Office of the Washington State Auditor
Pat McCarthy

December 19, 2022

Board of Commissioners
Public Utility District No. 1 of Benton County
Kennewick, 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 Benton County for the fiscal year ended December 31, 2021. 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

Americans with Disabilities

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Annual Report

For the year ended December 31, 2021

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Report of Independent Auditors

The Commissioners
Public Utility District No. 1
of Benton County, Washington

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of Public Utility District No. 1 of Benton County, Washington (the "District"), which comprise the statements of net position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the District as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2022 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.

Moss Adams llp

Portland, Oregon
March 31, 2022

Management's Discussion and Analysis

This section provides an overview and analysis of key data presented in the basic financial statements for the years ended December 31, 2021 and 2020, with additional comparative data for 2019. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

Overview of the Financial Statements

Public Utility District No. 1 of Benton County (District) accounts for its financial activities within a single proprietary fund titled the Electric System. The Electric System is used to account for the purchase, generation, transmission, distribution, and sale of electric energy, as well as the sale of wholesale telecommunication services.

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

The basic financial statements, presented on a comparative format for the years ended December 31, 2021 and 2020, consist of:

Statement of Net Position: The District presents its Statement of Net Position using the balance sheet format. The Statement of Net Position reflects the assets, liabilities, deferred outflows and inflows of resources, and net position (equity) of the District at year-end. The net position section is separated into three categories: net investment in capital assets, net position - restricted, and net position - unrestricted.

Statement of Revenues, Expenses, and Changes in Net Position: This statement reflects the transactions and events that have increased or decreased the District's total economic resources during the period. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or nonoperating based on the nature of the transaction.

Statement of Cash Flows: The Statement of Cash Flows reflects the sources and uses of cash separated into four categories of activities: operating, noncapital financing, capital and related financing, and investing.

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

Condensed Comparative Financial Information

Provided below is a 3-year comparison of key financial information:

Statement of Net Position *(in thousands)*

	2021	2020	Increase (Decrease) 2021-2020	% Change 2021-2020	2019
Assets and Deferred Outflows of Resources					
Current & Noncurrent Assets	$111,558	$96,842	$14,716	15.2%	$80,565
Utility Plant	155,544	149,049	6,495	4.4%	142,948
Subtotal Assets	267,102	245,891	21,211	8.6%	223,513
Deferred Outflows of Resources	4,581	2,967	1,614	54.4%	5,004
Total Assets and Deferred Outflows of Resources	271,683	248,858	22,825	9.2%	228,517
Liabilities and Deferred Inflows of Resources					
Current Liabilities	22,662	21,583	1,079	5.0%	23,657
Noncurrent Liabilities	72,173	77,178	(5,005)	-6.5%	62,108
Subtotal Liabilities	94,835	98,761	(3,926)	-4.0%	85,765
Deferred Inflows of Resources	20,934	5,783	15,151	262.0%	7,145
Total Liabilities and Deferred Inflows of Resources	115,769	104,544	11,225	10.7%	92,910
Net Position					
Net Investment in Capital Assets	89,594	89,169	425	0.5%	89,870
Restricted for Debt Service	108	108	-	0.0%	1,108
Restricted for Net Pension	12,509	-	12,509	-	-
Unrestricted	53,703	55,037	(1,334)	-2.4%	44,630
Total Net Position	$155,914	$144,314	$11,600	8.0%	$135,608

Statement of Revenues, Expenses, and Changes in Net Position *(in thousands)*

	2021	2020	Increase (Decrease) 2021-2020	% Change 2021-2020	2019
Operating Revenues					
Retail Energy Sales	$137,166	$133,281	$3,885	2.9%	$134,197
Secondary Market Sales	33,511	17,468	16,043	91.8%	24,133
Other	4,157	4,180	(23)	-0.6%	4,167
Nonoperating Revenues					
Interest Income	443	355	88	24.8%	1,045
Other Income	417	675	(258)	-38.2%	409
Total Revenues	175,694	155,959	19,735	12.7%	163,951
Operating Expenses					
Power Supply	117,149	98,882	18,267	18.5%	115,981
Operations, Maintenance and A&G	21,238	23,508	(2,270)	-9.7%	22,241
Taxes/Depreciation/Amortization	25,267	24,310	957	3.9%	24,400
Nonoperating Expenses					
Interest Expense	2,929	2,633	296	11.2%	2,484
Debt Premium Amortization & (Gain) on Defeased Debt	(343)	126	(469)	-372.2%	(408)
Total Expenses	166,240	149,459	16,781	11.2%	164,698
Income/(Loss) before Contributions	9,454	6,500	2,954	45.4%	(747)
Capital Contributions	2,146	2,206	(60)	-2.7%	2,455
Change in Net Position	11,600	8,706	2,894	33.2%	1,708
Beginning Net Position	$144,314	$135,608	$8,706	6.4%	$133,900
Ending Net Position	$155,914	$144,314	$11,600	8.0%	$135,608

Financial Analysis

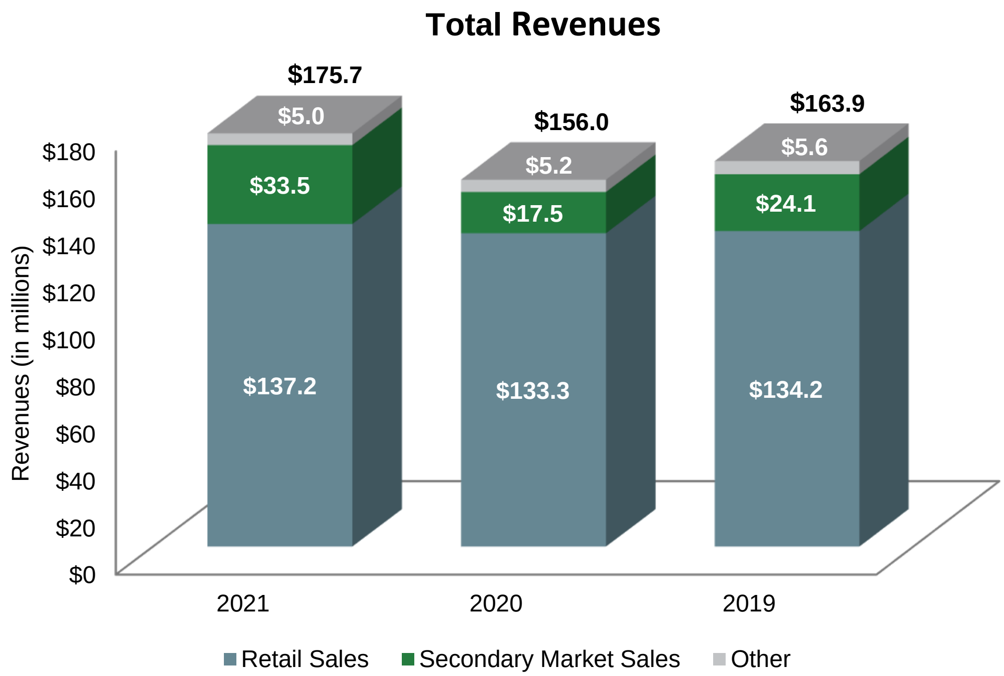
During 2021, the District's overall financial position and results of operations ended with a positive net position. The District's net position increased by $11.6 million (8.0%) compared to an increase of $8.7 million in 2020. Provided below is a year-over-year analysis of the change in net position by major component of income, with a primary focus on changes between 2021 and 2020.

Operating Revenues
2020 to 2021
Revenues from sales to retail customers (retail energy sales) in 2021 increased $3.9 million (2.9%) from 2020. Warmer and dryer than average summer weather contributed to an increase in kilowatt hours (kWh) sold to customers of 3.9%. In addition, active service agreements during the period increased by 1.0%. The District had no rate increases in 2021.

Revenues from secondary market energy and natural gas sales increased by $16.0 million (91.8%), primarily as a result of higher market prices on average of about $38.90 (139%) from the prior year. Revenues were up even though the volume of secondary market sales decreased about 17.5% from the prior year.

2019 to 2020:
Revenues from sales to retail customers (retail energy sales) in 2020 decreased $0.9 million (0.7%) from 2019. The change was primarily due to the impact of COVID-19 pandemic restrictions on General Service customers which saw a decrease in retail revenue of $2.0 million (5.4%), a $1.9 million (2.9%) reduction for Residential customers as 2020 did not have the late winter extreme cold event experienced in 2019, which was mostly offset by an increase of $3.8 million (17.5%) in Large Irrigation and a full year of the 2.9% rate increase effective in October 2019. These changes contributed to a decrease in kilowatt hours (kWh) sold to customers of 1.5%. Active service agreements during the period increased by 1.5% and the District had no rate increases in 2020.

Revenues from secondary market energy and natural gas sales decreased by $6.7 million (27.6%), primarily as a result of lower wholesale natural gas sales and lower market prices on average of about $10.70 per MWh; even though the volume of secondary market sales increased about 20.0% from the prior year.



Operating Expenses
2020 to 2021:
Power supply expense increased by $18.3 million (18.5%), primarily as a result of higher market prices, increased purchase transactions by The Energy Authority to manage daily loads, and hotter and drier summer conditions than normal. In addition, net power expense (power supply expense less secondary market sales) increased by $2.2 million (2.7%), primarily attributable to the above-mentioned power supply costs. The District uses net power expense as a means to measure overall financial performance related to power supply management.

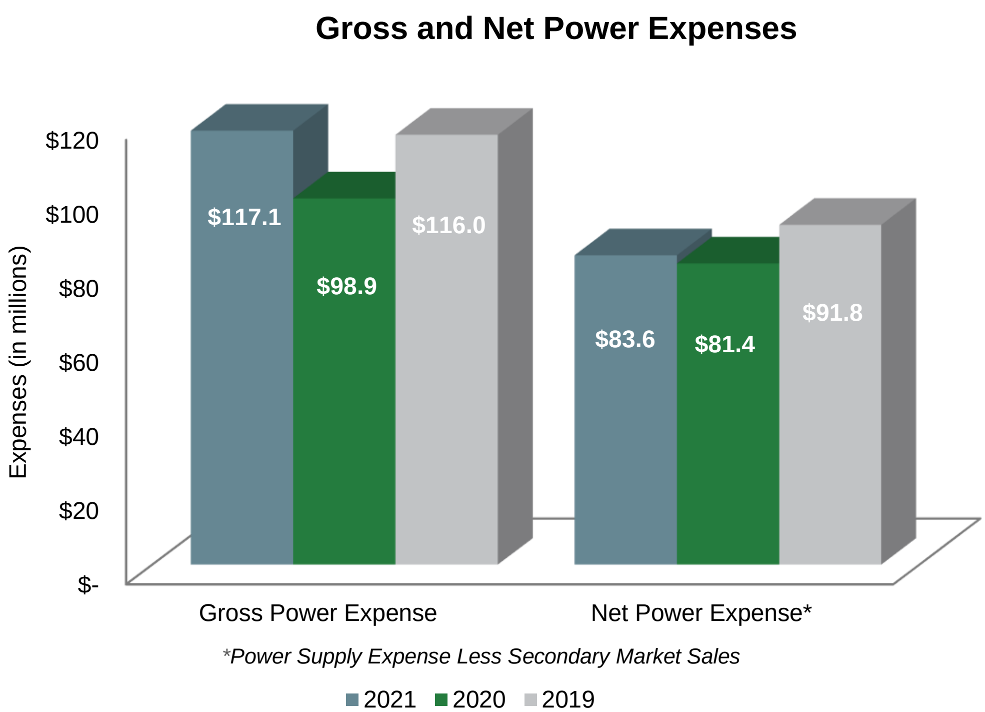
Total operations, maintenance and administrative and general (A&G) expenses decreased by $2.3 million (9.7%). The decrease was primarily due to a reduction in pension expense which offset other increases. The District charges internal labor to operations, maintenance, A&G activities, and capital projects. In 2021, the internal labor required for operations and maintenance activities decreased $42,000 from 2020 and internal labor performed on capital projects increased $201,000.

Taxes assessed by state and municipal governments increased by $319,000 (2.3%), primarily as a result of increased retail sales. Depreciation and amortization increased $639,000 (6.2%) as a result of capital additions.

2019 to 2020:
Power supply expense decreased by $17.1 million (14.7%), primarily as a result of 2020 not having price excursions due to extreme cold as we saw in 2019 or extreme heat, decreased purchase transactions by The Energy Authority (TEA) to manage daily loads, and decreased power purchases for the Fredrickson power plant. In addition, net power expense (power supply expense less secondary market sales) decreased by $10.4 million (11.4%), primarily attributable to the above-mentioned power supply costs.

Total operations, maintenance and administrative and general (A&G) expenses increased by $1.3 million (5.7%). The increase was in part due to increased substation equipment maintenance, line transformer and device maintenance, office supplies and expenses, and other general expenses. The District charges internal labor to operations, maintenance, A&G activities, and capital projects. In 2020, the internal labor required for operations and maintenance activities increased $427,000 from 2019 and internal labor performed on capital projects decreased $2,000.

Taxes assessed by state and municipal governments decreased by $247,000 (1.7%), primarily as a result of decreased retail sales. Depreciation and amortization increased $157,000 (1.5%) as a result of capital additions.



Other Income & Expense
During 2021, interest income increased by $88,000 (24.8%). During 2020, interest income decreased by $690,000 (66.0%).

There were no significant restrictions, commitments, or other limitations that would affect the availability of resources for future use in 2021, 2020, and 2019.

Capital Contributions
During 2021, capital contributions decreased by $60,000 (2.7%), primarily due to the timing of project completion. During 2020, capital contributions decreased by $249,000 (10.1%), primarily due to the timing of project completion.

Summary of Financial Position
The overall financial position of the District increased $11.6 million (8.0%) primarily due to increased retail revenues of $3.9 million, increased secondary market sales of $16.0 million, and a pension

expense credit of $3.0 million. The District continues to monitor revenues and expenditures and evaluates its need for rate changes. The District's last rate change was an average rate increase of 2.9% effective October 1, 2019.

District financial policies require that financial plans be developed to maintain minimum end-of-year cash and investment balances contained within unrestricted accounts sufficient to provide funding for a specified amount of operating expenses, power supply expenses, catastrophic loss, debt service, and capital improvements. The District's unrestricted cash and investment balances totaled $59.7 million, $51.5 million, and $42.5 million at December 31, 2021, 2020, and 2019, respectively. Actual balances exceeded the minimum required level per District financial policies for each year.

In accordance with District financial policies and covenants established within the District's bond resolutions, the District is required to maintain and collect rates and charges sufficient to provide net revenues (defined as change in net position less depreciation, amortization, and interest expense) in each fiscal year in an amount at least equal to 1.25 times the annual debt service. For the years ended 2021, 2020, and 2019, the District was in compliance with such policies and covenants.

Capital Asset and Long-Term Debt Activity

During 2021, gross capital additions totaled $17.9 million. Capital contributions associated with these additions totaled $2.1 million. Major capital additions included adding a distribution substation and transmission interconnection, installation of new electric facilities, and improvements to existing distribution infrastructure. Other capital additions included upgrades to communications equipment, property acquisition, additions to broadband infrastructure, and a 1.0% growth in customers served by the District, as well as internal capital expenditures to meet District needs. Construction work-in-progress totaled $5.9 million at year-end, a net decrease of $2.2 million (27.5%) from 2020.

During 2020, gross capital additions totaled $16.9 million. Capital contributions associated with these additions totaled $2.2 million. Major capital additions included adding a distribution substation, installation of new electric facilities, and completion of additions and improvements to existing distribution infrastructure. Other capital additions included general plant, information technology, additions to broadband infrastructure, and a 1.5% growth in customers served by the District, as well as internal capital expenditures to meet District needs. Construction work-in-progress totaled $8.2 million at year-end, a net decrease of $1.3 million (13.6%) from 2019.

