



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

October 17, 2024

Board of Commissioners
Public Utility District No. 1 of Klickitat County
Goldendale, 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 Klickitat County for the fiscal year ended December 31, 2023. 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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Report of Independent Auditors and
Combined Financial Statements and
Supplementary Information

Public Utility District No. 1 of Klickitat County

December 31, 2023 and 2022



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Table of Contents

	Page
Report of Independent Auditors	1
Directory of Officials	4
Management Discussion & Analysis	5
Financial Statements	
Combined Statements of Net Position	16
Combined Statements of Revenues, Expenses, and Changes in Net Position	18
Combined Statements of Cash Flows	19
Notes to Combined Financial Statements	21
Required Supplementary Information	
Schedule of Changes in Total OPEB Liability and Related Ratios	47
Schedule of Proportionate Share of the Net Pension Liability	48
Schedule of Contributions	49
Supplementary Information	
Schedule of Debt Service Coverage	51
Schedule of Cash and Liquidity Ratios	52
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinions

We have audited the combined financial statements of Public Utility District No. 1 of Klickitat County, Washington (the District), which comprise the combined statements of net position as of December 31, 2023 and 2022, and the related combined statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the District as of December 31, 2023 and 2022, 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 management's discussion and analysis, the schedule of changes in the total OPEB liability and related ratios, the schedule of proportionate share of the net pension liability, and the schedule of 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 schedule of debt service coverage and schedule of cash and liquidity ratios 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 June 12, 2024, 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.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Portland, Oregon
June 12, 2024

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Directory of Officials
December 31, 2023 and 2022**

Office	Official	Term	Term Expiration
Board of Commissioners			
President	Randy L. Knowles	6 years	December 2024
Vice President	Dan G. Gunkel	6 years	December 2026
Secretary	Douglas B. Miller	6 years	December 2028

Office	Official	Address
Appointed Officials		
General Manager	James R. Smith	1313 S. Columbus
Assistant General Manager	Gwyn Miller	Goldendale, WA 98620
Attorney	Ogden Murphy Wallace PLLC Athan E. Tramountanas	701 Fifth Avenue, Suite 5600 Seattle, WA 98104

See accompanying notes.

Management's Discussion & Analysis

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Management’s Discussion and Analysis
Years Ended December 31, 2023**

This section provides an overview and analysis of key data presented in the basic combined financial statements for the years ended December 31, 2023 and 2022, with additional comparative data for 2021. Information within this section should be read in conjunction with the basic combined financial statements and accompanying notes.

About Public Utility District No. 1 of Klickitat County

Public Utility District No. 1 of Klickitat County (the District) consists of the electric system, nine water systems, and five wastewater systems. The District also operates two additional water and wastewater systems that are owned by other public entities. The District’s service area covers approximately 1,680 square miles in Klickitat County. Additionally, the District serves small areas in the surrounding counties of Yakima, Skamania, and Benton. As of December 31, 2023, the District had 14,180 electric, 1,288 water, and 905 wastewater customers. The District operates two additional water and wastewater systems for other entities, which provides service to an additional 10 water and 431 wastewater customers in Dallesport, Washington. The District’s electric wholesale activities and transmission business line are significant parts of the District’s electric system business. Wholesale revenues are generated from the sale of Renewable Natural Gas (RNG) production from the H. W. Hill Renewable Energy Facility. Wholesale revenue was also received from the White Creek Wind I power sale contract, related to the District’s 13% share of generated output from this 205 MW project. The transmission business line is comprised of 230 kV transmission lines and substations that carry renewable generation produced by others to the BPA transmission system. The District’s retail electric customers are supplied through several sources. Purchases from Bonneville Power Administration supply 79% of the District’s load, 8% comes from the District’s shares of the McNary Dam and Packwood hydroelectric projects and 13% comes from Washington State based non-federal resources through energy market purchases by The Energy Authority on behalf of the District.

Overview of the Combined Financial Statements

The financial statements of the District report the self-supporting proprietary activities of the District funded primarily by the sale of power, water, and wastewater services, as well as the wholesale sale of renewable natural gas and the provision for high voltage transmission services. The District reports these business-type activities using the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). The accrual accounting method recognizes all revenues and expenses incurred during the year, regardless of when cash is received or paid.

The combined financial statements, presented in a comparative format for the years ended December 31, 2023 and 2022, are comprised of:

Statement of Net Position: This statement presents information on the District’s assets, deferred outflows of resources and liabilities and deferred inflows of resources. The difference between these is reported as net position. This statement provides information regarding the nature and amount of resource investment (assets) and obligations incurred in the pursuit of such resources. The statement also provides a vehicle for evaluating the capital structure as well as assessing the liquidity and financial flexibility of the District.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Management’s Discussion and Analysis
Years Ended December 31, 2023 and 2022**

Statement of Revenues, Expenses, and Changes in Net Position: This statement reflects the transactions and activities that have increased or decreased the District's total economic resources during the period. Revenues and expenses are classified as operating or non-operating based on the type of transaction. The statement may also be used as a partial determinant of creditworthiness.

Statement of Cash Flows: The Statement of Cash Flows provides information concerning the sources and uses of cash during the reporting period resulting from operating, financing, and investing activities. This information provides insight into the District's ability to generate net cash flows to meet obligations as they become due and is an important indicator of the District's liquidity and financial strength.

The Notes to the Financial Statements presented at the end of the combined financial statements provide additional information that is essential to a full understanding of the financial statements as described above including significant accounting policies, commitments, obligations, risks, contingencies, and other financial matters of the District.

Condensed Comparative Financial Information

Combined Statements of Net Position

	2023	2022	2021
Capital assets	\$ 252,228,105	\$ 247,274,297	\$ 245,728,859
Current and other assets and deferred outflows of resources	<u>61,296,399</u>	<u>66,479,640</u>	<u>68,508,428</u>
Total assets and deferred outflows of resources	<u><u>\$ 313,524,504</u></u>	<u><u>\$ 313,753,937</u></u>	<u><u>\$ 314,237,287</u></u>
Long-term liabilities and deferred inflows of resources	\$ 150,344,682	\$ 161,726,391	\$ 172,124,979
Current liabilities	<u>19,137,682</u>	<u>17,552,303</u>	<u>15,590,204</u>
Total liabilities and deferred inflows of resources	<u>169,482,364</u>	<u>179,278,694</u>	<u>187,715,183</u>
Net investment in capital assets	122,178,856	109,726,637	109,034,356
Restricted – net pension asset	2,935,477	2,572,522	6,969,540
Unrestricted	<u>18,927,807</u>	<u>22,176,084</u>	<u>10,518,208</u>
Total net position	<u>144,042,140</u>	<u>134,475,243</u>	<u>126,522,104</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 313,524,504</u></u>	<u><u>\$ 313,753,937</u></u>	<u><u>\$ 314,237,287</u></u>

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Management’s Discussion and Analysis
Years Ended December 31, 2023 and 2022**

