Dam Safety Plan and the analysis of proposed options to dewater and closely inspect the face and toe of the dam. The currently preferred alternative to accomplish this goal is to refurbish/rebuild the original dam gates and penstocks to divert the entire river flow around the spillway. This option allows for recurrent future inspections as changing regulations may dictate. In 2021, the District accepted a Phase 2 Amendment, to the Design-Build Contract, from the Max J. Kuney Company for the Enloe Dam Safety Repair and Maintenance project, with a Guaranteed Maximum Price of \$6,996,688, plus sales tax. The Phase 2 Amendment included 90% engineering designs and all project permits obtained. The construction work began in April and is anticipated to go through December.

Note 11 – Northwest Open Access Network

The District is a member of Northwest Open Access Network (NoaNet), a nonprofit mutual corporation formed by the District in collaboration with several other public utilities in the state of Washington. NoaNet was incorporated in February 2000 to facilitate the construction of a communications backbone to accommodate the increasing broadband needs of the member utilities and their customers. The NoaNet network began commercial operation in early 2001.

As of December 31, 2016, NoaNet had a \$13 million line of credit with Wells Fargo Bank with an outstanding balance of \$9,350,638. In early 2017, they established a new banking relationship with Washington Trust Bank creating new accounts through which they retired all outstanding Wells Fargo debt. The balances owed on those accounts at December 31, 2019, were \$13,378,841 respectively. In April 2020, NoaNet issued \$24,775,000 of Revenue Bonds to retire the previous loans and lines of credit and to fund future capital expenditures. The principal outstanding balance of the bonds at December 31, 2020, is \$24,775,000.

The District's ownership interest in NoaNet was 8.04% as of December 31, 2020 and 2019. During 2020, NoaNet incurred a net loss from operations of \$1,445,205. This operating loss partially offset by interest revenue but increased by interest expense, reduced net position of \$50,107,066 in 2019 to \$47,766,661 in 2020. NoaNet financial results for 2020 are estimated; however, any variance will not have a material impact on the District's financial position.

Financial and operating information regarding NoaNet may be obtained from the NoaNet Financial Center, 5802 Overlook Ave NE, Tacoma, WA 98422.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 12 – Pending Litigation

Employee termination litigation – The District's Board of Commissioners terminated the District's General Manager for cause on October 23, 2017. A lawsuit alleging wrongful discharge and breach of contract has been initiated by the former General Manager in Okanogan County Superior Court. The District's insurance provider retained legal counsel to provide defense in the case and in 2021 both parties reached an agreement and the lawsuit has been settled.

Claims – The District is involved in various minimal claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material adverse impact on its financial position.

Note 13 – Subsequent Events

On February 16, 2021, the District redeemed 2010A Bonds with a maturity date of December 1, 2021, and an interest rate of 4.5% in the principal amount of \$630,000. Interest through February 15, 2021, amounted to \$5,906. This transaction resulted in interest cost savings of \$22,444. Additionally, the District was then able to reduce the debt service reserve by \$372,960.

Required Supplementary Information

Public Utility District No. 1 of Okanogan County, Washington
Schedule of Proportionate Share of the Net Pension Liability
As of June 30