In September 2020, the District issued $23,495,000 of Electric Revenue and Refunding Bonds, Series 2020A & B. The bond proceeds were used to fund $20.0 million of improvements and replacements of the District's electric utility system and to refund the remaining 2011 bonds, see Note 5.

In 2021, there were no changes to the District's rating from the three rating agencies. In 2020, the District received rating affirmations from the three rating agencies. Fitch Ratings affirmed its rating of AA-, Standard & Poor's affirmed its rating of A+, and Moody's affirmed its rating Aa3.

Debt service payments, net of Build America Bonds subsidy, totaled $5.6 million in 2021, $5.8 million in 2020, and $6.2 million in 2019.

Additional information about the District's capital assets and long-term debt is presented in Notes 2 and 5, respectively.

STATEMENT OF NET POSITION

As of December 31, 2021 and 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2021	2020
ASSETS		
CURRENT ASSETS		
Unrestricted Cash & Cash Equivalents	$59,727,477	$51,460,718
Restricted Construction Account	-	9,526,848
Accounts Receivable, Net	8,382,136	9,374,865
BPA Prepay Receivable (Note 8)	600,000	600,000
Wholesale Power Receivable	2,723,250	1,334,640
Accrued Unbilled Revenues	5,675,000	5,067,000
Inventory - Materials & Supplies	6,515,476	6,717,614
Prepaid Expenses	297,371	311,200
Total Current Assets	**83,920,710**	**84,392,885**
NONCURRENT ASSETS		
Restricted Bond Reserve Fund	108,200	108,200
BPA Prepay Receivable (Note 8)	3,450,000	4,050,000
Other Receivables (Note 1)	225,721	191,962
Net Pension Asset (Note 6)	12,508,593	-
Other Charges (Note 4)	11,344,370	8,098,580
Subtotal Noncurrent Assets	27,636,884	12,448,742
Utility Plant (Note 2)		
Land and Intangible Plant	4,289,505	3,948,671
Electric Plant in Service	368,043,825	351,395,121
Construction Work in Progress	5,923,968	8,167,249
Less: Accumulated Depreciation	(222,713,315)	(214,461,656)
Net Utility Plant	155,543,983	149,049,385
Total Noncurrent Assets	**183,180,867**	**161,498,127**
TOTAL ASSETS	**267,101,577**	**245,891,012**
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Defeased Debt	7,367	128,581
Pension Deferred Outflow (Note 6)	1,435,427	1,541,887
Accumulated Decrease in Fair Value of Hedging Derivatives	3,138,740	1,296,396
Total Deferred Outflows of Resources	**4,581,534**	**2,966,864**
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$271,683,111**	**$248,857,876**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$11,707,448	$10,730,694
Customer Deposits	1,729,867	1,846,513
Accrued Taxes Payable	3,707,660	3,717,094
Other Accrued Liabilities	1,855,093	1,693,848
Accrued Interest Payable	467,307	480,063
Revenue Bonds, Current Portion (Note 5)	3,195,000	3,115,000
Total Current Liabilities	**22,662,375**	**21,583,212**
NONCURRENT LIABILITIES		
Revenue Bonds (Note 5)	62,762,010	66,421,221
Net Pension Liability (Note 6)	1,193,891	4,944,524
BPA Prepay Incentive Credit	1,088,509	1,249,765
Other Credits & Liabilities (Note 4)	7,128,172	4,562,717
Total Noncurrent Liabilities	**72,172,582**	**77,178,227**
TOTAL LIABILITIES	**94,834,957**	**98,761,439**
DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflow (Note 6)	13,101,100	1,742,892
Accumulated Increase in Fair Value of Hedging Derivatives	7,833,234	4,039,754
Total Deferred Inflows of Resources	**20,934,334**	**5,782,646**
NET POSITION		
Net Investment in Capital Assets	89,594,340	89,168,593
Restricted for Debt Service	108,200	108,200
Restricted for Net Pension	12,508,593	-
Unrestricted	53,702,687	55,036,998
Total Net Position	**155,913,820**	**144,313,791**
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	**$271,683,111**	**$248,857,876**

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the years ended December 31, 2021 and 2020

	2021	2020
OPERATING REVENUES		
Retail Energy Sales	$137,165,982	$133,281,504
Secondary Market Sales	32,552,733	16,024,639
Transmission of Power for Others	957,726	1,443,001
Broadband Revenue	2,914,272	2,799,123
Other Revenue	1,243,440	1,381,032
Total Operating Revenues	**174,834,153**	**154,929,299**
OPERATING EXPENSES		
Power Supply (Includes Prepaid Power Amortization, See Note 8)	117,148,639	98,882,542
Transmission Operation & Maintenance	101,234	114,119
Distribution Operation & Maintenance	9,214,692	10,537,318
Broadband Expense	1,115,157	1,161,923
Customer Accounting, Collection & Information	3,926,096	4,329,302
Administrative & General Expense	6,880,786	7,365,965
Taxes	14,288,903	13,969,670
Depreciation	10,978,659	10,339,875
Total Operating Expenses	**163,654,166**	**146,700,714**
OPERATING INCOME	**11,179,987**	**8,228,585**
NONOPERATING REVENUES & EXPENSES		
Interest Income	442,988	354,870
Other Income	417,374	675,315
Interest Expense	(2,929,065)	(2,633,566)
Debt Premium Amortization & Gain on Defeased Debt	342,996	(125,928)
Total Nonoperating Revenues & Expenses	**(1,725,707)**	**(1,729,309)**
INCOME BEFORE CAPITAL CONTRIBUTIONS	**9,454,280**	**6,499,276**
CAPITAL CONTRIBUTIONS	2,145,749	2,206,345
CHANGE IN NET POSITION	**11,600,029**	**8,705,621**
TOTAL NET POSITION, BEGINNING OF YEAR	**144,313,791**	**135,608,170**
TOTAL NET POSITION, END OF YEAR	**$155,913,820**	**$144,313,791**

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

STATEMENT OF CASH FLOWS

For the years ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Counterparties	$175,281,561	$155,842,341
Cash Paid to Suppliers and Counterparties	(124,735,035)	(108,425,173)
Cash Paid to Employees for Services	(16,015,922)	(15,451,745)
Taxes Paid	(14,298,338)	(14,039,871)
Net Cash Provided by Operating Activities	**20,232,266**	**17,925,552**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other Interest Expense	(61,444)	(40,889)
Net Cash Used by Noncapital Financing Activities	**(61,444)**	**(40,889)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(18,681,034)	(17,174,640)
Proceeds from Sale of Revenue Bonds	-	20,007,652
Surety Policy	-	(192,499)
Bond Principal Paid	(3,115,000)	(3,815,208)
Bond Interest Paid	(2,348,119)	(2,162,793)
Contributions in Aid of Construction	2,145,749	2,206,345
Proceeds from the Sale of Capital Assets	124,505	350,825
Net Cash Used by Capital and Related Financing Activities	**(21,873,899)**	**(780,318)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	442,988	373,123
Proceeds from Sale of Investments	-	1,991,700
Net Cash Provided by Investing Activities	**442,988**	**2,364,823**
NET INCREASE (DECREASE) IN CASH	**(1,260,089)**	**19,469,168**
CASH & CASH EQUIVALENTS BALANCE, BEGINNING OF YEAR	**61,095,766**	**41,626,598**
CASH & CASH EQUIVALENTS BALANCE, END OF YEAR	**$59,835,677**	**$61,095,766**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income/(Loss)	$11,179,987	$8,228,585
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	10,978,659	10,339,875
BPA Prepaid & Power Contracts Amortization	1,178,400	1,178,400
(Increase) Decrease in Unbilled Revenues	(608,000)	(48,000)
Misellaneous Other Revenue & Receipts	62,738	320,749
Adjustment (Decrease) to Pension Expense - non cash portion	(3,711,285)	(1,393,009)
Decrease (Increase) in Accounts Receivable	815,108	898,367
Decrease (Increase) in Inventories	202,138	(1,139,179)
Decrease (Increase) in Wholesale Power Receivable	(1,388,610)	465,790
Decrease (Increase) in Miscellaneous Assets	(64,470)	97,645
Decrease (Increase) in Prepaid Expense	13,829	47,660
Increase (Decrease) in Accounts Payable	976,754	(1,168,070)
Increase (Decrease) in Accrued Taxes Payable	(9,434)	(70,201)
Increase (Decrease) in Customer Deposits	(116,646)	(267,984)
Increase (Decrease) in BPA Prepay Incentive Credit	(161,256)	(161,256)
Increase (Decrease) in Other Current Liabilities	(1,401,244)	258,705
Increase (Decrease) in Other Credits	2,285,598	337,475
Net Cash Provided by Operating Activities	**$20,232,266**	**$17,925,552**

NONCASH OPERATING, INVESTING, CAPITAL, AND FINANCING ACTIVITIES

In 2021, the District had no investments. In 2020, the District's investments had an unrealized loss of $5,600.

Bond Interest Paid does not include subsidy payments on 2010 Revenue Build America Bonds made directly by the US Treasury to the Fiscal Paying Agent of $354,635 in 2021, $177,622 of the 2020 payment of $354,566 was received in February of 2021 (see Note 5).

The net effect of accumulated increases and decreases in the fair value of hedging derivates had no effect on cash flows for 2021 and 2020. For accumulated decreases in fair value, the District records an offsetting liability; $3,138,740 and $1,296,396 in 2021 and 2020, respectively. For accumulated increases in fair value, the District records an offsetting asset; $7,833,234 and $4,039,754 in 2021 and 2020, respectively.

The deferred inflows and outflows relating to GASB 68 had no effect on cash flows for 2021 and 2020. The pension deferred outflow was $1,435,427, and $1,541,887 as of December 31, 2021 and 2020, respectively. The pension deferred inflow was $13,101,100, and $1,742,892 as of December 31, 2021 and 2020, respectively.

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

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2021 & 2020

Note 1 - Summary of Operations and Significant Accounting Policies

Public Utility District No. 1 of Benton County, Washington (the District) is a municipal corporation of the State of Washington established in 1934 for the purpose of engaging in the purchase, generation, transmission, distribution, and sale of electric energy. Additionally, the District is authorized under state law to provide wholesale telecommunication services.

The District serves Benton County exclusive of most of the City of Richland, the U.S. Department of Energy's operations on the Hanford Reservation, the City of West Richland and those rural areas of the County that are served by the Benton Rural Electric Association. Cities in the District's service area include Kennewick, population 84,620, Prosser, population 6,130, and Benton City, population 3,500. The District maintains its administrative offices in the City of Kennewick. The District is governed by an elected three-member board.

The District's service area comprises approximately 939 square miles of Benton County. The District's properties include 39 substations, approximately 99 miles of 115kV transmission lines, 1,728 miles of distribution lines, and other buildings, equipment, stores, and related facilities.

As required by generally accepted accounting principles (GAAP), management has considered all potential component units in defining the reporting entity and has no component units. The following is a summary of the more significant policies:

a) <u>Basis of Accounting and Presentation</u>: The accounting policies of the District conform to GAAP applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In 2021, the District adopted GASB statements No. 98 *The Annual Comprehensive Financial Report,* No. 93 *Replacement of Interbank Offered Rates*, No. 92 *Omnibus 2020*, and No. 91 *Conduit Debt Obligations*. In 2020, the District adopted GASB statements No. 89 *Interest Cost Incurred before the End of a Construction Period*, No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*, and No. 97 *Certain Component Unit Criteria, 457 Plans*. With the adoption of GASB No. 97, the District determined it was no longer required to present the Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and related information in Management's Discussion & Analysis. The District continues to provide disclosures of its pension plans in Note 6.

Accounting records are maintained in accordance with methods prescribed by the Washington State Auditor's Office under the authority of Revised Code of Washington (RCW) 43.09 and the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC). The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting where revenues are recognized when incurred, regardless of the timing of the related cash flows. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing, and investing activities are considered to be nonoperating revenues and expenses.

b) Utility Plant and Depreciation: Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs. The District's capitalization threshold is $5,000 for non-infrastructure capital. All costs related to infrastructure are capitalized. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and improvements is capitalized.

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

Buildings and Improvements	7 - 40	years
Generation Plant	20	years
Electric Plant - Transmission	25 – 40	years
Electric Plant - Distribution	7 – 40	years
Electric Plant/Equipment - Broadband	4 – 30	years
Transportation Equipment	17	years
General Plant & Equipment	4 – 30	years

Initial depreciation on utility plant is recorded in the month subsequent to purchase or completion of construction. Composite rates are used for asset groups and, accordingly, no gain or loss is recorded on the disposition of an asset unless it represents a major retirement. The composite depreciation rate was approximately 3.1% in 2021 and 3.2% in 2020. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation.

Preliminary survey and investigation costs incurred for proposed projects are deferred pending a final decision to develop the project. Costs relating to projects ultimately constructed are reclassified to utility plant. If the project is abandoned, the costs are expensed.

c) Allowance for Funds Used During Construction (AFUDC): AFUDC represents the estimated costs of financing construction projects and is computed using the District's long-term borrowing rate. With the adoption of GASB Statement No. 89 in 2020, the District no longer calculates and capitalizes AFUDC as part of the cost of the project and reflected as a reduction of interest expense.

d) Restricted Assets: In accordance with bond resolutions, related agreements, and laws, separate restricted accounts have been established. These assets are restricted for specific uses including bond reserve and capital additions and are classified as current or noncurrent assets, as appropriate. When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as needed. In the restricted net position amount, the unspent bond proceeds and the portion of debt attributable to those proceeds were included in the calculation.

e) Cash and Cash Equivalents: For purposes of the Statement of Cash Flows, the District considers all short-term highly liquid investments with a maturity of three-months or less when purchased to be cash equivalents.

f) Accounts Receivable: Receivables are considered past due after 20 days and are written off 210 days after the respective billing dates. The percentage-of-sales allowance method is used to estimate uncollectible accounts. The reserve is then reviewed for adequacy against an aging schedule of accounts receivable. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis. COVID-19 pandemic restrictions and moratorium on disconnects for nonpayment were in place until September 30, 2021. During this time the District increased its reserve for uncollectible accounts. The reserve for uncollectible accounts totaled $1,342,666 and $969,499 in 2021 and 2020, respectively.

g) Other Receivables: Other receivables include a Rural Economic Development Revolving Fund, which was established during 2008 pursuant to RCW 82.16.0491. The District contributed to the fund in 2008 and 2009. Each contribution to the fund was partially offset by a public utility tax credit. The District appointed Benton-Franklin Council of Governments to oversee and direct activities of the fund. The District does not have a reserve for uncollectible accounts related to Other Receivables as it expects to fully collect these amounts.

h) Inventories: Inventories are valued at average cost.

i) Derivative Instruments: The District follows GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Subject to certain exceptions, GASB Statement No. 53 requires every derivative instrument be recorded on the statement of net position as an asset or liability measured at its fair value, and changes in the derivative instrument's fair value be recognized in earnings unless such derivative instruments meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred.

It is the District's policy to document and apply as appropriate the normal purchase and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity, natural gas, and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity and natural gas are considered to be derivative instruments under GASB Statement No. 53, but do not generally meet the "normal purchases and normal sales" criteria.

As of December 31, 2021, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2021		Notional
	Classification	Amount	Classification	Amount	(MWh/MMBtu)
Cash Flow Hedges:					
Financial Swap Forward	Deferred Inflow	($7,833,234)	Derivative Asset	$7,833,234	1,327,070
Financial Swap Forward	Deferred Outflow	$3,138,740	Derivative Liability	($3,138,740)	600,630

These derivative instruments were entered into between August 2019 and December 2021 with maturities between January 2022 and September 2023. The District paid or received no cash to enter into these transactions.