Financial Highlights – 2023

- Through prudent financial management activities of District staff, the District has maintained strong financial performance while striving to meet and/or exceed financial policy requirements. The District ended the year with a Debt Service Coverage Ratio of 2.97, excluding subordinate lien debt, and 2.23 for all outstanding electric debt. The year ended with 226 days cash on hand compared to a budget of 177 days. Please see the ‘Supplemental Information’ pages of this Financial Report for additional detail which supports these calculations.
- The District maintained strong liquidity during 2023 with a Days Liquidity on Hand result of 300 days, exceeding the budget of 247 days. The District renewed and increased an operating line of credit from \$10 million to \$11 million to provide additional liquidity for the District. This line was partially utilized to fund current work for the District’s Advanced Metering Infrastructure (AMI) implementation, as well as improvements to the EE Clouse Substation, for which an agreement is in place for repayment from Bonneville Power Administration (BPA).
- The District continues to benefit from the production of Renewable Natural Gas (RNG) and the revenue stability provided by the fixed price sales contracts. The RNG facility contributed nearly \$19.2 million in revenue during 2023, exceeding budgeted revenue by \$800 thousand. Revenue increased from 2022 due to contract negotiations and continued efforts to increase efficiency in production by the District continued to focus on optimizing the landfill gas collection system feeding the RNG facility with LoCI Controls, and the implementation of an automated well field tuning system to increase production.
- The District operates 16 water and wastewater systems. Water and wastewater rates are annually reviewed for each individual system and, in 2023, these increases varied from 0% to 15%.
- The District continues to prioritize vegetation management, with expenditures of \$2.2 million in 2023. Various contractors were retained for trimming, mulching, hazard tree removal, and spraying.
- The District implemented an electric rate increase in 2023 equal to a 4.5% total electric rate revenue increase. This increase included a pass-through of approximately 3% due to wholesale power cost increases from BPA, as well as 1.5% inflation costs incurred by the District. Electric rates were last increased in 2019.
- The District’s rate stabilization fund balance at year-end 2023 was \$4 million, which continues to exceed the fiscal policy requirement of \$2.4 million. The District has maintained financial stability and does not project significant changes that would require the utilization of this fund.
- Long-term contracts for capacity held on the District owned 230kV transmission system provide \$5.1 million in consistent revenue. These contracts continue to provide stable and predictable revenues for the benefit of District ratepayers.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Management’s Discussion and Analysis
Years Ended December 31, 2023 and 2022**

- The District continues to improve net position. During 2023, net position improved by 7.1% as a result of continued focus on maximizing the value of assets. Net position has consistently improved since 2014.

Financial Highlights – 2022

- Through prudent financial management activities of District staff, the District has maintained strong financial performance while striving to meet and/or exceed financial policy requirements. The District ended the year with a Debt Service Coverage Ratio of 2.67, excluding subordinate lien debt, and 2.01 for all outstanding electric debt. The year ended with 256 days cash on hand compared to a budget of 192 days. This increase in days cash on hand is in part due to making no accelerated debt repayment. It was determined that with unpredictable supply-chain markets, and climbing interest rates it would be beneficial for the District to maintain a cash balance versus repay debt in advance. Please see the ‘Supplemental Information’ pages of this Financial Report for additional detail which supports these calculations.
- The District maintained strong liquidity during 2022 with a Days Liquidity on Hand result of 355 days, exceeding the budget of 268 days. The District has maintained a \$10 million operating line of credit to provide additional liquidity for the District. This line was not utilized in 2022.
- The District continues to benefit from the production of RNG and the revenue stability provided by the fixed price sales contracts. The RNG facility contributed \$17.8 million in revenue during 2022, exceeding budgeted revenue by \$400 thousand. Revenues increased from 2021 due to efforts to increase efficiency in the production facility and by optimizing landfill gas collection feeding the RNG facility in coordination with LOCI controls and the implementation of an automated wellfield tuning system to increase production.
- The White Creek Wind project exceeded projections by nearly \$240 thousand due to market prices. Revenue was \$740 thousand higher than 2021.
- The District operates 16 water and wastewater systems. Water and wastewater rates are annually reviewed for each individual system and, in 2022, these increases varied from 0% to increases of 5%.
- The District continues to prioritize vegetation management. The District contracted Kemp West to maintain right-of-way areas, an expense of nearly \$1.6 million in 2022.
- The District elected not to implement the budgeted 2022 electric rate increase across any rate classes due to above budget performances across its various business lines. Electric rates were last increased in 2019.
- The District’s rate stabilization fund balance at year-end 2022 was \$4 million, which continues to exceed the fiscal policy requirement of \$2.4 million. The District has maintained financial stability and does not project significant changes that would require the utilization of this fund during this time of national economic uncertainty.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Management’s Discussion and Analysis
Years Ended December 31, 2023 and 2022**

- Long-term contracts for capacity held on the District owned 230kV transmission system provide \$5.1 million in consistent revenue. These contracts continue to provide stable and predictable revenues for the benefit of District ratepayers. The District owns point to point transmission capacity on the John Day to COB path of 11 MW that was utilized to provide an additional \$910 thousand of revenue; exceeding 2021 by nearly 100%.
- The District continues to improve net position. During 2022 net position improved by 6.3% as a result of continued focus on maximizing the value of assets. Net position has consistently improved since 2014.

Financial Analysis

Capital Activity

2022 to 2023:

The District’s total net capital asset values increased during 2023 by approximately \$5 million. There was an increase in total utility plant of \$11.1 million. This increase was driven in part by the District’s Advanced Metering Infrastructure project, property acquisition for a future substation location, expansion to the EE Clouse Substation, and materials for infrastructure maintenance. The increase in accumulated depreciation of \$6.2 million decreased the overall net capital assets. The sizeable increase in depreciation year over year is related to the Renewable Natural Gas project, which is valued at more than \$35 million, along with continued electric system additions.

2021 to 2022:

The District’s total net capital asset values increased during 2022 by \$1.5 million. There was an increase in total utility plant of \$11 million. This increase was driven by overhaul to major equipment to ensure reliability, as well as renovations to facilities and equipment purchases. The increase in accumulated depreciation of \$6.1 million decreased the overall net capital assets. The sizeable increase in depreciation year over year is related to the Renewable Natural Gas project, which is valued at more than \$35 million, along with continued electric system additions.

Debt Activity

2022 to 2023:

The District renewed its existing line of credit with Washington Federal in 2023, as well as increased the value of the line from \$10 million to \$11 million. This line was utilized for approximately \$3.8 million to replenish cash held by the District for spending related to the District’s Advanced Metering Infrastructure project, and the EE Clouse Substation Expansion. Debt related to the EE Clouse Substation Expansion is to be fully repaid by the BPA. The District repaid approximately \$7.5 million in long-term debt, resulting in a net decrease to long-term debt of approximately \$7.7 million between 2022 and 2023.

2021 to 2022:

The District reduced long-term debt by approximately \$7.3 million between 2021 and 2022. The District assessed an accelerated debt payment in 2022, but opted to continue with scheduled principal and interest payments.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Management's Discussion and Analysis
Years Ended December 31, 2023 and 2022**

Current, Restricted, and Other Activity

2022 to 2023:

The significant delays to delivery of materials and supplies affecting the utility industry have continued during 2023. As such, the District has maintained an elevated stock level of materials and supplies on hand considered to be adequate to maintain reliability for existing customers, as well as to continue additional service installations and other capital improvements within the District's service territory.