	2020		2019		2018		2017	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Employer's proportion of the net pension liability	0.055957%	0.072542%	0.058123%	0.075089%	0.058358%	0.074584%	0.058231%	0.074901%
Employer's proportionate share of the net pension liability	\$ 1,975,584	\$ 927,771	\$ 2,235,036	\$ 729,369	\$ 2,606,288	\$ 1,273,455	\$ 2,763,106	\$ 2,602,452
Employer's covered payroll	\$ -	\$ 8,470,172	\$ -	\$ 8,163,393	\$ -	\$ 7,786,739	\$ -	\$ 7,343,270
Employer's proportionate share of the net pension liability as a percentage of covered payroll	0.00%	10.95%	0.00%	8.93%	0.00%	16.35%	0.00%	35.44%
Plan fiduciary net position as a percentage of the total pension liability	68.64%	97.22%	67.12%	97.77%	63.22%	95.77%	61.24%	90.97%
	2016		2015		2014			
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3		
Employer's proportion of the net pension liability	0.066079%	0.084448%	0.070364%	0.089705%	0.064331%	0.081669%		
Employer's proportionate share of the net pension liability	\$ 3,548,754	\$ 4,251,890	\$ 3,680,691	\$ 3,205,211	\$ 3,240,704	\$ 1,650,825		
Employer's covered payroll	\$ 5,720	\$ 7,944,672	\$ 44,842	\$ 7,961,648	\$ 44,854	\$ 7,052,508		
Employer's proportionate share of the net pension liability as a percentage of covered payroll	62041.15%	53.52%	8208.13%	40.26%	7225.01%	23.41%		
Plan fiduciary net position as a percentage of the total pension liability	57.03%	85.82%	59.10%	89.20%	61.19%	93.29%		

*As this is a newly adopted standard, information is only available for the last seven years.

Public Utility District No. 1 of Okanogan County, Washington

Schedule of Employer Contributions as of December 31

	2020		2019		2018		2017	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Statutorily or contractually required contributions	\$ -	\$ 1,194,948	\$ -	\$ 1,075,451	\$ -	\$ 1,023,302	\$ -	\$ 892,670
Contributions in relation to the statutorily or contractually required contributions	-	(1,194,948)	-	(1,075,451)	-	(1,023,302)	-	(892,670)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ -	\$ 9,262,672	\$ -	\$ 8,372,377	\$ -	\$ 8,030,219	\$ -	\$ 7,464,551
Contributions as a percentage of covered payroll	0.00%	12.90%	0.00%	12.85%	0.00%	12.74%	0.00%	11.96%

	2016		2015		2014	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Statutorily or contractually required contributions	\$ -	\$ 816,064	\$ 2,282	\$ 810,707	\$ 4,125	\$ 729,692
Contributions in relation to the statutorily or contractually required contributions	-	(816,064)	(2,282)	(810,707)	(4,125)	(729,692)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ -	\$ 7,299,320	\$ 24,388	\$ 7,873,743	\$ 44,789	\$ 7,922,822
Contributions as a percentage of covered payroll	0.00%	11.18%	9.36%	10.30%	9.21%	9.21%

*As this is a newly adopted standard, information is only available for the last seven years.

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

To the Commissioners
Public Utility District No. 1
of Okanogan County, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Okanogan County, Washington (the District), which comprise the statements of net position as of December 31, 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 28, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink, appearing to read "Moss Adams LLP", with a stylized flourish at the end.

Everett, Washington
May 28, 2021

Supplemental Information (unaudited)

Public Utility District No. 1 of Okanogan County, Washington

Comparative Results of Operations and Debt Service Coverage (unaudited)