As of December 31, 2020, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2020		Notional
	Classification	Amount	Classification	Amount	(MWh/MMBtu)
Cash Flow Hedges:					
Financial Swap Forward	Deferred Inflow	($4,039,754)	Derivative Asset	$4,039,754	2,393,420
Financial Swap Forward	Deferred Outflow	$1,296,396	Derivative Liability	($1,296,396)	887,980

These derivative instruments were entered into between April 2019 and December 2020 with maturities between January 2021 and September 2023. The District paid or received no cash to enter into these transactions.

The fair values of the commodity swap contracts were based on the futures price curve for the Mid-Columbia Intercontinental Exchange (ICE) index for electricity and the Sumas index for natural gas; additionally, all instruments close at the same index, respectively. The fair value of the options was calculated using the Black-76 options pricing model. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the District's fair value measurements are classified as Level 2.

Objective & Strategies:

The District enters into derivative energy instruments to hedge its known or expected positions within its approved Risk Management policy. Decisions are made to enter into forward transactions to protect its financial position, specifically to deal with expected long and short positions as determined by projected load and resource balance positions. Generally, several strategies are employed to hedge the District's resource portfolio, including:

- *Combustion Turbine* - The District purchases gas for future periods to generate electricity when the Frederickson Plant (see Note 8) is economically viable on a marginal basis for that period based on parameters set by the Risk Management Committee. If load projections indicate the District does not require the electricity to serve its customers, an equivalent quantity of power will concurrently be sold or otherwise hedged for the same period.
- *Surplus Purchased Power Resources* - The District hedges projected surpluses in future periods by selling power or by purchasing put options. Surplus power is generally sold forward at a fixed price,

either physically or financially, when the probability of surplus is very high; surplus power is hedged through the purchase of physical or financial put options when the projected surplus is less certain, but nevertheless expected to be available under expected scenarios. From time to time, the District will sell physical power forward in the next calendar month at a price based on the Mid-Columbia ICE index to perfect financial forward sales that settle based on the same index.

- *Deficit Power Resources* - The District hedges projected power resource deficits in future periods by purchasing power or by purchasing power call options (or if the Frederickson Plant is economically viable for the period, by buying gas). Power is generally purchased to cover projected deficits at a fixed price, either physically or financially, when the probability of the deficit position is very high; such deficit positions are hedged through the purchase of physical or financial call options when the projected deficits are less certain, but nevertheless expected under the approved planning conditions.

Derivative instruments authorized under the Risk Management policy by the District include:

- Physical power and natural gas forward purchases and sales
- Monthly and daily power and gas physical calls and puts
- Power and natural gas fixed for floating swaps
- Currency swaps relating to managing US/Canadian exchange rate risk resulting from transactions denominated in Canadian dollars
- Quarterly and monthly financial power and gas put and call options
- Financial daily power and gas put and call options
- Quarterly and monthly power and natural gas swaptions
- Financial natural gas swing and basis swaps

Risks

Credit Risk - The District has developed a credit policy that establishes guidelines for setting credit limits and monitoring credit exposure on a continuous basis. The policy addresses frequency of counterparty credit evaluations, credit limits per specific counterparty, and counterparty credit concentration limits. A summary of counterparty credit exposure related to derivative instruments is provided in Note 8.

Commodity transactions, both physical and financial, are entered into with counterparties approved by the District's Risk Management Committee for creditworthiness. The District had 39 counterparties with approved credit limits for electric power and natural gas sales and purchases as of December 31, 2021, and 40 counterparties at December 31, 2020. Counterparty credit limits are based on The Energy Authority's (TEA) (see Note 8) proprietary credit rating system and other factors. Credit ratings for counterparties range from "not-rated" to AAA, with a majority of counterparties rated between BBB- and AAA. Not-rated counterparties either provide additional security or are assigned credit limits of $25,000 or less.

The District's counterparty credit limits are scaled against TEA credit limits with a maximum credit limit of $4 million. This mitigates the District's credit exposure by netting and setting off the District's sales with purchases made by other TEA clients. Credit concentration limits based on market conditions and available qualified counterparties are established by the Risk Management Committee.

The District has entered into master enabling agreements with various counterparties, which enable hedging transactions. Such agreements include the Western Systems Power Pool (WSPP) form of agreement for physical power transactions, various forms of enabling agreements for physical gas transactions, and International Swaps and Derivatives Association Agreements (ISDA) for financial transactions. All of the enabling agreements have provisions addressing credit exposure and provide for various remedies to assure financial performance, including the ability to call on additional collateral as conditions warrant, generally as determined by the exposed party. The District also uses netting provisions in the agreements to diffuse a portion of the risk.

Forward transactions under the physical enabling agreements are used to deal with long and short physical positions under the direction of the Risk Management Committee and pursuant to the Risk Management policy. Transactions under the ISDA agreements are used to financially hedge long or short positions so that the District will pay or receive the equivalent of a fixed or known price for energy purchased or sold. The agreements also permit the District to hedge the risk of an underlying physical position by using call options, put options, runoff insurance, and weather insurance.

The aggregate fair value of hedging derivative instruments in asset positions was $7,833,234 and $4,039,754 at December 31, 2021 and 2020, respectively. There was no collateral held or liabilities included in the netting arrangements.

Although the District executes hedging derivative instruments with various counterparties, four counterparties comprise 100% of the net exposure to credit risk as of December 31, 2021. Credit ratings are from S&P and Moody's (presented as S&P/Moody's). These counterparties are rated BBB+/A3 (29 contracts comprising 28% of net exposure), NR/Baa2 (27 contracts comprising 26% of net exposure), A+/A2 (29 contracts comprising 28% of net exposure), and AA+/Aaa (18 contracts comprising 18% of net exposure). At December 31, 2020, five counterparties comprised 100% of the net exposure to credit risk. These counterparties were rated BBB+/A3 (40 contracts comprising 40.9% of net exposure), NR/Baa2 (25 contracts comprising 22.3% of net exposure), A+/A2 (34 contracts comprising 20.8% of net exposure), BBB+/A1 (29 contracts comprising 14.3% of net exposure), and A-/A2 (5 contracts comprising 1.7% of net exposure).

Basis Risk - The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative instruments that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. There are no derivative instruments outstanding that carry basis risk as of December 31, 2021 or 2020. As applicable, all power related transactions are to be settled on the relevant Mid-Columbia index, and all gas transactions are to be settled on the relevant Sumas/Huntingdon index or be converted to the Sumas/Huntingdon index within 6 months of delivery.

The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

Termination Risk - As of December 31, 2021 and 2020, no termination events have occurred, and there are no outstanding transactions with material risk. None of the outstanding transactions have early termination provisions except in the event of default by either counterparty. Events of default are generally related to (i) failure to make payments when due, (ii) failure to provide and maintain suitable credit assurances as required, (iii) bankruptcy or other evidence of insolvency, or (iv) failure to perform under any material provision of the agreement. Failure to provide or receive energy or natural gas under physical commodity transactions generally does not fall under the events of default provisions, unless the nonperforming party fails to pay the resulting liquidated damages when due.

There is no rollover, interest rate, or market access risk for these derivative instrument products at December 31, 2021 or 2020.

j) <u>Debt Premium Amortization and Gain on Defeased Debt</u>: Original issue and reacquired bond premiums relating to revenue bonds are amortized over the terms of the respective bond issues using the bonds outstanding method. Premiums are reported with revenue bonds on the Statement of Net Position. In accordance with GASB Statement No. 23*, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, gains and losses on debt refundings have been deferred and amortized over the shorter of the remaining life of the old or new debt. Gains and losses are reported as deferred inflows and deferred outflows of resources on the Statement of Net Position, respectively. Effective with GASB 65, bond issuance costs are expensed in the period incurred.

k) <u>Revenue Recognition</u>: Revenues from retail sales of electricity are recognized when occurred and reported net of bad debt expense of $365,900 and $537,638 at December 31, 2021 and 2020, respectively. Revenues include an estimate for energy delivered to customers between the last billing date and the end of the year. This amount is reflected in the accompanying financial statements as Accrued Unbilled Revenue in the amount of $5.7 million and $5.1 million at December 31, 2021 and 2020, respectively.

l) <u>Capital Contributions</u>: Capital contributions for the District consist mainly of line extension fees. Line extension fees represent amounts collected to recover the costs of installing new lines. Capital contributions are recorded as deferred revenues when received and reclassified to revenue when the related project is completed. Deferred revenues are reported as Other Credits & Liabilities on the Statement of Net Position, see Note 4.

m) <u>Pensions</u>: For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the state sponsored Public Employees Retirement System (PERS) and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, see Note 6. For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset only.

n) Compensated Absences: The District consolidated its vacation and sick leave program to a personal leave program May 1, 1993. Accrued unused sick leave balances for active employees as of April 30, 1993, were frozen and converted to a supplemental leave benefit (SLB). The SLB may be used by employees to make up the difference between short-term disability benefit payments and 100% of gross, straight time pay. Additionally, an employee may restore work hours required for short-term disability eligibility one-time per Collective Bargaining Agreement Contract cycle (3 years). At death, the District is obligated to pay 100% of the SLB cash value to the employee's beneficiary. At retirement, the District is obligated to deposit 30% of the SLB cash value into the retiring employee's Voluntary Employee Beneficiary Association Trust account. The liability for unpaid supplemental leave benefits was $16,569 and $16,086 at December 31, 2021 and 2020, respectively.

Employees earn personal leave in accordance with length of service. The District accrues the cost of personal leave in the year when earned. Personal leave may accumulate to a maximum of 1,200 hours for employees hired prior to April 1, 2011, and is payable upon separation of service, retirement, or death. For employees hired on or after April 1, 2011, personal leave may accumulate to a maximum of 700 hours.

The liability for unpaid leave, benefits, and related payroll taxes was $3,143,244 and $3,137,790 at December 31, 2021 and 2020, respectively. Of the liability for unpaid leave, $1,684,678 and $1,455,773 at December 31, 2021 and 2020, respectively, were classified as a current liability and the remainder as a long-term liability, see Note 4.

o) Use of Estimates: The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

p) Investments: It is the District's policy to record investments at fair value based on quoted market rates, with changes in unrealized gains and losses reported as interest income. For various risks related to the investments, see Note 3.

q) Significant Risk and Uncertainty: The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include prices on the wholesale market for short-term power, interest rates, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other Endangered Species Act issues, Environmental Protection Agency and other federal government regulations, or orders concerning the operation, maintenance, and/or licensing of facilities, other governmental regulations, and the deregulation of the electrical utility industry.

The District's accounts receivable are concentrated with a diverse group of customers and counterparties who have purchased energy or other products and services. These customers generally do not represent a significant concentration of credit risk. The District mitigates credit risk by requiring large customers to provide an acceptable means of payment assurance and by an ongoing financial review of counterparties and establishment of credit limits based on the results of that review.

Restrictions related to the COVID-19 pandemic have negatively impacted District revenues and receivables. See Note 13 for additional information.

r) Bonneville Power Administration Prepay Program: In March 2013, the District participated in BPA's Prepay Program making a lump-sum up-front payment of $6.8 million. The District will receive $9.3 million in credits which started in April 2013 and continue until September 2028, see Note 8.

Note 2 - Utility Plant

Utility plant activity for the years ended December 31 was as follows:

Activity for 2021

Electric Plant Assets	Balance Dec. 31, 2020	Increase	Decrease	Balance Dec. 31, 2021
Capital Assets Not Being Depreciated:				
Land and Intangible Plant	**$3,948,671**	**$380,249**	**($39,415)**	**$4,289,505**
Construction Work in Progress	**8,167,249**	**16,846,089**	**(19,089,370)**	**5,923,968**
Capital Assets Being Depreciated:				
Transmission	10,360,182	138,821	(57,838)	10,441,165
Generation	1,912,370	-	(146,940)	1,765,430
Distribution	258,685,097	16,650,695	(1,579,393)	273,756,399
General	80,437,472	2,925,227	(1,281,868)	82,080,831
Subtotal	**351,395,121**	**19,714,743**	**(3,066,039)**	**368,043,825**
Less Accumulated Depreciation for:				
Transmission	(7,006,498)	(263,589)	76,985	(7,193,102)
Generation	(1,367,160)	(88,279)	146,941	(1,308,498)
Distribution	(157,591,379)	(7,951,999)	1,833,955	(163,709,423)
General	(48,496,619)	(3,013,345)	1,007,672	(50,502,292)
Total Accumulated Depreciation	**(214,461,656)**	**(11,317,212)**	**3,065,553**	**(222,713,315)**
Net Utility Plant	***$149,049,385***	***$25,623,869***	***($19,129,271)***	***$155,543,983***

Activity for 2020

Electric Plant Assets	Balance Dec. 31, 2019	Increase	Decrease	Balance Dec. 31, 2020
Capital Assets Not Being Depreciated:				
Land and Intangible Plant	**$3,850,754**	**$97,917**	**$0**	**$3,948,671**
Construction Work in Progress	**9,449,446**	**17,479,408**	**(18,761,605)**	**8,167,249**
Capital Assets Being Depreciated:				
Transmission	10,136,730	272,880	(49,428)	10,360,182
Generation	1,912,370	-	-	1,912,370
Distribution	245,768,015	14,860,842	(1,943,760)	258,685,097
General	77,848,971	2,996,738	(408,237)	80,437,472
Subtotal	**335,666,086**	**18,130,460**	**(2,401,425)**	**351,395,121**
Less Accumulated Depreciation for:				
Transmission	(6,839,770)	(262,215)	95,487	(7,006,498)
Generation	(1,278,881)	(88,279)	-	(1,367,160)
Distribution	(152,564,548)	(8,350,346)	3,323,515	(157,591,379)
General	(45,334,331)	(2,651,455)	(510,833)	(48,496,619)
Total Accumulated Depreciation	**(206,017,530)**	**(11,352,295)**	**2,908,169**	**(214,461,656)**
Net Utility Plant	***$142,948,756***	***$24,355,490***	***($18,254,861)***	***$149,049,385***

Note 3 - Deposits and Investments

As of December 31, 2021 and 2020, the District had no deposits in investment instruments:

Fair Value – The District measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

Investments are valued using Wells Fargo Institutional Retirement & Trust with secondary sources being Bloomberg, Pricing Direct, and Thomson Reuters. Methods used include models that take into account spread scales, benchmark quotes, and relevant trade data.

Interest Rate Risk - In accordance with its investment policy, the District manages its exposure to declines in fair values by matching investment maturities to meet anticipated cash flow requirements. The policy limits investment maturities to less than 5-years from the date of the purchase, unless the maturities coincide as nearly as practicable with the expected use of the funds.

Credit Risk - The District's investment policy conforms with state law, which restricts investments of public funds to debt securities and obligations of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit, and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), bankers' acceptances, investment-grade general obligation debt of state and local governments and public authorities, and the Washington State Treasurer's Local Government Investment Pool (LGIP). The LGIP portfolio meets the requirements set forth in GASB 79 to report the investment at amortized cost. The reported value of the pool is the same as the fair value of the pool shares. There is no formal withdrawal transaction limit, however, the LGIP requests a one-day notice for transaction sizes of ten million dollars or more. The LGIP is governed by the State Finance Committee and is administered by the State Treasurer. The District has a third-party safekeeping agreement for investments through Wells Fargo Bank, N.A.

Concentration of Credit Risk - The District's investment policy limits investments at the time of purchase to a percentage of the total investment portfolio in the following manner:

- Direct obligations of the U.S. Government, up to 100%
- Washington State Treasurer's Local Government Investment Pool, up to 100%
- U.S. Government agency debt, up to 30% for any single agency
- Certificate of Deposit, up to 50% from any single bank provided they are PDPC approved

Custodial Credit Risk Deposits - For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District's deposits and certificates of deposit are held by public depositaries authorized by the PDPC and are not subject to custodial credit risk. State law requires public depositaries to fully collateralize their uninsured public deposits with approved third-party safekeeping agents and provides for independent oversight of this program.