2021 to 2022:

The utility industry continues to face significant delays in the delivery of materials and supplies. As such, the District increased the stock level of materials and supplies on hand by nearly \$1 million during 2022 to maintain reliability for existing customers, as well as continue additional service installations and other capital improvements.

Overall Results of Operations

2022 to 2023

Overall net position of the District increased by 7.1%. Operating revenue increased from 2022 due to a rate increase and growth in our residential customer base. Operating expenses saw an increase of approximately 6% largely due to wholesale power purchase pricing. The District has continued efforts on right-of-way clearing and hazard tree removal for fire mitigation, in addition to undertaking an Advanced Metering Infrastructure implementation which will conclude in 2024.

2021 to 2022

Overall net position of the District increased by 6.3%. Operating revenue and expenses saw change across rate classes with residential growth continuing and being offset by conservation and customer generation efforts. The District continued to focused on right-of-way clearing and hazard tree removal. Additionally, capital contributions for new customer projects helped to increase overall net position.

Electric System Operating Results

	2023	2022	2021
Operating revenues	\$ 69,697,007	\$ 65,623,350	\$ 61,145,915
Operating expenses	59,188,242	55,794,189	48,589,965
Operating income	10,508,765	9,829,161	12,555,950
Net non-operating expense	(3,323,963)	(4,715,992)	(5,212,181)
Capital contributions	2,716,328	3,061,324	3,653,345
Change in net position	<u>\$ 9,901,130</u>	<u>\$ 8,174,493</u>	<u>\$ 10,997,114</u>

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Management’s Discussion and Analysis
Years Ended December 31, 2023 and 2022**

Operating Revenues

2022 to 2023:

Operating revenues increased by \$4.1 million between 2022 and 2023. This included increases from retail revenues totaling \$425 thousand, RNG production sales totaling \$1.3 million, and carbon allowance sales totaling \$2 million.

2021 to 2022:

Operating revenues increased by \$4.5 million between 2021 and 2022. This included increases from retail revenues totaling \$2 million, White Creek Wind generation totaling \$740 thousand, and RNG production sales of \$1.1 million. No rate increases were required.

Operating Expenses

2022 to 2023:

Operating expenses increased by \$3.3 million between 2022 and 2023. Wholesale power purchases increased nearly \$3 million, and generation expenses for the RNG facility increased approximately \$900 thousand but were offset by a reduction of approximately \$1 million to our pension expense related to the Washington State Participating Employer Financial Information Report and retirement pool performance.

2021 to 2022:

Operating expenses increased by \$7.2 million between 2021 and 2022. Approximately \$4 million is a direct correlation to the Washington State Participating Employer Financial Information Report and retirement pool performance reduction recognized in 2021. Power expenses increased nearly \$1.5 million, and generation expenses for the RNG facility increased \$1 million.

Net Non-Operating Expense

2022 to 2023:

Net non-operating expense decreased \$1.4 million or 30% in 2023. This is due to earned interest rates during the year, totaling \$1.4 million, which exceeded previous year’s earnings rates significantly.

2021 to 2022:

Net non-operating expense decreased \$496 thousand or 9% in 2022. A major contributing factor was an increase in earned interest rates, resulting in interest income of \$628 thousand.

Capital Contributions

2022 to 2023:

Capital contributions received from customers by the District totaled \$2.7 million in 2023, a decrease of 11% or \$350 thousand from 2022. Contributions are customer requested activity for overall line extensions and new customer projects, which are recovery driven.

2021 to 2022:

Capital contributions received from customers by the District decreased \$592 thousand or 16% for the electric system. Contributions are customer requested activity for overall line extensions and new customer projects, which are cost recovery driven.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Management’s Discussion and Analysis
Years Ended December 31, 2023 and 2022**

Water and Wastewater Systems Operating Results

	2023	2022	2021
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 1,556,781	\$ 1,590,211	\$ 1,384,914
Operating expenses	<u>2,181,200</u>	<u>2,024,819</u>	<u>1,971,151</u>
Operating loss	(624,419)	(434,608)	(586,237)
Net non-operating revenue	123,476	41,421	(5,859)
Capital contributions and grants	<u>166,710</u>	<u>171,833</u>	<u>340,116</u>
Change in net position	<u><u>\$ (334,233)</u></u>	<u><u>\$ (221,354)</u></u>	<u><u>\$ (251,980)</u></u>

Operating Revenues

2022 to 2023:

Operating revenues decreased by \$28 thousand or 2% from 2022. This decrease is due to the reduction of revenue for bulk water filling as recognized in 2022. This is offset by conservative rate increases across the various systems.

2021 to 2022:

Operating revenues increased by \$205 thousand or 15% from 2021. The Roosevelt Water system recognized \$144 thousand in additional revenues due to bulk water filling. The remaining \$61 thousand in additional revenues is attributed to conservative rate increases across the various systems.

Operating Expenses

2022 to 2023:

Operating expenses increased by \$220 thousand or 11%. This increase was primarily due to additional labor costs to ensure compliance with state and federal regulations, as well as temporarily increasing the number of employees with an anticipated retirement in 2024, and the need for overlapping staffing for training purposes.

2021 to 2022:

Operating expenses increased by \$54 thousand or 2.7%. This increase was primarily due to additional labor costs to ensure compliance with state and federal regulations as well as improving efficiencies of the operations and maintenance of the various systems. This small increase reflects stabilization of operating expenses.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Management’s Discussion and Analysis
Years Ended December 31, 2023 and 2022**

Net Non-Operating Revenues

2022 to 2023:

Net non-operating income increased \$82 thousand over 2022 as a result of improved interest income earnings across all water and wastewater systems.

2021 to 2022:

Net non-operating income increased \$47 thousand over 2021 as a result of improved interest income, as well as decreased interest expense.

Capital Contributions and Grants

2022 to 2023:

Capital contributions received by the District in 2023 totaled nearly \$167 thousand, a decrease of 3% from 2022. The Rimrock Water System received an infrastructure grant totaling \$129,286 from Klickitat County within the year.

2021 to 2022:

Capital contributions received by the District in 2022 totaled \$172 thousand, a decrease of 50% from 2021 in the absence of new housing developments. The Glenwood Water System received an infrastructure grant totaling \$140 thousand from Klickitat County.