	Years Ended December 31,				
	2020	2019	2018	2017	2016
OPERATING REVENUES					
Electric - retail	\$ 46,271,092	\$ 45,810,067	\$ 44,579,946	\$ 46,625,103	\$ 45,153,587
Electric - wholesale	3,542,929	3,880,384	3,983,254	2,145,929	2,451,474
Telecommunications	3,182,638	2,831,472	2,978,557	2,928,695	2,682,434
Other operating revenue	1,748,733	1,773,699	1,753,999	1,829,683	1,510,428
Total operating revenues	54,745,392	54,295,622	53,295,756	53,529,410	51,797,923
OPERATING EXPENSES					
Cost of power	25,358,054	28,755,100	25,801,958	24,903,435	25,163,647
Electric operations and maintenance	8,010,424	7,624,606	7,756,304	6,336,050	5,971,586
Telecommunications operations and maintenance	1,373,914	1,098,606	1,020,591	939,635	925,550
Customer accounting and information	1,907,293	2,036,620	2,222,937	2,419,000	2,083,293
Administration and general	3,412,951	3,667,110	3,334,670	3,947,482	3,725,502
Depreciation and amortization	6,035,441	6,678,205	6,245,405	5,982,909	5,906,256
Taxes	2,906,689	2,871,178	2,848,487	2,927,535	2,795,174
Total operating expenses	49,004,766	52,731,425	49,230,352	47,456,046	46,571,008
Net operating revenue (expense)	5,740,626	1,564,197	4,065,404	6,073,364	5,226,915
NONOPERATING REVENUES (EXPENSES)					
Interest income	212,312	310,680	223,663	89,019	61,005
Grant revenue	624,265	883,862	-	141,453	3,997,676
Contributed capital	1,214,361	891,735	1,097,953	1,264,550	767,312
Interest on long-term debt	(1,995,985)	(1,571,559)	(1,155,089)	(399,741)	(857,440)
Other revenue	410,066	408,978	407,454	406,831	405,495
Other expenses	(1,593,132)	7,824	(334,482)	(37,251)	(62,532)
Net nonoperating revenues (expenses)	(1,128,113)	931,520	239,499	1,464,861	4,311,516
CHANGE IN NET ASSETS	\$ 4,612,513	\$ 2,495,717	\$ 4,304,903	\$ 7,538,225	\$ 9,538,431
DEBT SERVICE COVERAGE ADJUSTMENTS					
Interest charges	\$ 1,995,985	\$ 1,571,559	\$ 1,155,089	\$ 399,741	\$ 857,440
Depreciation and amortization	6,035,441	6,678,205	6,245,405	5,982,909	5,906,256
Capital grant	(624,265)	(883,862)	-	(141,453)	(3,997,676)
Total debt service coverage adjustments	7,407,161	7,365,902	7,400,494	6,241,197	2,766,020
AVAILABLE FOR DEBT SERVICE	\$ 12,019,674	\$ 9,861,619	\$ 11,705,397	\$ 13,779,422	\$ 12,304,451
TOTAL DEBT SERVICE	\$ 3,397,541	\$ 3,633,836	\$ 3,633,836	\$ 3,651,285	\$ 3,695,758
DEBT SERVICE COVERAGE	3.54	2.71	3.22	3.77	3.33

Public Utility District No. 1 of Okanogan County, Washington

Customer Statistical Data (unaudited)

	Years Ended December 31,				
	2020	2019	2018	2017	2016
ACTIVE CUSTOMER ACCOUNTS					
Residential	17,579	17,407	17,302	17,198	17,121
General service	2,580	2,554	2,534	2,502	2,500
Industrial	2	2	2	3	3
Irrigation and frost control	1,328	1,339	1,342	1,339	1,343
Street lighting	20	20	20	20	21
Sales for resale	1	6	4	4	5
Telecommunications	17	18	17	18	18
Total active customer accounts	21,527	21,346	21,221	21,084	21,011
REVENUES BILLED					
Residential	\$ 24,444,809	\$ 24,493,870	\$ 23,036,243	\$ 24,492,421	\$ 22,131,755
General service	16,144,059	16,235,571	16,186,787	16,602,440	15,902,364
Industrial	917,284	843,628	930,751	1,204,820	2,444,584
Irrigation and frost control	4,620,876	4,093,531	4,281,503	4,164,197	4,528,774
Street lighting	144,064	143,467	144,662	161,225	146,110
Sales for resale	3,542,929	3,880,384	3,983,254	2,145,929	2,451,474
Telecommunications	3,182,638	2,831,472	2,978,557	2,928,695	2,682,434
Other operating revenue	-	1,773,699	1,753,999	1,829,683	1,510,428
Total revenues billed	\$ 52,996,659	\$ 54,295,622	\$ 53,295,756	\$ 53,529,410	\$ 51,797,923
ENERGY CONSUMED (kWh)					
Residential	292,912,046	300,094,519	290,653,707	312,590,840	271,006,607
General service	221,477,264	225,008,623	228,247,611	233,037,448	223,505,336
Industrial	14,431,000	13,442,950	14,993,620	20,041,870	42,795,190
Irrigation and frost control	69,795,516	61,495,725	65,125,700	64,924,877	70,713,251
Street lighting	371,596	373,131	373,799	1,171,906	1,364,433
Sales for resale	208,353	175,730,742	220,928,000	188,232,000	174,261,000
Total energy consumed (kWh)	599,195,775	776,145,690	820,322,437	819,998,941	783,645,817
AVERAGE ANNUAL REVENUE PER CUSTOMER					
Residential	\$ 1,391	\$ 1,407	\$ 1,331	\$ 1,424	\$ 1,293
General service	6,257	6,357	6,388	6,636	6,361
Industrial	458,642	421,814	465,376	401,607	814,861
Irrigation and frost control	3,480	3,057	3,190	3,110	3,372
Street lighting	7,203	7,173	7,233	8,061	6,958
Sales for resale	3,542,929	646,731	995,814	536,482	490,295
Telecommunications	187,214	157,304	175,209	162,705	149,024
Total annual average revenue per customer	\$ 2,462	\$ 2,544	\$ 2,511	\$ 2,539	\$ 2,465
AVERAGE ANNUAL kWh PER CUSTOMER					
Residential	16,663	17,240	16,799	18,176	15,829
General service	85,844	88,100	90,074	93,140	89,402
Industrial	7,215,500	6,721,475	7,496,810	6,680,623	14,265,063
Irrigation and frost control	52,557	45,927	48,529	48,488	52,653
Street lighting	18,580	18,657	18,690	58,595	64,973
Total annual average kWh per customer	27,848	28,159	28,273	29,996	29,035