Cash and Cash Equivalents Deposits – The District moves cash as necessary between accounts, LGIP and various bank revolving or holding accounts, to pay its obligations. The District's deposits are held by public depositaries authorized by the PDPC and are not subject to custodial credit risk. State law requires public depositaries to fully collateralize.

Note 4 - Other Charges and Other Credits

As of December 31, other charges consisted of the following:

Other Charges	2021	2020
Derivative Asset (Note 1)	$7,833,234	$4,039,754
White Creek Wind Project (Note 8)	3,422,668	4,001,068
Preliminary Surveys	88,468	57,758
Total	**$11,344,370**	**$8,098,580**

During the year ended December 31, 2021, the following changes occurred in other credits:

Other Credits & Other Liabilities	Balance Dec. 31, 2020	Increase	Decrease	Balance Dec. 31, 2021
Unclaimed Property	$42,314	$5,540	$7,072	$40,782
Bio Fuel Deposit	223,425	263,575	-	487,000
Derivative Liability (Note 1)	1,296,396	3,138,740	1,296,396	3,138,740
Deferred Revenue	1,285,584	3,165,441	2,447,941	2,003,084
Finley CT Site Clean Up	32,981	-	32,981	-
Personal Leave and Benefits*	1,682,017	1,950,029	2,173,480	1,458,566
Total	**$4,562,717**	**$8,523,325**	**$5,957,870**	**$7,128,172**

** In addition to this amount, $1,684,678 is reported as a current liability for personal leave and related benefits.*

During the year ended December 31, 2020, the following changes occurred in other credits:

Other Credits & Other Liabilities	Balance Dec. 31, 2019	Increase	Decrease	Balance Dec. 31, 2020
Unclaimed Property	$37,544	$9,454	$4,684	$42,314
Bio Fuel Deposit	197,857	25,568	-	223,425
Derivative Liability (Note 1)	3,703,061	1,296,396	3,703,061	1,296,396
Deferred Revenue	979,336	3,224,132	2,917,884	1,285,584
Finley CT Site Clean Up	35,957	-	2,976	32,981
Personal Leave and Benefits*	1,627,616	2,406,573	2,352,172	1,682,017
Total	**$6,581,371**	**$6,962,123**	**$8,980,777**	**$4,562,717**

** In addition to this amount, $1,455,773 is reported as a current liability for personal leave and related benefits.*

Note 5 - Long-Term Liabilities

During the year ended December 31, 2021, the following changes occurred in long-term liabilities:

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2010 Revenue Build America Bonds, Original issue amount: $17,345,000	$17,345,000	$ -	$ -	$17,345,000	$1,645,000
2016 Revenue and Refunding Bonds, Original issue amount: $22,470,000	22,470,000	-	-	22,470,000	-
2020 Revenue and Refunding Bonds, Original issue amount: $23,495,000	23,495,000	-	3,115,000	20,380,000	1,550,000
Subtotal	63,310,000	-	3,115,000	60,195,000	3,195,000
Plus: Unamortized premium	6,226,221	-	464,211	5,762,010	-
Total Bonds	**$69,536,221**	**$0**	**3,579,211**	**65,957,010**	**$3,195,000**
BPA Prepay Incentive Credit	1,249,765	-	161,256	1,088,509	161,256
Net Pension Liability	4,944,524	-	3,750,633	1,193,891	-
Personal Leave and Benefits*	1,682,017	1,950,029	2,173,480	1,458,566	1,684,678
Total Long-Term Liabilities	**$77,412,527**	**$1,950,029**	**9,664,580**	**69,697,976**	**$5,040,934**

*Personal leave and benefits are reported on the Statement of Net Position within the balances of Other Accrued Liabilities and Other Credits & Liabilities. It is also disclosed in Note 4.

During the year ended December 31, 2020, the following changes occurred in long-term liabilities:

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2010 Revenue Build America Bonds, Original issue amount: $17,345,000	$17,345,000	$ -	$ -	$17,345,000	$ -
2011 Revenue and Refunding Bonds, Original issue amount: $38,545,000	9,770,000	-	9,770,000	-	-
2016 Revenue and Refunding Bonds, Original issue amount: $22,470,000	22,470,000	-	-	22,470,000	-
2020 Revenue and Refunding Bonds, Original issue amount: $23,495,000	-	23,495,000	-	23,495,000	3,115,000
Subtotal	49,585,000	23,495,000	9,770,000	63,310,000	3,115,000
Plus: Unamortized premium	3,452,539	3,293,712	520,030	6,226,221	-
Total Bonds	**$53,037,539**	**$26,788,712**	**10,290,030**	**69,536,221**	**$3,115,000**
BPA Prepay Incentive Credit	1,411,021	-	161,256	1,249,765	161,256
Net Pension Liability	5,017,752	-	73,228	4,944,524	-
Personal Leave and Benefits*	1,627,616	2,406,573	2,352,172	1,682,017	1,455,773
Total Long-Term Liabilities	**$61,093,928**	**$29,195,285**	**12,876,686**	**77,412,527**	**$4,732,029**

*Personal leave and benefits are reported on the Statement of Net Position within the balances of Other Accrued Liabilities and Other Credits & Liabilities. It is also disclosed in Note 4.

Future debt service requirements on these bonds are as follows:

Year	Principal	Interest	Total
2022	3,195,000	2,803,843	5,998,843
2023	3,130,000	2,699,696	5,829,696
2024	3,265,000	2,563,921	5,828,921
2025	3,415,000	2,412,013	5,827,013
2026	2,930,000	2,251,295	5,181,295
2027-2031	15,370,000	8,520,014	23,890,014
2032-2036	10,475,000	5,327,500	15,802,500
2037-2041	12,885,000	2,917,400	15,802,400
2042-2046	5,530,000	564,000	6,094,000
Total	**$60,195,000**	**$30,059,682**	**$90,254,682**

Bond Issuances

In March 2010, the District issued $17,345,000 of taxable Electric Revenue Build America Bonds. The proceeds were used to fund capital projects. The bonds are payable in annual installments between $1,645,000 and $2,250,000 beginning November 1, 2022 and ending November 1, 2030. The bond interest rate varies between 5.86% and 6.546%. The U.S. Treasury subsidizes a portion (32.6% after sequestration) of the interest debt service payments which it pays directly to the Fiscal Paying Agent. In February 2021, the District received the October 2020 portion of the subsidy totaling $177,622.

In October 2011, the District issued $38,545,000 of Electric Revenue and Refunding Bonds, Series 2011. The bond proceeds were used to fund $10 million of improvements and replacements in the District's electric utility system and to refund all of the 2001A bonds maturing on or after November 1, 2011, and all of the 2002 bonds maturing on or after November 1, 2012. The portion of bond proceeds for the refunding was placed in an irrevocable trust for future debt service on the refunded bonds. The 2011 bonds are payable in annual installments between $460,000 and $4,135,000 beginning November 1, 2012 and ending November 1, 2035. The bond interest rate varies between 2.0% and 5.0%. These bonds were fully defeased with the issuance of the 2020 bonds.

In September 2016, the District issued $22,470,000 of Electric Revenue and Refunding Bonds, Series 2016. The bond proceeds were used to fund $15.1 million of improvements and replacements of the District's electric utility system and to refund the 2011 bonds maturing on and after November 1, 2023. The portion of bond proceeds for the refunding was placed in an irrevocable trust for future debt service on the refunded bonds. The 2016 bonds are payable in annual installments between $790,000 and $1,560,000 beginning November 1, 2023 and ending November 1, 2041. The bond interest rate varies between 4.0% and 5.0%.

In September 2020, the District issued $23,495,000 of Electric Revenue and Refunding Bonds, Series 2020A and Series 2020B. The bond proceeds were used to fund $20 million of improvements and replacements in the District's electric utility system and to refund the remaining 2011 bonds maturing on

November 1, 2021 to November 1, 2022. The portion of bond proceeds for the refunding and a cash contribution from the District in lieu of an upcoming debt service payment due November 1, 2020 was placed in an irrevocable trust for future debt service on the refunded bonds. The 2020 bonds are payable in annual installments between $630,000 and $3,115,000 beginning November 1, 2021 and ending November 1, 2045. The bond interest rate varies between 0.4% and 5.0%. The bond refunding reduced total debt service payments over the next two years by $48,004 and resulted in an economic gain of $16,300. The primary purpose of refunding the 2011 bonds was to lower ongoing debt service reserve fund requirements. The capital construction account had a balance of $0 and $9,526,848 at December 31, 2021 and 2020, respectively.

Principal and interest on all bonds are payable solely from and secured by a pledge of all future income (including investment income), revenues, and receipts derived by the District through the ownership and operation of the electric system net of operating expenses. In the event the District is unable to pay any installment, or any portion thereof, the payment of the principal amount of the bonds is not subject to acceleration. The District would be liable only for principal and interest payments as they became due, and the bond owners would be required to seek separate judgment for each payment, if any, not made. Any such action for money damages would be subject to any limitations on legal claims and remedies against public bodies under Washington law. No assets were used as collateral for these bonds.

These issuances are subject to certain bond reserve requirements satisfied by bond insurance and a bond reserve fund of $108,200.

In prior years, the District defeased certain electric revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future certain debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At December 31, 2021 and 2020, $0 and $15,165,000 respectively, of bonds outstanding are considered defeased.

Defeased Bonds	Principal	Call Date
2011 (2016 Refunding)	$9,335,000	11/1/2021
2011 (2020 Refunding)	$5,830,000	11/1/2021

Line of Credit

In December 2021, the District extended its $10 million line of credit with Bank of America for a three-year term expiring December 31, 2024. The line of credit was established in support of District financial policies that require additional liquidity be maintained above minimum cash and investment reserve levels for the purpose of meeting unforeseen short-term cash needs. Specifically, the line of credit can be used in support of general District operations or for irrevocable letters of credit as may be required to satisfy collateral posting requirements under contracts and agreements within the ordinary course of business. Under the loan agreement, each letter of credit is limited to $5 million. Draws on the Note will bear interest based on a pricing grid and formula using the bank's prime rate or rate approved by the bank. This Note is a special obligation of the District payable solely out of a special fund and has a lien on revenues junior to the payment of operating expenses of the electric system and outstanding electric system bonds. No draws on the line of credit have been made and no amounts are outstanding as of December 31, 2021 and 2020.

Note 6 - Pension Plans

The following table represents the aggregate pension amounts for all plans (PERS and deferred comp) for the year 2021 and 2020:

Aggregate Pension Amounts - All Plans		
	2021	2020
Pension liabilities	$1,193,891	$4,944,524
Pension assets	$12,508,593	-
Deferred outflows of resources	$1,435,427	$1,541,887
Deferred inflows of resources	$13,101,100	$1,742,892
Pension expense	($2,611,974)	$511,342

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2 percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 and 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
January – June 2021		
PERS 1	7.92%	6.00%
PERS 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	**12.97%**	**6.00%**
July – December 2021		
PERS 1	10.07%	6.00%
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**

PERS Plan 1 Actual Contribution Rates	Employer	Employee
January – August 2020		
PERS 1	7.92%	6.00%
PERS 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	**12.86%**	**6.00%**
September – December 2020		
PERS 1	7.92%	6.00%
PERS 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	**12.97%**	**6.00%**

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2 percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least 5 years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3 percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 years of service if 12 months of that service are earned after age 44.

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

Contributions - The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 and 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January – June 2021		
PERS 2/3	7.92%	7.90%
PERS 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS 3		Varies
Total	**12.97%**	**7.90%**
July – December 2021		
PERS 2/3	6.36%	6.36%
PERS 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS 3		Varies
Total	**10.25%**	**6.36%**

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January – August 2020		
PERS 2/3	7.92%	7.90%
PERS 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS 3		Varies
Total	**12.86%**	**7.90%**
September – December 2020		
PERS 2/3	7.92%	6.36%
PERS 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS 3		Varies
Total	**12.97%**	**6.36%**

Both the District and its employees made the required contributions during fiscal years 2021 and 2020.

The District's required employer contributions for the years ended December 31 as follows:

	2021	2020
PERS 1	-	-
PERS 1 UAAL	$658,699	$704,510
PERS 2/3	1,094,430	1,163,559
Total	**$1,753,129**	**$1,868,069**

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuations completed in 2021 and 2020 with a valuation date of June 30, 2020, and June 30, 2019 respectively. 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 2020 and 2019 actuarial valuation reports. The TPL was calculated as of the valuation dates and rolled forward to the measurement dates of June 30, 2021 and June 30, 2020. Plan liabilities were rolled forward from June 30, 2020 to June 30, 2021 and June 30, 2019 to June 30, 2020 for the respective fiscal years, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 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 of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation. For 2021:

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data

forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

There were changes in methods and assumptions since the last valuation. For 2020:

- 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

In 2021 and 2020, the discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

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

Long-Term Expected Rate of Return

The long-term expected rate of return on DRS pension plan investments of 7.4 percent for 2021 and 2020 was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns over various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 and 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of Net Pension Liability/(Asset)

The table below presents the District's proportionate share of the net pension liability/(asset) calculated using the discount rate of 7.4 percent for 2021 and 2020, as well as what the District's proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
2021	(6.4%)	(7.4%)	(8.4%)
PERS 1	$2,033,860	$1,193,891	$461,351
PERS 2/3	($3,563,455)	($12,508,593)	($19,874,918)
2020	(6.4%)	(7.4%)	(8.4%)
PERS 1	$4,204,718	$3,356,908	$2,617,530
PERS 2/3	$9,878,571	$1,587,616	($5,239,990)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2021 and 2020, the District reported proportionate share of the net pension liabilities or (assets) as follows:

	2021 Liability (or Asset)	2020 Liability (or Asset)
PERS 1	$1,193,891	$3,356,908
PERS 2/3	($12,508,593)	$1,587,616

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

	Proportionate Share 2021	Proportionate Share 2020	Change in Proportion
PERS 1	0.097761%	0.095082%	(0.002679%)
PERS 2/3	0.125568%	0.124135%	(0.001433%)

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

Pension Expense

For the year ended December 31, 2021 and 2020, the District recognized pension expense (credit) as follows:

Plan	Pension Expense/(Credit)	
	2021	2020
PERS 1	($128,685)	$28,082
PERS 2/3	($2,912,744)	$63,615
Total	**($3,041,429)**	**$91,697**

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2021	2020	2021	2020
Net difference between projected and actual investment earnings on pension plan investments	-	-	$1,324,819	$18,692
Contributions subsequent to the measurement date	290,619	360,125	-	-
TOTAL	**$290,619**	**$360,125**	**$1,324,819**	**$18,692**

PERS 2/3	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2021	2020	2021	2020
Differences between expected and actual experience	$607,524	$568,343	$153,343	$198,966
Net difference between projected and actual investment earnings on pension plan investments	-	-	10,454,250	80,628
Changes of assumptions	18,279	22,612	888,317	1,084,479
Changes in proportion and differences between contributions and proportionate share of contributions	23,244	-	280,371	360,127
Contributions subsequent to the measurement date	495,761	590,807	-	-
TOTAL	**$1,144,808**	**$1,181,762**	**$11,776,281**	**$1,724,200**
TOTAL ALL PLANS	**$1,435,427**	**$1,541,887**	**$13,101,100**	**$1,742,892**

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, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	PERS 1	PERS 2/3
2021	($350,945)	($2,935,011)
2022	($321,593)	(2,747,182)
2023	(304,079)	(2,616,647)
2024	(348,202)	(2,794,339)
2025	-	(43,058)
Thereafter	-	9,003
Total	($1,324,819)	($11,127,234)

Deferred Compensation Plans

The District offers qualified employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457(b) and 401(a) permitting employees to defer a portion of their salary until future years. Qualified District employees include current full-time, non-represented employees with 30 or more hours per week, retirees, and those who have separated service but choose to keep their assets in the Plans. In a defined contribution plan, benefits depend solely on the amounts contributed to the plans plus investment earnings. There are no forfeitures of member assets.