The District Looking Forward

The long-term fixed price contract for output from the RNG plant continues to provide revenue certainty for the District. With Puget Sound Energy now taking all of the RNG output, starting October 2023, this revenue stream will increase in 2024. Increasing the reliability and efficiency of the production facility, as well as optimizing and maximizing methane flow to the facility will continue to be a high priority item for District staff. Surplus funds as a result of RNG operations will be utilized for the benefit of District customers. The District will also continue to look for additional value from the facility through potential sales of off-gases from the landfill. The District remains engaged in discussion related to BPA contract renewal and expects the draft post-2028 BPA contracts to be available in the 2025 timeframe. We anticipate continuation as a BPA customer after the current contract expires in 2027. We will be evaluating BPA rates and will continue to closely monitor the open power market and other alternatives for our power requirements above our Federal Columbia River System allotment. The District's intent is to be able to negotiate with BPA from a strong position and to be able to deliver alternatives by 2028 if BPA contracts do not look favorable. As a BPA Load Following customer, the District is well positioned for future compliance with renewable energy requirements placed on utilities by State and Federal programs and has a reliable and secure option to ensure we can meet our load obligations during high load events in the region. The District has continued to see customer growth and additional demand for connections, though at a slower pace than recent years. The District is improving electric infrastructure by implementing AMI metering to allow accurate tracking of demand on the system, adding and upgrading substations, and upgrading existing facilities to increase capacity to serve existing and new customers while maintaining a high level of reliability.

Financial Statements

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Combined Statements of Net Position
December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 25,860,485	\$ 28,364,433
Notes receivable	4,424	6,967
Accounts receivable, net	2,114,999	1,984,972
Unbilled revenue	2,220,771	2,995,488
Other receivables	5,848,905	5,550,873
Materials and supplies	4,326,500	3,208,057
Prepayments	1,341,803	1,389,612
Current portion of prepaid power contract	<u>1,180,362</u>	<u>1,180,362</u>
Total current assets	<u>42,898,249</u>	<u>44,680,764</u>
CAPITAL ASSETS		
Total plant in service	404,132,425	399,967,063
Construction work in progress	<u>12,260,394</u>	<u>5,321,899</u>
Total utility plant	416,392,819	405,288,962
Accumulated provision for depreciation	<u>(164,164,714)</u>	<u>(158,014,665)</u>
Net capital assets	<u>252,228,105</u>	<u>247,274,297</u>
OTHER ASSETS		
Other assets and prepaid power contract	4,362,436	5,538,772
Net pension asset	2,935,477	2,572,522
Derivative asset	247,563	1,124,702
Special funds, power cost stabilization – designated	4,000,000	4,000,000
Regulatory asset – issuance costs	<u>397,478</u>	<u>428,053</u>
Total other assets	11,942,954	13,664,049
DEFERRED OUTFLOWS OF RESOURCES		
Pension	2,310,663	2,608,739
Other post employment benefit obligations	196,157	215,779
Accumulated decrease in fair value of hedging derivatives	80,619	950,119
Deferred loss on refunding	<u>3,867,757</u>	<u>4,360,190</u>
Total deferred outflows of resources	<u>6,455,196</u>	<u>8,134,827</u>
Total assets and deferred outflows of resources	<u><u>\$ 313,524,504</u></u>	<u><u>\$ 313,753,937</u></u>

See accompanying notes.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Combined Statements of Net Position
December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 4,776,793	\$ 6,203,207
Current portion of long-term debt	7,424,642	7,218,163
Consumers deposits	328,125	1,278,253
Line of credit	3,783,997	-
Other current and accrued liabilities	2,824,125	2,852,680
	<u>19,137,682</u>	<u>17,552,303</u>
NONCURRENT LIABILITIES		
Long-term debt	122,614,554	130,318,661
Net pension liability	1,266,871	1,479,669
Total OPEB liability	1,162,649	1,357,525
Derivative liability	80,619	950,119
	<u>125,124,693</u>	<u>134,105,974</u>
DEFERRED INFLOWS OF RESOURCES		
Pension	1,360,692	2,172,344
Other post-employment benefits (OPEB)	426,366	270,227
Deferred gain on refunding	10,054	10,832
Regulatory liability – rate stabilization	4,000,000	4,000,000
Accumulated increase in fair value of hedging derivatives	247,563	1,124,702
Regulatory liability – contribution in aid of construction (CIAC)	19,175,314	20,042,312
	<u>25,219,989</u>	<u>27,620,417</u>
NET POSITION		
Net investment in capital assets	122,178,856	109,726,637
Restricted for Net Pension	2,935,477	2,572,522
Unrestricted	18,927,807	22,176,084
	<u>144,042,140</u>	<u>134,475,243</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 313,524,504</u></u>	<u><u>\$ 313,753,937</u></u>

See accompanying notes.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Combined Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Electric system		
Sales to retail customers	\$ 38,067,225	\$ 37,634,248
RNG sales	19,172,725	17,877,823
Sales to wholesale and transmission customers	9,342,196	9,402,628
Water/wastewater systems	1,899,661	1,590,210
Other operating revenues	<u>2,771,981</u>	<u>708,652</u>
Total operating revenues	<u>71,253,788</u>	<u>67,213,561</u>
OPERATING EXPENSES		
Power expense	19,708,583	18,620,926
Operations expense	17,895,434	16,504,828
Maintenance expense	4,494,504	4,071,424
Administrative and general expense	4,435,705	5,478,869
Depreciation expense	12,001,779	10,468,538
Tax expense	<u>2,833,437</u>	<u>2,674,423</u>
Total operating expenses	<u>61,369,442</u>	<u>57,819,008</u>
OPERATING INCOME	<u>9,884,346</u>	<u>9,394,553</u>
NON-OPERATING REVENUE (EXPENSE)		
Interest income	1,572,236	627,797
Other non-operating revenues	352,300	331,995
Interest expense	(4,627,281)	(5,093,142)
Other expenses	<u>(497,742)</u>	<u>(541,221)</u>
Total non-operating expense	<u>(3,200,487)</u>	<u>(4,674,571)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	6,683,859	4,719,982
CAPITAL CONTRIBUTIONS AND GRANTS	<u>2,883,038</u>	<u>3,233,157</u>
CHANGE IN NET POSITION	<u>9,566,897</u>	<u>7,953,139</u>
NET POSITION, beginning of year	<u>134,475,243</u>	<u>126,522,104</u>
NET POSITION, end of year	<u><u>\$ 144,042,140</u></u>	<u><u>\$ 134,475,243</u></u>

See accompanying notes.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Combined Statements of Cash Flows
Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 70,652,861	\$ 65,293,657
Payments to suppliers for goods and services	(38,905,109)	(33,352,614)
Payments to employees for services	(9,962,789)	(9,386,443)
Taxes paid	(2,946,713)	(2,918,046)
Net change in cash flows from operating activities	<u>18,838,250</u>	<u>19,636,554</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Other non-operating income	<u>346,991</u>	<u>283,207</u>
Net change in cash flows from non-capital financing activities	<u>346,991</u>	<u>283,207</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(7,216,445)	(7,005,819)
Draws on the line of credit	3,783,997	-
Interest payments	(4,889,430)	(5,110,673)
Capital contributions and grants	2,016,040	2,366,158
Utility plant additions net of costs of removal and salvage proceeds	<u>(16,955,587)</u>	<u>(12,821,625)</u>
Net change in cash flows from capital and related financing activities	<u>(23,261,425)</u>	<u>(22,571,959)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>1,572,236</u>	<u>627,797</u>
Net change in cash flows from investing activities	<u>1,572,236</u>	<u>627,797</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,503,948)	(2,024,401)
CASH AND CASH EQUIVALENTS, beginning of year	<u>32,364,433</u>	<u>34,388,834</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 29,860,485</u></u>	<u><u>\$ 32,364,433</u></u>
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 25,860,485	\$ 28,364,433
Special funds cash and cash equivalents	<u>4,000,000</u>	<u>4,000,000</u>
	<u><u>\$ 29,860,485</u></u>	<u><u>\$ 32,364,433</u></u>