Public Utility District No. 1 of Okanogan County, Washington
Other Financial Data (unaudited)

	Years Ended December 31,				
	2020	2019	2018	2017	2016
COST OF POWER					
Bonneville Power Administration	\$ 16,236,105	\$ 16,719,466	\$ 16,709,206	\$ 16,296,694	\$ 16,158,335
Douglas County PUD - Wells Hydroelectric Project	4,511,153	3,831,803	3,985,033	3,580,751	3,993,203
Energy NW - Nine Canyon Wind Project	2,979,572	2,971,731	2,969,117	2,968,704	3,009,427
Other cost of power, including market purchases	1,631,224	5,232,100	2,138,602	2,057,286	2,002,682
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total cost of purchased power	<u>\$ 25,358,054</u>	<u>\$ 28,755,100</u>	<u>\$ 25,801,958</u>	<u>\$ 24,903,435</u>	<u>\$ 25,163,647</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ENERGY RESOURCES MWh					
Bonneville Power Administration	400,885	427,782	466,664	475,851	451,899
Douglas County PUD - Wells Hydroelectric Project	372,609	295,759	318,123	306,058	293,474
Energy NW - Nine Canyon Wind Project	41,567	32,195	38,805	33,573	40,839
Other cost of power, including market purchases	26,922	51,865	22,475	36,721	39,323
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total energy resources MWh	<u>841,983</u>	<u>807,601</u>	<u>846,067</u>	<u>852,203</u>	<u>825,535</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
AVERAGE COST PER MWh					
Bonneville Power Administration	\$ 40.50	\$ 39.08	\$ 35.81	\$ 34.25	\$ 35.76
Douglas County PUD - Wells Hydroelectric Project	12.11	12.96	12.53	11.70	13.61
Energy NW - Nine Canyon Wind Project	71.68	92.30	76.51	88.43	73.69
Other cost of power, including market purchases	60.59	100.88	95.15	56.02	50.93
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Average cost per MWh (all resources)	<u>\$ 30.12</u>	<u>\$ 35.61</u>	<u>\$ 30.50</u>	<u>\$ 29.22</u>	<u>\$ 30.48</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
PEAK DEMAND MW	170	161	156	178	164
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET UTILITY PLANT	\$ 114,937,136	\$ 112,563,273	\$ 110,383,214	\$ 126,302,912	\$ 122,414,960
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
EMPLOYEE DATA					
Full-time employees	91	93	93	95	91
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total employees	<u>91</u>	<u>93</u>	<u>93</u>	<u>95</u>	<u>91</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