As part of the 2020-2023 collective bargaining agreement, the District agreed to a one percent increase in the employer contribution rate. The new contribution rate is 3% of regular straight-time wages. Additionally, the “employer match” requirement was removed. Eligible active employees who participate may contribute between 0% up to the plan limit of pretax annual compensation, as defined in the Plans and will receive the employer contribution regardless of their contribution amount. Contributions to employee accounts are immediately fully vested.

The deferred compensation is generally not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. Upon separation, a participant may elect to receive either a lump sum payment or periodic installments. The 457 plan does contain an employee loan provision. Employees may apply with the Plan Administrator; terms of repayment are set by the Administrator. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries. The plans are administered by MissionSquare Retirement, formerly ICMA-RC.

The total employer contributions for all plans was $429,455 for 2021 and $419,645 for 2020. Expenses for the Plans is reported within the balances on the Statement of Revenues, Expenses, and Changes in Net Position. The deferred compensation plans do not have separately available financial statements.

Note 7- Health Benefit Plans

Health Benefit Plans

Health Reimbursement Arrangement (HRA VEBA)

The District, effective January 1, 2015, converted the employee incentive for voluntary participation in the employer provided wellness program to a monthly contribution into an HRA. This payment is intended to help employees pay for qualified health care costs and insurance premiums upon retirement. Contributions are held in trust for the exclusive benefit of participants and beneficiaries. The plan was administered by Gallagher VEBA during the year.

The District, effective January 1, 2020, implemented a new benefit to employees in accordance with the 2020-2023 Collective Bargaining Agreement. The benefit provides a monthly VEBA contribution to all employees in a regular full-time position.

HealthInvest Health Reimbursement Arrangement (HealthInvest HRA)

The District adopted an HealthInvest HRA plan, with contributions effective January 1, 2019. This payment is intended to help employees pay for qualified insurance premiums only after an employee has separated service or upon retirement. Contributions are held in trust for the exclusive benefit of participants and beneficiaries. The plan was administered by Gallagher VEBA during the year.

Note 8 - Long-Term Purchased Power Commitments

Bonneville Power Administration (BPA)

Contracts Effective October 2011-September 2028

The District has executed a Slice/Block Power Sales Agreement with BPA for the period commencing October 1, 2011 and expiring September 30, 2028. Compared to the previous agreement, the new Slice agreement has changes in operational flexibility and clarification of with-in hour capacity rights as shown below:

- The Slice Product is a system sale of power that includes requirements power, surplus power, and hourly scheduling rights, all of which are indexed to the variable output capability of the FCRPS resources that comprise the Slice System, and to the extent such capability is available to Power Services after System Obligations and Operating Constraints are met. These capabilities are accessed by the District through the Slice Computer Application, which will reasonably represent and calculate the capabilities available to BPA Power Services from such FCRPS resources after System Obligations and Operating Constraints are met, including energy production, peaking, storage and ramping capability, and which the Slice Computer Application applies the District's Selected Slice Percentage to such capabilities.
- No ability to self-supply ancillary services such as operating reserves, energy imbalance, or dynamic scheduling.
- Slice schedules continue to be firm across the hour of delivery.
- The District's Slice percentage is 1.36792%.
- The monthly Block amounts have ranged from 70 aMW to 156 aMW.

In conjunction with the new Slice/Block agreement, BPA implemented a Tiered Rates Methodology (TRM). Under the TRM and new agreements, BPA has implemented a cap on the amount of power that the District can purchase at the lowest cost based rates (Tier 1). The cap is referred to in the contract as a Contract High Water Mark (CHWM). The District's CHWM is 204.3 aMW. The maximum amount of power the District can purchase in any federal fiscal year (FFY) is referred to as the Rate Period High Water Mark (RHWM), which adjusts the CHWM for changes in Federal System Capability. For FFY 2020 the RHWM was 200.2 aMW, for FFY 2021 it was 200.2, and FFY 2022 it is 192.001. BPA has a fiscal year of October through September. The amount of power the District can purchase in a FFY is the lesser of its Net Requirement

(Forecast load less its share of Packwood) or RHWM and is the Tier 1 amount. This amount for FFY 2020 was 200.2, for FFY 2021 was 200.2, and FFY 2022 is 192.001.

The TRM provides for the determination of Tier One Cost Allocators (TOCA) to determine monthly charges. The TOCA is determined by dividing the Tier 1 amount by the sum of all BPA customers' RHWM. For FFY 2020, this value for the District was 2.850%; for FFY 2021, this value was 2.850%, and FFY 2022 is 2.850%. The TOCA is multiplied by BPA's monthly Composite Charge to determine that portion of the District's monthly BPA power bill that represents BPA's costs. The non-slice TOCA is the TOCA minus the slice percentage resulting in a FFY 2020 value of 1.482%, FFY 2021 value of 1.482% and FFY 2022 value of 1.482%. The non-slice TOCA is multiplied by BPA's non-slice charge to determine that portion of the District's monthly BPA power bill that represent several BPA revenues, primarily their wholesale sales.

BPA has put in place a Power Cost Recovery Adjustment Clause (Power CRAC) that applies to the District's Block purchases. At the beginning of each federal fiscal year of the rate period (that is, each "applicable year"), BPA will calculate financial reserves available for risk that are attributed to Power Services (Power RFR) as of the end of the federal fiscal year preceding the applicable year. Based on the calculations below, a Power CRAC may trigger, resulting in a rate increase that will go into effect for the period of December 1 through September 30 of the applicable year.

The Power CRAC Threshold is an amount of Power RFR below which Power is considered to have experienced an underrun. The underrun amount is equal to the Power CRAC Threshold minus Power RFR. The Power CRAC Amount is based on the underrun minus the Revenue Financing Amount, limited by the Maximum Power CRAC Recovery Amount (the Power CRAC Cap). There are four possibilities:

(1) If the underrun minus the Revenue Financing Amount is less than $5 million, there is no Power CRAC.
(2) If the underrun minus the Revenue Financing Amount is greater than or equal to $5 million and less than or equal to $100 million, the Power CRAC Amount is equal to the underrun minus the Revenue Financing Amount.
(3) If the underrun minus the Revenue Financing Amount is greater than $100 million and less than $500 million, the Power CRAC Amount is equal to $100 million plus one-half of the difference between $100 million and the underrun minus the Revenue Financing Amount.
(4) If the underrun minus the Revenue Financing Amount is greater than or equal to $500 million, the Power CRAC Amount is equal to $300 million.

The maximum CRAC amount for FFY 2021 and FFY 2022 is $300 million. The CRAC did not trigger for FFY 2020, 2021, or 2022.

The rates contain a Power Reserves Distribution Clause (RDC), which will operate similar to the CRAC but will lower the Block rates charged to the District. At the beginning of each FFY, the RDC will trigger if Power RFR is greater than the Power RDC Threshold for that applicable year by at least $5 million, and BPA RFR is greater than the BPA RDC Threshold for that applicable year by at least $5 million, the Administrator will determine a Power RDC Amount. The maximum RDC amount for FFY 2021 and FFY 2022 is $500 million. For FFY 2022, the RDC did trigger which results in a reduction of rates totaling $274,164. The reduction is applied starting in December 2021 through September 2022. The RDC did not trigger for FFY's 2020 and 2021.

The rates contain a Power Financial Reserves Policy Surcharge (Power FRP), which will operate opposite to the RDC and will increase the Block rates charged to the District. The Power FRP Surcharge Threshold is an amount of Power RFR, below which Power is considered to have experienced an underrun. The underrun amount is equal to the Power FRP Surcharge Threshold minus Power RFR. The Power FRP Surcharge Amount is based on the underrun minus the Revenue Financing Amount, limited by the Base Surcharge. There are three possibilities:

(1) If the underrun minus the Revenue Financing Amount is less than $5 million, there is no Power FRP Surcharge.
(2) If the underrun minus the Revenue Financing Amount is greater than or equal to $5 million and less than or equal to the Base Surcharge, the Power FRP Surcharge Amount is equal to the underrun minus the Revenue Financing Amount.
(3) If the underrun minus the Revenue Financing Amount is greater than or equal to the Base Surcharge, the Power FRP Surcharge Amount is equal to the Base Surcharge.

The Power FRP was not triggered for FFY 2022. In FFY 2020, the Power FRP was triggered and the cap was $30 million. The District's share of the surcharge for FFY 2020 was $614,986 of which $362,589 was paid in 2020 and $69,574 was paid in 2019. In June 2020, the surcharge was suspended through FFY2021 due to the impacts of the COVID-19 pandemic on utilities.

To obtain needed transmission services, the District entered into a service agreement with BPA for point-to-point transmission services commencing May 31, 1997 and terminating on the earlier of September 30, 2031, or the date of termination established pursuant to BPA's Open Access Transmission Tariff. Effective October 1, 2005, the District has transmission demand of 423 MW. This service level exceeds requirements needed to meet projected retail loads.

BPA Prepay Program

BPA developed a Prepay Program to help fund hydro system infrastructure and as a means to allow customers to prepay for the future delivery of power consistent with the existing power supply agreements, except that payment provisions would be revised to reflect the prepayment. The District submitted an offer for one block in the amount of $6.8 million that was accepted and, in return, would receive a total of $9.3 million in credits resulting in net present value savings of $1.1 million. The District made a lump-sum up-front payment in March 2013, and began receiving a $50,000 credit each month on its power bill beginning April 2013 and continues until September 2028.

Energy Northwest

The District, Energy Northwest, and BPA have entered into separate agreements with respect to certain Energy Northwest projects. Under these agreements, the District has purchased 4.965%, 5.350%, and 4.295% capability of Project No. 1, Columbia Generating Station, and Energy Northwest's 70% share of Project No. 3, respectively. All project participants, including the District, have assigned their respective rights to the capability of these projects to BPA under contracts referred to as net-billing agreements. Project participants are obligated to pay Energy Northwest their pro rata share of total project costs, and BPA in turn is obligated to pay the participants identical amounts by reducing amounts due to BPA under power sales agreements. The net-billing agreements provide that participants and BPA are obligated to make such payments whether or not the projects are completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction, or curtailment of the projects' output.

BPA and Energy Northwest received a favorable private letter ruling from the IRS allowing for direct-pay agreements effective June 2006. The ruling assures that the proposed direct-pay agreements do not adversely affect the existing federal income tax-exemption on the BPA-backed bonds issued by Energy Northwest for three nuclear projects. Under the direct-pay agreements, BPA pays amounts directly to Energy Northwest to cover the costs of the projects. This enables Energy Northwest to reduce to zero the amounts it bills to project participants and also reduces to zero the amount of net-billing credits BPA provides. The direct-pay agreements improve BPA's cash flows and provide an opportunity for rate relief for the region. The District began participation in the direct-pay program in June 2006.

Additionally, the District entered into a Nine Canyon Wind Project Power Purchase Agreement with Energy Northwest for the purchase of 3 MW of the project generating capacity (1 aMW) of Phase I through July 1, 2023. The project reached commercial operation in late 2002. The District on October 30, 2006, signed an Amended and Restated Agreement with ENW and the other purchasers, which extended the term of the Agreement through July 1, 2030 (with rights to extend the agreement for 5-year terms) and provided the District with 6 MW (2 aMW) from the Phase III expansion (see Note 12).

Packwood Lake Hydroelectric Project (Packwood)

The District is a 14% participant in Energy Northwest's 27 MW Packwood Project, located in the Cascade Mountains south of Mount Rainier. The Packwood Agreement with Energy Northwest obligates participants to pay annual costs and receive excess revenues. Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized, and no equity is accumulated. Accordingly, no investment for the joint venture is reflected on the District's Statement of Net Position. No distributions were made in 2021 or 2020.

Frederickson Plant

In March 2001, the District entered into a 20-year agreement with Frederickson Power LP for the purchase of 50 MW of contract capacity beginning September 2002 from the 249 MW Frederickson 1 Generating Station combined-cycle natural gas fired combustion turbine plant near Tacoma, Washington. The agreement includes firm gas transportation from the Canadian border to the plant. Power deliveries and variable energy charges are based on a deemed heat rate of 7,100 British thermal units (Btu) per kilowatt-hour (kWh). Up to 40% of the contract capacity may be displaced regardless of the dispatch decisions of other purchasers. Power costs include a capacity charge and fixed and variable operation and maintenance charges indexed to performance and escalation factors. The District receives fuel management services for the Frederickson Plant from The Energy Authority (TEA).

Lakeview Light and Power (LL&P) Wind Energy, Inc.

In April 2007, the District entered into a 20-year Energy and Environmental Attributes Purchase Agreement with LL&P to purchase 3 MW of capacity (1 aMW) at the White Creek Wind Project. This project is a wind generation facility with capacity of 204.7 MW. It is located in Klickitat County and was declared to be in commercial operation in November 2007. The purchase is part of the District's strategy for meeting renewable resource requirements of the Energy Independence Act (EIA) (see Note 12). The District pays for only the energy and associated environmental attributes generated by the project.

White Creek Wind Project

In September 2008, the District entered into an Assignment Agreement with Klickitat PUD under which Klickitat PUD assigned the District a 3% share of its Energy Purchase Agreement with White Creek Wind I, LLC for $11.1 million. The purchase is part of the District's strategy for meeting renewable resource requirements of EIA (see Note 12). The purchase cost is being amortized on a straight-line basis over a 19-year term. In both 2021 and 2020, power supply expense includes $578,400 each year in amortization of the purchase cost. This 3% share of the 204.7 MW project represents 6.14 MW (2 aMW).

BioFuels Washington, LLC Project/Emerald City Renewables LLC

In February 2013, the District entered into a contract with BioFuels Washington, LLC of Encinitas, CA, to purchase 33,000 Renewable Energy Credits (REC) annually, with a contract term of March 1, 2013, through March 31, 2026, with delivery beginning January 1, 2016. This REC purchase counts toward the District's compliance with the EIA target of 15% renewable energy.

Subsequently, on September 18, 2013, the State of Washington Department of Commerce issued an advisory opinion stating that electricity generated by the BioFuels Washington facility qualifies as distributed generation under RCW 19.285.040(2)(b). For purposes of the compliance with EIA, the Renewable Energy Credits purchased from BioFuels will count double. Therefore, for compliance purposes, this contract provides 66,000 RECs annually toward the District's compliance with the EIA target of 15% renewable energy.

In October 2015, the District consented to the assignment of contracts of the facility to Emerald City Renewables LLC. There were no changes to the District's rights or obligations.

Idaho Wind Partners

In December 2014, the District entered into contracts with Payne's Ferry Wind Park, LLC and Yahoo Creek Wind Park, LLC, which are owned by Idaho Wind Partners, to purchase RECs with a contract term starting in 2015 through 2024. This REC purchase counts toward the District's compliance with the EIA target of 15% renewable energy. In 2021, the District received 39,525 RECs and in 2020, the District received 36,466 RECs.

3Degrees Group, Inc.

In September 2018, the District entered into a contract with 3Degrees Group, Inc. of San Francisco CA, to purchase 60,000 firm RECs annually, with a contract term of April 1, 2019 through April 15, 2028, with delivery beginning no earlier than April 1, 2019. In 2021, the District received 65,000 RECs. In 2020, the District received 35,255 RECs. This REC purchase counts toward the District's compliance with the EIA target of 15% renewable energy beginning in 2020.