See accompanying notes.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Combined Statements of Cash Flows
Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
OPERATING INCOME	\$ 9,884,346	\$ 9,394,553
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation expense	12,001,779	10,468,538
Pension credit	(1,089,329)	(182,872)
OPEB (credit) expense	(19,115)	7,711
Amortization of prepaid power contract	1,176,336	1,183,674
Regulatory assets – issuance costs amortization	30,575	30,576
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Receivables and unbilled revenue	349,201	(1,947,021)
Materials and supplies	(1,118,443)	(973,567)
Prepayments	47,809	(76,934)
Accounts payable	(1,426,414)	224,898
Consumer deposits	(950,128)	27,117
Other current and accrued liabilities	(48,367)	1,479,881
Total adjustments	<u>8,953,904</u>	<u>10,242,001</u>
Net cash from operating activities	<u>\$ 18,838,250</u>	<u>\$ 19,636,554</u>

See accompanying notes.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Note 1 – Organization and Significant Accounting Policies

Organization and combined financial statements – Public Utility District No. 1 of Klickitat County, Washington (the District) is a municipal corporation governed by an elected three-person Board of Commissioners. The District's reporting entity is comprised of the combined electric system, nine water systems, and five wastewater systems. All significant intercompany balances and transactions have been eliminated from the combined amounts reported. The District has no component units. The District's service area covers approximately 1,680 square miles in Klickitat County. The District also serves small areas in the surrounding counties of Yakima, Skamania, and Benton. As of December 31, 2023, the District had 14,180 electric, 1,288 water and 905 wastewater customers. Wholesale revenues were generated from the sale of Renewable Natural Gas (RNG) production from the H. W. Hill Renewable Energy Facility. Wholesale revenue was also received from the White Creek Wind I power sale contract, related to the District's 13% share of generated output from this 205 MW project.

Basis of accounting and presentation – The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments using the full accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW, the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for the Electric System and the Uniform System of Accounts for Class A & B Water Utilities prescribed by the National Association of Regulatory Utility Commissioners for the Water System.

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

Accounts receivable and allowance for uncollectible accounts – Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances, that may be unable to meet their financial obligations, and a reserve is recorded based on historical experience. The allowance for uncollectible accounts at December 31, 2023 and 2022, was \$81,167 and \$87,500, respectively.

Other receivables – Other receivables consist of amounts due from customers for small material purchases, certain aid in construction billings, repairs to damaged plant and equipment from accidents caused by others, funding requests to granting or loaning agencies, customers who take primary electric service from the District or have a power sales contract, and other miscellaneous items that may require invoicing that would not normally be entered into the customer service billing system. The District has not recorded an allowance for uncollectible accounts against other receivables as management believes the receivables are fully collectible.

Materials and supplies – Materials and supplies provide for additions, maintenance and repairs to utility plant and are stated at average cost.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Capital assets (utility plant) – Utility plant is stated at original cost, contract price, or acquisition value if donated (see Note 3). Costs include labor, materials and related indirect costs, such as engineering, transportation. Additions, renewals, and betterments with a minimum cost of \$5,000 per item are capitalized. Repairs and minor replacements are charged to operating expenses. In the case of disposals, unless there is a major retirement or a general plant asset is retired, the cost of property, and any removal cost less salvage are charged to accumulated depreciation when property is retired. Depreciation is computed using straight-line group rates: 3% for distribution plant, 2.75% for transmission plant, and 1.67% to 2.5% for generating plant. Depreciation of water and wastewater plant has been computed over useful lives of 25 to 40 years. General plant composite rates range from 2.2% to 14.4%.

Derivative instruments – The District has adopted 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's fair value to be recognized in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective.

It is the District's policy to document and apply as appropriate the normal purchases 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 and option contracts that require physical delivery and that 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 are considered to be derivatives under GASB Statement No. 53, and do not generally meet the "normal purchases and normal sales" criteria. See Note 10 for further discussion of the District's derivative instruments and risk management.

Debt expense, unamortized premium and deferred gain or loss on refunding – Bond issue costs are generally expensed as incurred. However, the District utilized regulatory accounting for bond issuance costs and as such, amortizes them consistent with rate making decisions. Bond premiums are amortized to interest expense, using the weighted average method over the term of the bonds. Gain or loss on refunding is amortized over the shorter of the remaining life of the refunding or refunded bonds.

Unamortized prepaid power contract – Consists of prepaid power amortized using the straight-line method over the term of the contract (see Note 4).

Compensated absences – Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records compensated absences as an expense and liability when earned. District employees are entitled to Personal Time Off (PTO) based upon length of continuous service which is payable upon resignation, retirement, or death. There is a 700-hour cap on PTO accrual, determined according to the employees' anniversary dates. Additionally, employees may submit a request for cash out or transfer of accrued PTO, up to twice per calendar year if PTO balance is in excess of the 160 hour minimum. Transfers may go into Volunteer Employee Beneficiary Association (VEBA) or deferred compensation, as allowed. At employees' anniversary date, the 700-hour cap will be reviewed and hours in excess of cap will be forfeited. At separation, if an employee is not eligible to retire, they may cash out their PTO bank at a schedule governed by years of service. Compensated absences are recorded within other current and accrued liabilities on the statement of net position.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Fair value of financial instruments – The carrying amounts of current assets, including restricted cash, derivative assets, derivative liabilities and current liabilities approximate fair value due to the short-term maturity of those instruments.

Net position – Net position consists of:

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

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

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Regulatory liability – rate stabilization – The District has established a rate stabilization account to reduce significant year-to-year variations in rates. Amounts deposited into the account are excluded from the statement of revenues, expenses, and changes in net position in accordance with regulated operations. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions and debt service covenants.

Regulatory liability – CIAC – The District has deferred certain contributions in aid of construction (CIAC) to future periods matching the time when the revenues and expenses are included in rates. The deferred balance is amortized as capital contributions on the statement of revenues, expenses, and changes in net position.

Deferred outflows / inflows of resources – Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflows of resources (expense/expenditure) until then. The separate financial statement element, deferred inflows of resources, represents a generation of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

Revenues and expenses – Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District’s principal ongoing operations. Operating revenues are recognized when billed and expenses are recognized when incurred. In addition, the District recognizes unbilled revenue, revenues from services provided but not yet billed. The principal operating revenues of the District are charges to customers for electric, water, and wastewater service. Operating expenses for the District include the cost of sales and services, maintenance, administrative expenses, depreciation on capital assets, and taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

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

Capital contributions – Capital contributions are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer.

Use of estimates – The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the District's financial statements include the allowance for doubtful accounts, useful lives of plant, and the liabilities for the District's pension and OPEB plans.

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

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

Adoption of new accounting standards – In May 2020, GASB issued statement no. 96, Subscription Based Information Technology Arrangements. The Statement defines a subscription-based information technology arrangement (SBITA); establishes that a SBITA results in a right-to-use, intangible, subscription asset and a corresponding subscription liability, and provides capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA.

In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements.

GASB Statement No. 96 and No. 64 were implemented by the District for the fiscal year ending December 31, 2023. Management has determined that there is no impact to the District's current financial accounting and reporting for the types of transactions identified in these statements.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Note 2 – Deposits and Investments

Cash and cash equivalents consist of the following at December 31, 2023:

	Designated Cash and Cash Equivalents	Unrestricted Cash and Cash Equivalents	Total 2023
Special funds, power cost stabilization	\$ 4,000,000	\$ -	\$ 4,000,000
Cash – general funds	-	25,860,485	25,860,485
Totals	<u>\$ 4,000,000</u>	<u>\$ 25,860,485</u>	<u>\$ 29,860,485</u>

Cash and cash equivalents consist of the following at December 31, 2022:

	Designated Cash and Cash Equivalents	Unrestricted Cash and Cash Equivalents	Total 2022
Special funds, power cost stabilization	\$ 4,000,000	\$ -	\$ 4,000,000
Cash – general funds	-	28,364,433	28,364,433
Totals	<u>\$ 4,000,000</u>	<u>\$ 28,364,433</u>	<u>\$ 32,364,433</u>

Interest rate risk – The District’s investment policy limits investment maturities to less than five years from the date of purchase unless authorized by the General Manager or his designee for a specific purpose. During 2023 and 2022, investments were in the State Treasurer’s LGIP, which has a weighted average portfolio maturity of less than 90 days, as well as a Money Market Plus Public Funds account at an FDIC-insured financial institution.

Credit risk – In accordance with the Revised Code of Washington, District bond resolutions and District internal investment policies, all investments are direct obligations of the U.S. Government, deposits in the LGIP, or deposits with financial institutions recognized as qualified public depositories of the State of Washington.

The District’s cash deposits are covered by federal depository insurance or protected against loss by deposit with financial institutions recognized as qualified public depositories of the State of Washington. The District intends to hold deposits and securities until maturity.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Concentration of credit risk – District policies allow the entire portfolio to be invested in direct United States Government guaranteed obligations or in the LGIP. No other investment may exceed half of portfolio market value. The LGIP, a 2a7-like pool as defined by GASB Statement No. 31 and the Securities and Exchange Commission, invests in high quality, short-term investments; all LGIP money market securities must be rated A-1 by Standard & Poor's Corporation or P1 by Moody's Investor Services, Inc. The LGIP weighted average maturity must not exceed 90 days and no single investment may exceed 762 days in maturity. Withdrawals in excess of \$10 million are available on a one-day notice. The LGIP Annual Report is available on the Washington State Treasurer's website.

Note 3 – Capital Assets (Utility Plant)

The following are changes in capital assets for the year ended December 31, 2023:

Description	Balance 01/01/23	Increases	Decreases	Balance 12/31/23
Capital assets not being depreciated				
Organization	\$ 14,767	\$ -	\$ -	\$ 14,767
Franchises and consents	211,427	-	-	211,427
Land and land rights	1,882,905	13,160	28,449	1,924,514
Construction work in progress	5,321,899	13,685,477	(6,746,982)	12,260,394
	<u>7,430,998</u>	<u>13,698,637</u>	<u>(6,718,533)</u>	<u>14,411,102</u>
Capital assets being depreciated				
Electric plant				
Distribution plant	140,395,625	6,756,990	(785,841)	146,366,774
Transmission plant	58,599,558	532,034	(14,844)	59,116,748
Generating plant	157,783,999	692,586	(4,011,914)	154,464,671
Water and wastewater plant	25,783,314	88,034	-	25,871,348
General plant	15,295,468	983,179	(116,471)	16,162,176
	<u>397,857,964</u>	<u>9,052,823</u>	<u>(4,929,070)</u>	<u>401,981,717</u>
Total capital assets	405,288,962	22,751,460	(11,647,603)	416,392,819
Accumulated depreciation	<u>(158,014,665)</u>	<u>(11,196,513)</u>	<u>5,046,464</u>	<u>(164,164,714)</u>
Net capital assets	<u>\$ 247,274,297</u>	<u>\$ 11,554,947</u>	<u>\$ (6,601,139)</u>	<u>\$ 252,228,105</u>

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

The following are changes in capital assets for the year ended December 31, 2022:

Description	Balance 01/01/22	Increases	Decreases	Balance 12/31/22
Capital assets not being depreciated				
Organization	\$ 14,767	\$ -	\$ -	\$ 14,767
Franchises and consents	211,427	-	-	211,427
Land and land rights	1,862,770	46,389	(26,254)	1,882,905
Construction work in progress	4,112,845	10,645,942	(9,436,888)	5,321,899
	<u>6,201,809</u>	<u>10,692,331</u>	<u>(9,463,142)</u>	<u>7,430,998</u>
Capital assets being depreciated				
Electric plant				
Distribution plant	135,088,189	5,957,691	(650,255)	140,395,625
Transmission plant	58,065,680	616,164	(82,286)	58,599,558
Generating plant	154,611,841	3,192,158	(20,000)	157,783,999
Water and wastewater plant	25,449,488	383,046	(49,220)	25,783,314
General plant	14,867,452	823,348	(395,332)	15,295,468
	<u>388,082,650</u>	<u>10,972,407</u>	<u>(1,197,093)</u>	<u>397,857,964</u>
Total capital assets	394,284,459	21,664,738	(10,660,235)	405,288,962
Accumulated depreciation	<u>(148,555,600)</u>	<u>(10,894,135)</u>	<u>1,435,070</u>	<u>(158,014,665)</u>
Net capital assets	<u>\$ 245,728,859</u>	<u>\$ 10,770,603</u>	<u>\$ (9,225,165)</u>	<u>\$ 247,274,297</u>

Depreciation on transportation and other equipment is allocated to clearing accounts and subsequently charged to construction work orders or maintenance expense.