RPS Advisors

In September 2019, the District entered into a contract with RPS Advisors of Denver CO, to purchase 40,000 firm RECs annually, with a contract term of January 1, 2020 through April 15, 2030, with delivery beginning no earlier than January 1, 2020. This REC purchase counts toward the District's compliance with the EIA target of 15% renewable energy beginning in 2020.

Morgan Stanley Capital Group, Inc

In January 2020, the District entered in a contract with Morgan Stanley Capital Group, Inc, to purchase a seasonal capacity product. The contract helps reduce the District's power supply risk after the conclusion of the Fredrickson contract by having a firm physical resource it can call on if the market does not have adequate supply during the District's highest deficit months. The term of the contract is December 2022 to August 2025. The District can call upon the following amount:

Seasonal Months	Volume
July/August	75MW HLH
December/January/February	25MW HLH

Other Power Supply Contracts and Purchases

The District entered into a Resource Management Agreement (RMA) with TEA on July 1, 2006, to provide scheduling, dispatching, fuel management, and other power management services. The agreement was restated and extended in 2009 and continues until terminated by either party. The District and TEA have the right to terminate the agreement upon one-year written notice. The agreement also provides for annual consulting task orders to provide for a variety of power management services. Under the agreement, TEA is authorized to trade real time, day-ahead transactions, and forward transactions as principal on behalf of the District. TEA is currently not trading forward transactions as principal. This arrangement allows a financial benefit to the District with TEA trading in aggregated larger power blocks and passing the resulting transaction pricing on to the District. It also provides the advantages of simplified settlement, lower operational and settlement risk, and rigorous documentation and equitable allocation of pricing for like transactions across PUDs. In December 2008, the RMA was amended to allow these transactions to be traded utilizing TEA's credit and contracts as discussed in Note 1(i).

As discussed in Note 1(i), the District entered into other power supply contracts and purchases as follows:

- At December 31, 2021, the District had entered into various short-term financial forward sales and purchase contracts committing the District through September 2023. These contracts had a net positive fair value of $4,694,494 at December 31, 2021, and are reflected in the financial statements as deferred inflows of resources and deferred outflows of resources.
- At December 31, 2020, the District had entered into various short-term financial forward sales and purchase contracts committing the District through September 2023. Financial forward contracts for electricity and gas had a net positive fair value of $2,743,358 at December 31, 2020, and are reflected in the financial statements as deferred inflows of resources and deferred outflows of resources.

Note 9 - Self-Insurance

In the normal course of business, the District is exposed to various risks of loss related to liability claims, property damage, and employee health and welfare programs. The District participates in the following self-insurance programs to protect against such losses.

Public Utility Risk Management Services Self-Insurance Fund

The District is a member of the Public Utility Risk Management Services (PURMS) Self-Insurance Fund. PURMS is a public entity risk pool organized on December 30, 1976, in the State of Washington under RCW 54.16.200 and interlocal governmental agreements. It currently operates under RCW 48.62. Its members include 18 public utility districts and one non-profit mutual corporation. The objectives of PURMS are to formulate, develop, and administer a program of self-insurance in order to obtain lower costs for the various coverages provided to its members and to develop a comprehensive loss control program.

The risks shared by the members are defined in the Self-Insurance Agreement (SIA). The fund consists of three pools for liability, property, and health and welfare coverage. The pools operate independently of one another. All members do not participate in all pools. The District does not participate in the health and welfare pool.

The pools are governed by a Board of Directors which consists of one designated representative from each participating member. The Administrator and an elected Administrative Committee are responsible for conducting the business affairs of the Pool.

PURMS engages an independent qualified actuary on an annual basis to determine the claim financing levels, liabilities for unpaid claims, and claims adjustment expenses for the Liability Pool and the Property Pool. A copy of these reports is provided to the Washington State Risk Manager and to the Washington State Auditor’s Office. Audit reports for the Trust are available from the Washington State Auditor’s Office (Report Nos. 1028997 and 1029026 for fiscal year 2020 and 1026597 and 1026598 for fiscal year 2019).

The pools are fully funded by its current and former members. Members that withdraw from PURMS are responsible for their share of contributions to the pools for any unresolved, unreported, and in-process claims for the period they were signatory to the SIA. Claims are filed by members with the Administrator,

Pacific Underwriters, Seattle, WA, which serves by contract as the fund's Administrator and provides claims adjustment and loss prevention services.

Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Liability Risk Pool

The liability pool has a $1 million liability coverage limit per occurrence. In addition, the fund maintains $35 million of excess general liability insurance over the $1 million retention. A second layer of excess general liability insurance of $65 million is also maintained over the first layer of $35 million. The fund maintains $35 million in directors and officers liability coverage with a retention level of $500,000. The fund also maintains $3 million in cyber security liability coverage with a retention level of $500,000. The deductible is $250.

The liability pool reserve balance is $3.5 million. Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop to $500,000 less than the designated level. The minimum reserve balance may be increased above $3.5 million through member assessments to meet legal funding requirements based on annual actuarial reviews.

Property Risk Pool

The majority of the property in the property pool has a self-insured retention of $250,000 per property loss. Certain classes of property have higher retention requirements up to $750,000. In addition, the fund purchases $200 million of excess insurance over the $250,000 (or higher) retention level. The deductible varies but for most classes of property it is $250.

The designated property pool reserve balance is $750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below $500,000. The minimum reserve balance may be increased above $750,000 through member assessments to meet legal funding requirements based on annual actuarial reviews.

Central Washington Public Utilities Unified Insurance Program Trust

The District is a member of the Central Washington Public Utilities Unified Insurance Program Trust (Trust). The Trust was organized October 1, 1982, pursuant to the provisions of RCW Title 54 and interlocal governmental agreements. The Trust's general objectives are to provide a central fund for the collection and disbursement of employee benefit premiums and claims involving medical, dental, vision, life, and long-term disability coverage. The Trust is administered by a Board of Trustees consisting of an appointed Trustee and Alternate Trustee from each of the seven member Districts. The Trustees are authorized to negotiate, obtain and maintain insurance policies, and authorize disbursements made from the Trust to Third-Party Administrators or other entities. Effective August 1, 2002, the Trust established a self-insured medical and vision plan. Effective January 1, 2009, the Trust established a self-insured dental plan. Both plans are approved by the State Risk Office. The audit reports for the Trust are available from the Washington State Auditor's Office (Report Nos. 1028956 and 1028957 for fiscal year 2020 and 1026694 for fiscal year 2019).

Unemployment Claims

The District pays unemployment claims on a reimbursement basis with claims administered by the Washington State Department of Employment Security.

Short-Term Disability Insurance

The District self-pays short-term disability benefits through a $1,000 per week or 70% salary continuation program from the 9th consecutive scheduled hour of inability to work following three days of disability due to a serious health condition until the employee either recovers and returns to work or completes the waiting period required for long-term disability insurance eligibility, whichever is earlier. Certification of illness or injury by a licensed, competent medical authority is required. The District utilizes a Third-Party Administrator who provides medical oversight and advice-to-pay for disability claims.

Note 10 – Associated Organizations

Participation in Northwest Open Access Network, Inc. (NoaNet)

The District, along with nine other Washington State public entities, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout Washington. The network began commercial operation in January 2001. The District's membership interest in NoaNet was 20.72% in 2021 and 2020.

As a member of NoaNet and as allowed by RCW 54.16, the District has guaranteed a portion of the 2020 NoaNet $24.775 million bonds based upon an agreed share of 12.12% of the outstanding balance. See Note 12 for additional details. NoaNet reserves the right to assess members to cover deficits from operations. There have been no member assessments since 2011.

NoaNet recorded a decrease in net position of $1,152,955 (unaudited) for 2021 and a decrease of $4,125,150 (audited) for 2020. In accordance with GAAP a proportionate share of these gains/losses has not been recorded by the District.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Chief Financial Officer, 7195 Wagner Way, Suite 104, Gig Harbor, WA 98335.

Participation in National Information Solutions Cooperative (NISC)

NISC is an information technology company that develops and supports software and hardware solutions for Member-Owners who are primarily utility cooperatives and telecommunications companies across the nation. NISC is an industry leader providing advanced, integrated IT solutions for consumer and subscriber billing, accounting, engineering & operations, as well as many other leading-edge IT solutions.

NISC was formed July 2000 as a consolidation of Central Area Data Processing Cooperative (CADP) and North Central Data Cooperative (NCDC). Both predecessor organizations were formed in the mid-1960s and had a history of serving energy and telecommunications cooperatives with information processing services and accounting and billing software. NISC has 913 energy and telecommunications Members in all 50 states, American Samoa, Palau, and Canada.

The membership interest in NISC is stated at cost, plus patronage capital credits issued, less distributions received, which as of December 31, 2021 and 2020 was $128,559 and $94,554 respectively. This amount is reported in the Other Receivables balance on the Statement of Net Position.

Financial statements for NISC may be obtained by writing to: NISC, One Innovation Circle, Lake Saint Louis, MO 63367.

Note 11 - Telecommunications Services

The District has installed and continues to build out a fiber optic backbone system in its service area to provide wholesale telecommunication services and for internal use by the electric system. The District has connected its fiber optic system to NoaNet's fiber optic communications system. The District regularly reviews its product offerings and makes adjustments as needed.

Broadband operations and capital activity for the years ended December 31, 2021 and 2020, follows:

Broadband	2021	2020
Operating Revenues		
Ethernet	$1,620,180	$1,619,475
TDM	36,000	36,000
Internet Transport Service	88,441	77,358
Fixed Wireless	23,446	27,811
Access Internet	487,307	379,478
Other Revenue	658,898	659,002
Total Operating Revenues	***$2,914,272***	***$2,799,124***
Operating Expenses		
General Expenses	$997,742	$1,101,109
Other Maintenance	117,415	60,814
Subtotal before depreciation	1,115,157	1,161,923
Depreciation	1,073,738	940,288
Total Operating Expenses	***$2,188,895***	***$2,102,211***
Nonoperating Expenses	$728	$2,063
Capital Investment (Annual)	$1,108,401	$1,033,599
Capital Investment (Cumulative)	$26,260,983	$25,152,582

The above amounts are included in summarized line items on the Statement of Net Position and Statement of Revenues, Expenditures, and Changes in Net Position.

Note 12 - Other Commitments and Contingent Liabilities

Energy Northwest - Nine Canyon Wind Project

The Nine Canyon Wind Energy Project is owned and operated by Energy Northwest. The District, along with nine other public utilities, is a participant in Phases I and III of the Project. Under its Power Purchase Agreement, the District is obligated to pay its percentage share of the annual debt service of each project Phase and the operation and maintenance costs of the project in return for its percentage share of project output, whether or not the project is operating or capable of operating. Under the agreement, the District is obligated to pay an amended percentage share effective May 2008 when Phase III achieved commercial operation. Under a step-up provision, the District could be required to pay up to a maximum of 125% of its percentage share in the event of default by another purchaser. The Agreement limits Energy Northwest's total annual operation and maintenance cost to $4 million prior to Phase III Commercial Operation and to $7 million post Phase III Commercial Operation. These limits will change annually based on certain inflation indexes.

The agreement terminates July 1, 2030. The District's applicable percentage share obligations are:

Allocation of Cost	District % Share	District % Share under Step-up Provision
Debt Service - Phase I	6.25%	7.81%
Debt Service - Phase III	18.63%	23.29%
O&M Costs - Prior to Phase III Commercial Operation	4.72%	5.90%
O&M Costs - Post Phase III Commercial Operation	9.39%	11.74%

Energy Independence Act (Initiative 937)

With the passage of Initiative 937 by Washington voters in November 2006, all electric utilities with more than 25,000 customers are required to purchase renewable energy in gradually increasing percentages of 3%, 9%, and 15% of retail load, and to establish and meet a minimum biennial energy conservation target. As of December 31, 2021 and 2020, the District had renewable energy contracts in place that satisfy the Initiative's renewable target of 15% by 2020. Total incremental expenses for qualifying renewable resources plus the cost of renewable energy credits are limited to 4% of the annual retail revenue requirement.

In 2019, the Commission established the minimum Biennial Conservation Target for 2020–2021 of 1.71 aMW. The District exceeded the goal with 2.87 aMW. Conservation programs are open to all customers on a nondiscriminatory basis.

Repayment Agreement Relating to NoaNet Revenue Bonds (see Note 10)

In December 2020, NoaNet issued $24.775 million in Telecommunications Network Revenue Bonds (2020 Bonds) to finance capital improvements and other expenses, repay loans and a line of credit, fund a reserve account, and pay bond issuance costs. The Bonds will become due beginning in December 2021 through December 2030 with interest due semi-annually at rates ranging from 0.591% to 2.120%.

Current Members of NoaNet entered into Repayment Agreements to guarantee the debt of NoaNet. Under the Repayment Agreement, each guarantor acknowledged and agreed that it is a guarantor of the payment of the principal and interest on the Bonds and was liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such principal and interest up to each Member's agreed upon percentage interest. The District's guarantee was 12.12% of the outstanding bond balance. As of December 31, 2021, and 2020, the outstanding bond balance was $22.53 million and $24.755 million respectively.

To the extent NoaNet's gross revenue is insufficient to pay principal amounts when due, NoaNet shall bill each guarantor no less than 65 days in advance of each principal payment date for its percentage share. Each guarantor has 30 days to pay after receipt of the bill. In the event of a failure by any guarantor to pay such amounts when due, the guarantor shall be subject to all remedies as contained in NoaNet's bylaws. Each guarantor shall remain obligated to pay its respective share of principal and interest on the bonds, when due, whether or not it remains a member of NoaNet.

Operating Leases

The District leases electrical testing equipment on an annual basis. The annual rental cost was $30,050 for 2021 and $30,050 for 2020.

Note 13 – COVID-19 Pandemic

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

The District has a longstanding policy in place to address a pandemic event. In response to COVID-19, the District proactively implemented measures in March 2020 to mitigate operational and financial impacts to the District and its customers, including closing lobbies, requiring employees not required to be onsite for essential services to work from home, implementing "social distancing" measures for the District's onsite essential staff and ensuring projects could be completed with minimal contact between employees. Following appropriate protocol and health requirements, the District re-opened its lobbies to customers in November 2020 and in 2021 staff that had been working remotely returned to regular onsite schedules.

In 2020, due to the pandemic and restrictions on business activity, the District saw a decline specifically in loads for General Service customers. Shortly after the restrictions were imposed, General Service loads dropped about 15% from expected levels. By the end of 2020, General Service loads were about 5% below expected levels. In total, General Service revenues for 2020 were about $2.9 million less than originally budgeted. However, the District used conservative budgeting for power costs which came in lower than budgeted, offsetting the decline in revenue.

In 2021, loads across all customers, including General Service, returned to expected levels with no significant reductions due to COVID restrictions.

The Governor of the State of Washington has issued Proclamations since March 2020 to impose a moratorium on utility disconnects for nonpayment for Residential customers. The Proclamation was in effect until September 30, 2021. District Commissioners approved a moratorium on disconnects for non-payment and extended this moratorium to General Service customers for the same period, many of whom suffered from restrictions imposed.

In April 2021, District Commissioners adopted a COVID-19 Customer Assistance Program. The program provided assistance to customers with past due balances, including low-income customers that were both past due and current. Customers that met eligibility requirements could receive up to $200 in bill credit and/or matching payment up to $10,000. As of December 31, 2021, almost $1.3 million in assistance had been provided to customers.

The District's past due accounts receivable has continued to grow over time until the moratorium expired. Prior to the pandemic, average past due accounts receivables of 30 days or more were $609,000. As of December 31, 2021, the past due accounts receivable was $1,873,447, of which, $703,898 was from inactive customers. As of December 31, 2020, the past due accounts receivable was $1,784,000, of which, $196,117 was from inactive customers.