Note 4 – Other Assets and Prepaid Power Contract

Other assets and prepaid power contract as of December 31 consist of the following:

	2023	2022
Prepaid power contract, net of current portion	\$ 3,509,316	\$ 4,685,652
Preliminary investigation charges	<u>853,120</u>	<u>853,120</u>
	<u>\$ 4,362,436</u>	<u>\$ 5,538,772</u>

Prepaid power contract – The District entered into a 20-year Energy Purchase Agreement for the White Creek Wind I Facility, which became effective January 1, 2008. Under this Agreement, the District had rights to 26% of the output from the 205 MW facility and was obligated to pay the same percentage of the reimbursable operating expenses. In June 2008, the District completed a transaction with Lewis PUD to sell 10% of the 26% share of the White Creek Wind I project power output. In December 2008, the District also sold 3% of the remaining 16% share of the White Creek Wind I project power output to Benton PUD. The gain on the sale of White Creek power rights was \$23,678,404. The remaining portion of the project is amortized on a straight-line basis over the remaining term of the contract.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Note 5 – Line of Credit

Effective June 19, 2013, the District signed a \$2.5 million line of credit agreement with a commercial lender. The line of credit is unsecured and bears interest at the daily SOFR rate, with a minimum of 3.1%. As of December 31, 2023 and 2022 there was no outstanding balance on the line of credit

Effective January 25, 2019, the District signed a \$10 million line of credit agreement with a commercial lender. Interest on the line of credit is fixed at 2.34%. During 2020, the District extended their line of credit to December 1, 2023, at which time all unpaid interest and principal will be due in full. The line of credit is secured by the net revenues of the District, as defined by the lender, and is subordinate to any senior lien debt agreements outstanding. The line of credit also requires certain financial covenants including a debt service coverage ratio. As of December 31, 2023 and 2022, there was no outstanding balance on the line of credit.

Effective November 28, 2023, the District the District renewed and expanded the \$10 million line of credit to \$11 million with a commercial lender. Interest on the line of credit is variable and is set monthly at the SOFR rate plus 300bps. The line will expire on December 31, 2025, at which time all unpaid interest and principal will be due in full. The line of credit is secured by the net revenues of the District, as defined by the lender, and is subordinate to any senior lien debt agreements outstanding. The line of credit also requires certain financial covenants including a debt service coverage ratio. As of December 31, 2023 and 2022, the outstanding balance is \$3,783,997 and \$0, respectively on the line of credit.

Note 6 – Long-Term Debt

The following are changes in long-term debt for the year ended December 31, 2023:

	Balance 01/01/2023	Additions	Payments/ Amortization	Balance 12/31/2023	Due Within One Year
Electric revenue bonds	\$ 131,916,967	\$ -	\$ 7,068,021	\$ 124,848,946	\$ 7,284,137
Unamortized bond premium	4,620,882	-	281,183	4,339,699	-
W/WW loans	998,975	-	148,424	850,551	140,505
Total long-term debt	<u>\$ 137,536,824</u>	<u>\$ -</u>	<u>\$ 7,497,628</u>	<u>\$ 130,039,196</u>	<u>\$ 7,424,642</u>

The following are changes in long-term debt for the year ended December 31, 2022:

	Balance 01/01/2022	Additions	Payments/ Amortization	Balance 12/31/2022	Due Within One Year
Electric revenue bonds	\$ 138,765,145	\$ -	\$ 6,848,178	\$ 131,916,967	\$ 7,069,740
Unamortized bond premium	4,656,315	245,748	281,181	4,620,882	-
W/WW loans	1,156,616	-	157,641	998,975	148,423
Total long-term debt	<u>\$ 144,578,076</u>	<u>\$ 245,748</u>	<u>\$ 7,287,000</u>	<u>\$ 137,536,824</u>	<u>\$ 7,218,163</u>

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Substantially all electric revenues are pledged as security for the electric revenue bonds and substantially all water/wastewater (W/WW) revenues are pledged as security for the water/wastewater revenue bonds. Water/wastewater loans are secured by water/wastewater assets. Electric revenue bonds carry fixed interest rates ranging from 4.19% to 0.50% for the years ended December 31, 2023 and 2022. The electric system also has one loan that carries a fixed interest rate of 3.50%. The water/wastewater revenue bonds have a 5.0% fixed rate. The loans from the Public Work Trust Fund (PWTF) carry fixed rates of 0.0%, the State Revolving Fund (SRF) loans have fixed rates of 0.5% and the USDA of 2.125%. Electric revenue bonds mature through 2041, water/wastewater bonds mature through 2032, and the PWTF and SRF loans mature through 2055. There is no restricted assets as of December 31, 2023 and 2022 representing revenue bond reserve requirements and debt service accounts for the various indentures. There are a number of other limitations and restrictions contained in the various bond indentures.

Future maturities are as follows as of December 31, 2023:

Electric Revenue Bonds			
Year(s)	Principal	Interest	Totals
2024	\$ 7,284,137	\$ 4,677,125	\$ 11,961,262
2025	7,529,909	4,428,394	11,958,303
2026	7,791,600	4,165,121	11,956,721
2027	8,065,800	3,893,285	11,959,085
2028	8,347,500	3,605,237	11,952,737
2029-2033	34,520,000	14,180,243	48,700,243
2034-2038	40,060,000	5,538,033	45,598,033
2038-2049	11,250,000	681,600	11,931,600
	<u>\$ 124,848,946</u>	<u>\$ 41,169,038</u>	<u>\$ 166,017,984</u>

Water/Wastewater PWTF, SRF and USDA Loans			
Year(s)	Principal	Interest	Totals
2024	\$ 140,505	\$ 7,375	\$ 147,880
2025	140,578	6,706	147,284
2026	123,762	6,015	129,777
2027	92,587	5,332	97,919
2028	78,326	4,648	82,974
2029-2033	138,225	17,436	155,661
2034-2038	25,149	13,471	38,620
2039-2043	27,938	10,682	38,620
2044-2048	31,037	7,583	38,620
2049-2053	34,478	4,142	38,620
2054-2057	17,966	674	18,640
	<u>\$ 850,551</u>	<u>\$ 84,064</u>	<u>\$ 934,615</u>

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Note 7 – Retirement Benefits

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* as of and for the year ended December 31, 2023:

Aggregate Pension Amounts – All Plans		
Net pension asset	\$	2,935,477
Net pension liability		1,266,871
Deferred outflows of resources		2,310,663
Deferred inflows of resources		1,360,692
Pension credit		(244,383)

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

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

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

The DRS comprehensive annual financial report may also 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.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

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

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component. 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) as of December 31 were as follows:

PERS Plan 1			
<u>Actual Contribution Rates</u>		<u>2023</u>	<u>2022</u>
Employer		10.39%	10.25%
Employee		6.00%	6.00%

The District's actual contributions to the plan were \$366,908 and \$335,772 for the years ended December 31, 2023 and 2022, respectively.

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years (PERS 2) or 10 years (PERS 3) of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

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

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

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

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. 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 2023 were as follows:

PERS Plan 2 / 3		
<u>Actual Contribution Rates</u>	<u>2023</u>	<u>2022</u>
Employer	10.39%	10.25%
Employee	6.36%	6.36%

The District's actual contributions to the plan were \$682,671 and \$569,824 for the years ended December 31, 2023 and 2022, respectively.

Actuarial Assumptions – The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023, with a valuation date of June 30, 2022. 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 2021 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Plan liabilities (assets) were rolled forward from June 30, 2022 to June 30, 2023, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments. The total pension liability (asset) as of June 30, 2023 was determined using the following actuarial assumptions:

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation.
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.00%.

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

Discount Rate – The discount rate used to measure the total pension liability for all DRS plans was 7.00%.

To determine that rate, an asset sufficiency test included an assumed 7.00% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.00% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates. Based on these 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 7.00% was used to determine the total liability.