REQUIRED SUPPLEMENTARY INFORMATION

Public Utility District No. 1 of Benton County

Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 1
As of June 30, 2021
Last 10 Fiscal Years

	2021	2020	2019	2018
Employer's proportion of the net pension liability	0.097761%	0.095082%	0.098400%	0.102845%
Employer's proportionate share of the net pension liability	$1,193,891	$3,356,908	$3,783,829	$4,593,093
Employer's covered payroll	$15,018,615	$14,453,981	$13,806,690	$13,682,851
Employer's proportionate share of the net pension liability as a percentage of covered payroll	8%	23%	27%	34%
Plan fiduciary net position as a percentage of the total pension liability	89%	69%	67%	63%

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

Schedule of Proportionate Share of the Net Pension Liability continued

PERS Plan 1
As of June 30, 2021
Last 10 Fiscal Years

	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.108446%	0.111198%	0.114841%	0.115142%
Employer's proportionate share of the net pension liability	$5,145,847	$5,971,856	$6,007,252	$5,800,332
Employer's covered payroll	$13,503,725	$13,093,469	$12,546,922	$12,460,407
Employer's proportionate share of the net pension liability as a percentage of covered payroll	38%	46%	48%	47%
Plan fiduciary net position as a percentage of the total pension liability	61%	57%	59%	61%

Public Utility District No. 1 of Benton County

Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 1
As of June 30, 2021
Last 10 Fiscal Years

	2021	2020	2019	2018
Employer's proportion of the net pension liability (asset)	0.125568%	0.124135%	0.127033%	0.132333%
Employer's proportionate share of the net pension liability (asset)	($12,508,593)	$1,587,616	$1,233,922	$2,259,468
Employer's covered payroll	$15,018,615	$14,453,981	$13,806,690	$13,682,851
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	(83%)	11%	9%	17%
Plan fiduciary net position as a percentage of the total pension liability	120%	97%	98%	96%

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

Schedule of Proportionate Share of the Net Pension Liability continued

PERS Plan 2/3
As of June 30, 2021
Last 10 Fiscal Years

	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.136394%	0.139973%	0.145674%	0.143243%
Employer's proportionate share of the net pension liability (asset)	$4,739,040	$7,047,530	$5,205,015	$2,895,458
Employer's covered payroll	$13,371,937	$12,986,531	$12,446,584	$12,271,821
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	35%	54%	42%	24%
Plan fiduciary net position as a percentage of the total pension liability	91%	86%	89%	93%

Public Utility District No. 1 of Benton County

Schedule of Employer Contributions

PERS Plan 1
As of December 31, 2021
Last 10 Fiscal Years

	2021	2020	2019	2018
Statutorily or contractually required contributions	$658,699	$704,510	$699,574	$689,118
Contributions in relation to the statutorily or contractually required contributions	(658,699)	(704,510)	(699,574)	(689,118)
Contribution deficiency (excess)	-	-	-	-
Covered employer payroll	$15,214,069	$14,692,671	$14,139,528	$13,617,368
Contributions as a percentage of covered payroll	4%	5%	5%	5%

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

Schedule of Employer Contributions continued

PERS Plan 1
As of December 31, 2021
Last 10 Fiscal Years

	2017	2016	2015	2014
Statutorily or contractually required contributions	$678,004	$636,516	$571,651	$514,217
Contributions in relation to the statutorily or contractually required contributions	(678,004)	(636,516)	(571,651)	(514,217)
Contribution deficiency (excess)	-	-	-	-
Covered employer payroll	$13,751,364	$13,204,856	$12,895,713	$12,475,479
Contributions as a percentage of covered payroll	5%	5%	4%	4%

Public Utility District No. 1 of Benton County

Schedule of Employer Contributions

PERS Plan 2/3
As of December 31, 2021
Last 10 Fiscal Years

	2021	2020	2019	2018
Statutorily or contractually required contributions	$1,094,430	$1,163,559	$1,091,135	$1,021,040
Contributions in relation to the statutorily or contractually required contributions	(1,094,430)	(1,163,559)	(1,091,135)	(1,021,040)
Contribution deficiency (excess)	-	-	-	-
Covered employer payroll	$15,214,069	$14,692,671	$14,139,528	$13,617,368
Contributions as a percentage of covered payroll	7%	8%	8%	7%

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

Schedule of Employer Contributions continued

PERS Plan 2/3
As of December 31, 2021
Last 10 Fiscal Years

	2017	2016	2015	2014
Statutorily or contractually required contributions	$936,046	$815,729	$720,845	$612,316
Contributions in relation to the statutorily or contractually required contributions	(936,046)	(815,729)	(720,845)	(612,316)
Contribution deficiency (excess)	-	-	-	-
Covered employer payroll	$13,675,514	$13,096,369	$12,790,442	$12,335,880
Contributions as a percentage of covered payroll	7%	6%	6%	5%

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the years ended December 31 (unaudited)

	2021	2020	2019	2018
OPERATING REVENUES				
Sales of Electric Energy - Retail	$137,165,982	$133,281,504	$134,197,389	$129,792,002
Secondary Market Sales	32,552,733	16,024,639	22,649,145	24,618,712
Transmission of Power for Others	957,726	1,443,001	1,483,740	1,450,552
Broadband Revenue	2,914,272	2,799,123	2,476,304	2,250,450
Other Revenue	1,243,440	1,381,032	1,690,615	1,756,987
Total Operating Revenues	174,834,153	154,929,299	162,497,193	159,868,703
OPERATING EXPENSES				
Purchased Power	102,522,649	83,898,194	101,774,951	92,569,841
Purchased Transmission & Ancillary Services	14,742,923	14,638,285	13,828,577	13,621,653
Conservation Program	(116,933)	346,063	377,443	(20,404)
Transmission Operations & Maintenance	101,234	114,119	129,425	163,952
Distribution Operations & Maintenance	9,214,692	10,537,318	9,923,012	9,645,034
Broadband Expense	1,115,157	1,161,923	1,061,880	936,989
Customer Accounting, Collection & Information	3,926,096	4,329,302	4,328,333	4,267,684
Administrative & General	6,880,786	7,365,965	6,798,593	6,660,053
Taxes	14,288,903	13,969,670	14,216,802	13,812,993
Depreciation	10,978,659	10,339,875	10,183,035	9,854,391
Total Operating Expenses	163,654,166	146,700,714	162,622,051	151,512,186
OPERATING INCOME/(LOSS)	**11,179,987**	**8,228,585**	**(124,858)**	**8,356,517**
NONOPERATING REVENUES & EXPENSES				
Interest & Other Nonoperating Income	860,362	1,030,185	1,454,432	1,642,595
Interest Expense & Other Nonoperating Expense	(2,929,065)	(2,633,566)	(2,484,359)	(2,832,268)
Debt Premium Amortization & Loss on Defeased Debt	342,996	(125,928)	407,817	453,711
Total Nonoperating Revenues & Expenses	(1,725,707)	(1,729,309)	(622,110)	(735,962)
INCOME/(LOSS) BEFORE CONTRIBUTIONS	**9,454,280**	**6,499,276**	**(746,968)**	**7,620,555**
CAPITAL CONTRIBUTIONS	2,145,749	2,206,345	2,455,560	2,124,000
CHANGE IN NET POSITION	**11,600,029**	**8,705,621**	**1,708,592**	**9,744,555**

NET POSITION

For the years ended December 31 (unaudited)

	2021	2020	2019	2018
Net Investment in Capital Assets	$89,594,340	$89,168,593	$89,870,583	$74,961,846
Restricted for Debt Service	108,200	108,200	1,107,865	1,107,865
Restricted for Net Pension	12,508,593	-	-	-
Unrestricted	53,702,687	55,036,998	44,629,722	57,829,867
Total Net Position	**$155,913,820**	**$144,313,791**	**$135,608,170**	**$133,899,578**

(1) Governmental Accounting Standards Board Statement No. 68 was implemented effective 2015 recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses relating to pension liabilities. The cumulative effect on net pension for 2014 was $12,217,716.

2017	2016	2015	2014 restated[1]	2013	2012
$130,811,427	$120,438,526	$116,820,422	$117,641,940	$115,079,778	$110,799,843
14,542,756	14,808,281	17,678,932	23,325,872	18,232,140	14,048,971
1,284,536	915,169	690,639	632,528	776,957	797,837
2,164,500	2,046,068	2,024,661	2,191,287	1,980,605	1,620,054
1,338,933	1,653,580	1,670,466	1,472,425	1,249,791	1,879,829
150,142,152	139,861,624	138,885,120	145,264,052	137,319,271	129,146,534
83,025,012	80,889,012	82,340,739	84,714,618	77,877,737	68,652,534
13,205,172	12,997,169	12,816,306	12,925,752	11,677,803	11,260,088
544,381	307,113	417,113	89,940	1,315,642	405,589
199,419	260,519	81,305	81,220	82,066	12,684
9,799,347	9,029,751	9,051,462	8,540,568	8,092,079	8,191,232
844,688	931,789	1,022,025	982,869	890,521	696,415
3,735,098	3,411,338	3,794,832	3,788,799	4,026,839	3,954,421
7,181,596	6,331,749	7,229,048	6,909,615	6,444,642	6,276,795
14,018,894	12,630,500	12,263,706	12,394,110	12,144,846	11,814,545
10,177,574	12,630,490	13,207,539	12,894,915	12,671,992	11,642,052
142,731,181	139,419,430	142,224,075	143,322,406	135,224,167	122,906,355
7,410,971	**442,194**	**(3,338,955)**	**1,941,646**	**2,095,104**	**6,240,179**
1,134,607	643,191	772,788	699,275	371,797	688,636
(2,910,007)	(2,664,442)	(2,756,755)	(2,844,753)	(2,913,078)	(3,001,895)
492,959	143,522	419,819	445,518	459,652	459,198
(1,282,441)	(1,877,729)	(1,564,148)	(1,699,960)	(2,081,629)	(1,854,061)
6,128,530	**(1,435,535)**	**(4,903,103)**	**241,686**	**13,475**	**4,386,118**
1,990,641	1,164,819	2,471,250	3,834,420	2,706,411	2,368,597
8,119,171	**($270,716)**	**($2,431,853)**	**4,076,106**	**2,719,886**	**6,754,715**

2017	2016	2015	2014[3]	2013	2012
$64,407,047	$58,672,489	$68,039,579	$65,363,895	$62,492,766	$58,085,620
1,107,865	1,107,865	1,083,997	140,017	140,017	140,017
-	-	-	-	-	-
58,640,111	56,255,498	47,182,992	53,234,509	64,247,248	65,934,508
$124,155,023	**$116,035,852**	**$116,306,568**	**$118,738,421**	**$126,880,031**	**$124,160,145**

REVENUES AND CONSUMPTION BY CUSTOMER CLASS

For the years ended December 31 (unaudited)

	2021	2020	2019	2018
AVERAGE NUMBER OF CUSTOMERS				
Residential	46,690	46,027	45,319	44,550
General Service	6,167	6,109	6,041	5,937
Industrial	5	5	5	5
Irrigation	986	984	979	983
Miscellaneous	2,224	2,217	2,237	2,269
Total	56,072	55,342	54,581	53,744
RETAIL ELECTRIC SALES (IN THOUSANDS) (1)				
Residential	$61,325	$61,936	$63,799	$59,461
General Service	$38,113	$35,467	37,480	37,236
Industrial	$3,511	$3,452	3,394	3,438
Irrigation	$27,171	$26,320	22,343	23,517
Miscellaneous	$666	$690	675	678
Total	$130,786	$127,865	$127,691	$124,330
RETAIL ELECTRIC SALES IN MWh				
Residential	711,831	704,408	751,107	697,107
General Service	541,416	503,631	545,081	546,595
Industrial	65,084	63,625	64,318	65,997
Irrigation	482,741	461,274	399,178	424,610
Miscellaneous	6,243	6,495	6,486	6,540
Total	1,807,315	1,739,433	1,766,170	1,740,849
AVERAGE REVENUE PER kWh (CENTS) (1)				
Residential	8.62	8.79	8.49	8.53
General Service	7.04	7.04	6.88	6.81
Industrial	5.39	5.43	5.28	5.21
Irrigation	5.63	5.71	5.60	5.54
Miscellaneous	10.67	10.63	10.41	10.37
Average - All Classes	7.24	7.35	7.23	7.14

(1) Includes total retail revenue (per kWh charge and base charge); excludes city utility occupation tax, bad debt expense, and accrued unbilled revenue.

2017	2016	2015	2014	2013	2012
43,870	43,157	42,375	41,758	41,322	40,645
5,919	5,840	5,737	5,643	5,572	5,499
5	5	3	3	3	3
987	790	794	788	772	721
2,330	1,850	1,853	1,861	1,852	1,842
53,111	51,642	50,762	50,053	49,521	48,710
$62,861	$53,643	$51,402	$52,862	$52,924	$50,678
36,690	34,223	33,706	33,829	32,959	32,416
3,440	3,214	3,051	3,250	3,176	3,223
21,825	22,348	22,283	22,794	19,630	18,817
673	656	616	616	622	821
$125,489	$114,084	$111,058	$113,351	$109,311	$105,955
759,634	661,742	665,505	696,804	697,887	668,018
545,884	525,603	530,283	533,008	519,493	512,797
67,084	64,612	66,942	71,869	69,803	70,575
405,805	435,186	468,202	472,643	402,619	385,738
6,691	6,935	7,090	6,998	6,972	8,148
1,785,098	1,694,078	1,738,022	1,781,322	1,696,774	1,645,276
8.28	8.11	7.72	7.59	7.58	7.59
6.72	6.51	6.36	6.35	6.34	6.32
5.13	4.97	4.56	4.52	4.55	4.57
5.38	5.14	4.76	4.82	4.88	4.88
10.05	9.46	8.69	8.81	8.92	10.08
7.03	6.73	6.39	6.36	6.44	6.44

RETAIL RATES [1]

For the years ended December 31 (unaudited)

	2021	2020	2019	2018
Residential				
Daily System Charge[2]	$0.63	$0.63	$0.63	$0.62
Monthly Base Charge (single phase)	-	-	-	-
Energy Charge (cents/kWh)	7.39	7.39	7.39	7.18
Small General Service				
Daily System Charge[2] (Single-Phase)	$0.55	$0.55	$0.55	$0.54
Daily System Charge[2] (Multi-Phase)	$0.82	$0.82	$0.82	$0.80
Monthly Base Charge (single phase)	-	-	-	-
Energy Charge Effective 2010 (cents/kwh)	6.63	6.63	6.63	6.44
Medium General Service				
Daily System Charge[2] (All Phases)	$1.65	$1.65	$1.65	-
Daily System Charge[2] (Single-Phase)	-	-	-	$1.08
Daily System Charge[2] (Multi-Phase)	-	-	-	$1.61
Monthly Base Charge (single phase)	-	-	-	-
Energy Charge (cents/kwh)	5.77	5.77	-	-
Summer (Effective 2011-2019)	-	-	5.24	5.09
Winter (Effective 2011-2019)	-	-	6.14	5.97
Demand Charge[3]	$9.82	$9.82	$9.82	$9.55
Large General Service				
Daily System Charge[2] (Multi-Phase)	$2.01	$2.01	$2.01	$1.96
Monthly Base Charge (multi phase)	-	-	-	-
Energy Charge - Non Time of Use (cents/kwh)	4.71	4.71	-	-
Summer (Effective 2010-2019)	-	-	4.23	4.11
Winter (Effective 2010-2019)	-	-	5.06	4.92
Demand Charge[3]	$8.15	$8.15	$8.15	$7.93

(1) These rates represent the typical customer. Other monthly charges may apply.
Other rate schedules also in effect are small irrigation, large irrigation, industrial, and miscellaneous.

(2) The Daily System Charge was effective 9/1/2015 and replaced the Monthly Base Charge.
The rate is per day and applied to the number of days in the billing period.

(3) Excess above 50kW of demand per month.

2017	2016	2015	2014	2013	2012
$0.62	$0.55	$0.52	-	-	-
-	-	-	$11.05	$11.05	$11.05
7.18	7.18	6.84	6.84	6.84	6.84
$0.54	$0.46	$0.44	-	-	-
$0.80	$0.68	$0.65	-	-	-
-	-	-	$11.95	$11.95	$11.95
6.44	6.44	6.14	6.14	6.14	6.14
-	-	-	-	-	-
$1.08	$0.92	$0.88	-	-	-
$1.61	$1.38	$1.32	-	-	-
-	-	-	$17.55	$17.55	$17.55
-	-	-	-	-	-
5.09	5.09	4.85	4.85	4.85	4.85
5.97	5.97	5.69	5.69	5.69	5.69
$9.55	$8.77	$8.36	$8.36	$8.36	$8.36
$1.96	$1.38	$1.32	-	-	-
-	-	-	$26.10	$26.10	$26.10
-	-	-	-	-	-
4.11	4.11	3.92	3.89	3.89	3.89
4.92	4.92	4.69	4.65	4.65	4.65
$7.93	$7.45	$7.10	$7.00	$7.00	$7.00

PRINCIPAL RATEPAYERS

For the years ended December 31 (unaudited)

2021

Ratepayer's Rate Class [1]	Rank	Retail Sales[2]	Percentage of Total Retail Electric Sales	kWh	aMW	Percentage of Total kWh
Large Irrigation Customer 1	1	$13,091,500	10.0%	223,678,892	25.5	12.4%
Large Irrigation Customer 2	2	4,842,248	3.7%	86,262,122	9.8	4.8%
Large Industrial Customer 1	3	3,523,414	2.7%	65,253,172	7.4	3.6%
Large Irrigation Customer 3	4	2,556,516	2.0%	42,623,886	5.2	2.4%
Large Irrigation Customer 4	5	2,510,503	1.9%	45,186,699	4.8	2.5%
Large Irrigation Customer 5	6	2,175,828	1.7%	38,131,276	4.4	2.1%
Large General Customer 1	7	1,906,517	1.5%	25,330,335	2.9	1.4%
Large General Customer 2	8	1,741,451	1.3%	24,401,649	2.8	1.4%
Large Irrigation Customer 6	9	1,501,425	1.1%	28,742,834	3.3	1.6%
Large General Customer 3	10	1,092,504	0.8%	17,378,598	2.0	1.0%
Large Irrigation Customer 7	-	-	-	-	-	-
		$34,941,906	26.7%	596,989,463	68.1	33.2%
Total All Ratepayers		**$130,785,749**		**1,807,315,060**		

(1) To preserve confidentiality, individual ratepayer names are not disclosed.
(2) Retail sales are before bad debt expense and unbilled revenue.

2012

Rank	Retail Sales[2]	kWh	aMW	Percentage of Total kWh
1	$8,146,676	173,446,250	19.8	10.5%
3	3,037,538	65,084,579	7.4	4.0%
2	3,170,159	70,575,165	8.1	4.3%
4	1,953,803	42,397,693	4.8	2.6%
5	1,515,801	31,251,933	3.6	1.9%
7	1,379,582	30,519,904	3.5	1.9%
6	1,469,832	22,071,841	2.5	1.3%
8	1,319,738	21,796,532	2.5	1.3%
9	1,148,125	19,755,254	2.3	1.2%
-	-	-	-	-
10	1,147,445	25,774,363	2.9	1.6%
	$24,288,699	502,673,514	57.4	30.6%
	$110,799,843	**1,645,276,516**		

RATIOS OF OUTSTANDING DEBT

For the years ended December 31 (unaudited)

	2021	2020	2019	2018
Revenue Bonds	$60,195,000	$63,310,000	$49,585,000	$53,335,000
Unamortized Premium & Discount	5,762,010	6,226,221	3,452,539	3,869,777
Total Outstanding Revenue Debt	$65,957,010	$69,536,221	$53,037,539	$57,204,777
Total Revenue Debt to Operating Revenues	38%	45%	33%	36%
Total Revenue Debt to Total Assets	25%	28%	24%	25%
Total Revenue Debt per Ratepayer	$1,176	$1,256	$972	$1,064

DEBT MARGIN INFORMATION (1)

For the year ended December 31, 2021 (unaudited)

Net Revenues January 2021 - December 2021 (2)	$26,219,349
Maximum Future Annual Debt Service (2022)	$5,998,843
Maximum Allowable Annual Debt Service per Bond Covenants (2)	$20,975,479
Allowable Additional Annual Debt Service	$14,976,636

(1) As a proprietary fund, the District does not have a legal debt limitation. However, the District's bond resolutions establish restrictions on the issuance of additional debt based on a defined formula.

(2) The bond covenants state that new parity bonds may be issued if the amount of net revenue for any twelve consecutive months in the prior 24 month period divided by the maximum annual debt service in any future year is not less than 125%.

2017	2016	2015	2014 restated	2013	2012
$56,905,000	$59,950,000	$49,735,000	$53,600,000	$56,635,000	$59,575,000
4,336,311	4,845,315	3,099,629	3,572,728	4,072,098	4,597,935
$61,241,311	$64,795,315	$52,834,629	$57,172,728	$60,707,098	$64,172,935
41%	46%	38%	39%	44%	50%
28%	30%	26%	27%	29%	31%
$1,153	$1,255	$1,041	$1,142	$1,226	$1,317

DEBT SERVICE COVERAGE

For the years ended December 31 (unaudited)

	2021	2020	2019	2018
DEBT SERVICE CALCULATION				
Change in Net Position	$11,600,029	$8,705,621	$1,708,592	$9,744,554
Adjustments to (from) Change in Net Position				
Depreciation	10,978,659	10,339,875	10,183,035	9,854,391
Prepaid Power [(1)]	1,017,144	1,017,144	1,017,144	1,017,144
Interest Expense	2,929,065	2,633,566	2,484,359	2,832,268
Debt Discount/Premium Amortization & Bond Issue Costs	(342,996)	125,928	(407,817)	(453,711)
GASB 68 Adjustment to pension expense noncash entry	(3,711,285)	(1,393,009)	(1,292,772)	(1,371,215)
REVENUE AVAILABLE FOR DEBT SERVICE	**$22,470,616**	**$21,429,125**	**$13,692,541**	**$21,623,431**
DEBT SERVICE	**$5,995,376**	**$6,154,945**	**$6,521,487**	**$6,519,987**
DEBT SERVICE COVERAGE RATIO	**3.75**	**3.48**	**2.10**	**3.32**

(1) White Creek Wind Project amortization and Bonneville Power Administration prepaid power.

2017	2016	2015	2014 restated	2013	2012
$8,119,171	($270,716)	($2,431,853)	$4,076,106	$2,719,886	$6,754,715
10,177,574	12,630,490	13,207,539	12,894,915	12,671,992	11,642,052
1,017,144	1,017,144	1,017,144	1,017,144	907,457	578,400
2,910,007	2,664,442	2,756,755	2,844,753	2,913,078	3,001,895
(492,959)	(143,522)	(419,819)	(445,518)	(459,652)	(459,198)
(593,733)	(308,366)	(157,447)	(245,062)	-	-
$21,137,204	**$15,589,472**	**$13,972,319**	**$20,142,338**	**$18,752,761**	**$21,517,864**
$6,226,648	**$5,351,412**	**$4,767,944**	**$5,966,784**	**$5,965,509**	**$5,969,064**
3.39	**2.91**	**2.93**	**3.38**	**3.14**	**3.60**

PRINCIPAL EMPLOYERS - TRI-CITIES METROPOLITAN STATISTICAL AREA

For the years ended December 31 (unaudited)

		2021		
Employer	**Product/Service**	**Employees**	**Rank**	**Percentage of Total MSA Nonfarm Employment**
Battelle/Pacific NW National Laboratory	Research/National Laboratory	4,500	1	3.8%
Kadlec Medical Center	Health Care	3,532	2	2.9%
ConAgra/Lamb Weston Inc.	Food Processing	3,000	3	2.5%
Bechtel National, Inc.	Engineering & Construction	2,943	4	2.5%
Kennewick School District	Education	2,336	5	1.9%
Washington River Protection Solutions	Environmental Remediation	2,129	6	1.8%
Pasco School District	Education	2,015	7	1.7%
Mission Support Alliance, LLC	Support Services Hanford	1,902	8	1.6%
CH2MHill Hanford Group Inc./CHG	Environmental Engineering	1,682	9	1.4%
Richland School District	Education	1,500	10	1.3%
Tyson Fresh Meats	Meat Packing	-	-	-
Total		25,539		21.4%

Source: Tri-City Development Council

2012		
Employees	**Rank**	**Percentage of Total MSA Nonfarm Employment**
4,339	1	4.4%
2,227	4	2.3%
2,498	3	2.6%
2,990	2	3.1%
1,922	5	2.0%
1,385	9	1.4%
1,908	6	2.0%
1,694	8	1.7%
1,808	7	1.8%
-	-	-
1,300	10	1.3%
22,071		22.6%

DEMOGRAPHIC STATISTICS

For the years ended December 31 (unaudited)

	2021	2020	2019	2018
Population (1)				
Tri-Cities Metropolitan Statistical Area	307,750	302,460	296,480	289,960
Benton County	209,400	205,700	201,800	197,420
City of Kennewick	84,620	84,960	83,670	81,850
Prosser	6,130	6,220	6,145	6,125
Benton City	3,500	3,560	3,520	3,405
Total Personal Income - Benton County (000's) (2)	N/A	$10,683,932	$10,087,552	$9,597,733
Per Capita Income - Benton County (2)	N/A	$51,757	$49,354	$47,682
Unemployment Rate - Benton County (3)	4.2%	6.4%	5.4%	5.8%
Building Permits Issued (4)				
Kennewick	2,356	2,002	2,203	2,409
Benton County (Unincorporated)	997	897	895	1,014
Taxable Retail Sales - All of Benton County (5)	N/A	$4,674,787,996	$4,631,058,885	$4,166,770,833

(1) Source: Washington State Office of Financial Management.
(2) Source: U.S. Bureau of Economic Analysis. 2011-2018 revised estimates from BEA in 2020.
(3) Source: December 2020 Unemployment Rates, Washington Employment Security Department
(4) Source: City of Kennewick and Benton County Building Departments
(5) Source: Washington State Department of Revenue

2017	2016	2015	2014	2013	2012
283,830	279,170	275,740	273,100	268,200	262,500
193,500	190,500	188,590	186,500	183,400	180,000
80,280	79,120	78,290	77,700	76,410	75,160
5,965	5,940	5,845	5,815	5,810	5,785
3,360	3,325	3,285	3,255	3,240	3,295
$9,132,345	$8,793,589	$8,523,515	$7,835,692	$7,538,708	$7,564,035
$46,076	$45,446	$44,809	$42,017	$40,901	$41,476
6.1%	7.0%	7.1%	7.7%	7.9%	9.0%
2,064	2,211	2,005	2,054	1,989	1,918
997	919	784	713	728	588
$3,905,643,498	$3,789,869,697	$3,612,773,217	$3,284,581,847	$3,189,855,069	$2,937,655,298

OPERATING INDICATORS

For the years ended December 31 (unaudited)

	2021	2020	2019	2018
Operating Expenses / Revenues	93.6%	94.7%	100.1%	94.8%
Total Electric Sales in MWh				
Retail Sales	1,807,315	1,739,433	1,766,171	1,740,849
Secondary Market Sales	417,390	505,800	421,597	558,160
Total MWh Sales	2,224,705	2,245,233	2,187,768	2,299,009
Average Annual kWh per Customer				
Residential	15,246	15,304	16,574	15,648
General Service	87,792	82,441	90,230	92,066
Industrial	13,016,760	12,725,056	12,863,616	13,199,344
Irrigation	489,596	468,775	407,741	431,954
Miscellaneous	2,807	2,929	2,900	2,882
Average Annual kWh per Customer - All Classes	32,232	31,431	32,359	32,392
Average Revenue per Customer				
Residential	$1,313	$1,346	$1,408	$1,335
General Service	6,180	5,806	6,204	6,272
Industrial	702,245	690,423	678,881	687,644
Irrigation	27,556	26,747	22,822	23,924
Miscellaneous	299	311	302	299
Average Revenue per Customer - All Classes	$2,332	$2,310	$2,339	$2,313
Additions to Electric Plant, excluding work-in-progress	$20,094,992	$18,228,378	$18,484,322	$14,307,247
Net Electric Utility Plant	$155,543,984	$149,049,385	$142,948,756	$132,197,835
Capitalized Payroll	$3,050,077	$2,849,452	$2,851,731	$2,456,252
Total Payroll Expense	$15,581,177	$15,065,567	$14,566,651	$14,008,828
Full Time Equivalent Employees (1)	148	148	150	149
Cooling Degree Days (2)	1,548	1,209	1,112	1,221
Heating Degree Days (2)	4,521	4,576	5,655	4,668
Annual Precipitation (inches) (2)	5.34	4.07	9.31	6.43
Peak Load (MW's) (3)	496	437	407	419

(1) Includes regular and temporary employees. In 2017, all years employee counts were reduced to account for shared employees billed to other governments.

(2) Source: Hanford Meteorological Station
Heating degree days are indicators of household energy consumption for space heating. When the average outdoor temperature is less than 65 degrees Fahrenheit, most buildings require heat to maintain a temperature of 70 degrees inside. Similarily, when the average outdoor temperature is 65 degrees or more, most buildings require air-conditioning to maintain a temperature of 70 degrees inside.

(3) Source: The Energy Authority, Inc.

2017	2016	2015	2014 restated	2013	2012
95.1%	99.7%	102.4%	98.7%	98.5%	95.2%
1,785,098	1,694,078	1,738,022	1,781,322	1,696,774	1,645,277
609,721	576,289	662,886	717,847	580,417	687,098
2,394,819	2,270,367	2,400,908	2,499,169	2,277,191	2,332,375
17,316	15,333	15,692	16,687	16,889	16,435
92,226	90,004	92,432	94,455	93,233	93,253
13,416,822	12,922,400	22,313,962	23,956,495	23,267,593	23,525,055
411,150	550,578	589,675	599,801	521,528	535,005
2,872	3,749	3,826	3,760	3,764	4,423
33,611	32,804	34,239	35,589	34,264	33,777
$1,433	$1,243	$1,213	$1,266	$1,281	$1,247
6,199	5,860	5,875	5,995	5,915	5,895
687,927	642,800	1,016,944	1,083,292	1,058,609	1,074,442
22,112	28,274	28,065	28,926	25,428	26,098
289	355	332	331	336	446
$2,363	$2,209	$2,188	$2,265	$2,207	$2,175
$14,248,483	$12,707,389	$10,795,807	$14,325,929	$14,261,262	$11,658,180
$125,666,747	$123,470,148	$120,791,227	$122,400,363	$123,009,752	$122,002,258
$2,435,631	$3,213,042	$2,201,618	$2,289,991	$2,344,440	$2,550,126
$13,864,893	$13,630,457	$12,967,615	$12,674,072	$12,573,298	$12,401,390
152	153	152	152	153	150
1,347	1,099	1,534	1,426	1,318	1,057
5,618	4,392	4,228	4,611	5,320	4,940
8.60	7.66	6.48	6.53	5.38	8.18
426	425	429	431	415	394