Long-Term Expected Rate of Return – The long-term expected rate of return on the DRS pension plan investments of 7.00% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.00% approximately equals the median of the simulated investment returns over a 50-year time horizon.

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, 2023, are summarized in the table below. The inflation component used to create the table is 2.20% and represents the WSIB's most recent long-term estimate of broad economic inflation.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic	
		2023	2022
Fixed Income	20%	1.50%	1.50%
Tangible Assets	7%	4.70%	4.70%
Real Estate	18%	5.40%	5.40%
Global Equity	32%	5.90%	5.90%
Private Equity	23%	8.90%	8.90%
	<u>100%</u>		

Sensitivity of NPL – The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability (assets) would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
PERS 1 Liability	\$ 1,769,914	\$ 1,266,871	\$ 827,832
PERS 2/3 Asset	\$ 3,192,683	\$ (2,935,477)	\$ (7,970,147)

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 (Credit), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2023, the District reported a net pension liability of \$1,266,871 for PERS 1 and net pension asset of \$2,935,477 for PERS 2/3 for its proportionate share of the total net pension liability (asset). At December 31, 2022, the District reported a net pension liability of \$1,479,669 for PERS 1 and net pension asset of \$2,572,522 for PERS 2/3 for its proportionate share of the total net pension liability (asset).

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

	Proportionate Share 6/30/23	Proportionate Share 6/30/22	Change in Proportion
PERS 1	0.055498%	0.053142%	0.002356%
PERS 2/3	0.071620%	0.069363%	0.002257%

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

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

The collective net pension liability was measured as of June 30, 2023, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2022, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense/(Credit) – For the years ended December 31, 2023 and 2022, the District recognized a pension credit of \$244,383 and \$263,491, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2023 and 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023		2022	
PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (142,908)	\$ -	\$ (245,224)
Contributions subsequent to the measurement date	134,168	-	172,394	-
Total	<u>\$ 134,168</u>	<u>\$ (142,908)</u>	<u>\$ 172,394</u>	<u>\$ (245,224)</u>
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 597,953	\$ 32,798	\$ 637,411	\$ 58,235
Net difference between projected and actual investment earnings on pension plan investments	-	1,106,265	-	1,901,884
Changes of assumptions	1,232,415	268,618	1,433,826	375,427
Changes in proportion and differences between contributions and proportionate share of contributions	54,992	95,919	75,360	82,022
Contributions subsequent to the measurement date	291,135	-	289,748	-
Total	<u>\$ 2,176,495</u>	<u>\$ 1,503,600</u>	<u>\$ 2,436,345</u>	<u>\$ 2,417,568</u>
Combined PERS 1 & PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 597,953	\$ 32,798	\$ 637,411	\$ 58,235
Net difference between projected and actual investment earnings on pension plan investments	-	963,357	-	1,656,660
Changes of assumptions	1,232,415	268,618	1,433,826	375,427
Changes in proportion and differences between contributions and proportionate share of contributions	54,992	95,919	75,360	82,022
Contributions subsequent to the measurement date	425,303	-	462,142	-
Total	<u>\$ 2,310,663</u>	<u>\$ 1,360,692</u>	<u>\$ 2,608,739</u>	<u>\$ 2,172,344</u>

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

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, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>PERS 1</u>
Year Ended December 31, 2024	\$ (97,229)
2025	(122,277)
2026	75,394
2027	<u>1,204</u>
Total	<u>\$ (142,908)</u>

	<u>PERS 2/3</u>
Year Ended December 31, 2024	\$ (539,750)
2025	(633,513)
2026	910,649
2027	325,307
2028	315,719
Thereafter	<u>3,348</u>
Total	<u>\$ 381,760</u>

Note 8 – Post-Employment Benefits Other than Pension

Plan description – The District administers a single-employer defined benefit healthcare plan. The plan provides postretirement medical and dental benefits for eligible retirees who are 65 years old with 5 years of service or 55 years old with 20 years of service. Survivors of members who die prior to retirement are not eligible for medical benefits. Benefit provisions are established through District policy. The District's postemployment health care plan does not issue a publicly available financial report.

As of the valuation date of January 1, 2023, membership includes 90 active participants, 21 retirees and surviving spouses, and 14 spouses of current retirees.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Funding policy – Contribution requirements are established through District policy. The premium paid for spouse coverage is based on whether or not the retiree is eligible for Medicare. The following premiums were in place as of January 1, 2023:

	<u>Medical</u>	<u>Dental</u>
Pre-65		
Retiree Only	\$ 806	\$ 49
Retiree + Spouse	\$ 1,634	\$ 100
Post-65		
Retiree Only	\$ 605	\$ 49
Retiree + Spouse	\$ 1,225	\$ 100

Total OPEB liability, OPEB expense, deferred outflows of resources, and deferred inflows of resources related to OPEB – The District’s total OPEB liability of \$1,162,649 was measured as of December 31, 2022 and was determined by an actuarial valuation as of January 1, 2023. The District’s total OPEB liability of \$1,357,525 was measured as of December 31, 2021 and was determined by an actuarial valuation as of January 1, 2023.

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

	<u>December 31, 2022</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 47,937	\$ 102,021
Changes in assumptions or inputs	101,327	168,206
Contributions made subsequent to measurement date	66,515	-
	<u>\$ 215,779</u>	<u>\$ 270,227</u>

	<u>December 31, 2022</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 47,937	\$ 102,021
Changes in assumptions or inputs	101,327	168,206
Contributions made subsequent to measurement date	66,515	-
	<u>\$ 215,779</u>	<u>\$ 270,227</u>

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending December 31, 2023	\$ (50,880)
2024	(50,880)
2025	(52,492)
2026	(51,963)
2027	(13,368)
Thereafter	(82,688)
	<u>\$ (302,271)</u>

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

Valuation Date	January 1, 2023	January 1, 2021
Measurement Date	December 31, 2022	December 31, 2021
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	3.72%	2.06%
Inflation	2.35%	2.30%
Projected Salary Increase	3.25%	3.05%

Mortality rates for healthy retirees and beneficiaries were based on the MP-2017 Sex-distinct tables, as appropriate, with adjustments for mortality improvements based on Scale BB.

Health care cost trend – The health care cost trend starts at 5.9% in the first year and in future years varies between 5.9% and 3.7%, due to the timing of the excise tax scheduled to affect health care benefits. The trend then settles to an ultimate rate of 3.7%. Dental costs are assumed to increase 4.0% in all future years.

Discount rate – The discount rate used to measure the total pension OPEB liability was 3.72% and 2.06% percent for the June 30, 2023 and 2022, measurement dates, respectively. This rate is consistent with the Bond Buyer 20-year General Obligation Bond index.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Changes in total OPEB liability – Changes in the total OPEB liability for the years ended December 31 are shown below:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 1,357,525	\$ 1,298,346
Changes for the year		
Service cost	74,999	71,878
Interest on total OPEB liability	28,828	28,527
Effect of economic/demographic gains or losses	(13,838)	-
Effect of assumptions changes or inputs	(218,350)	8,235
Benefit payments	<u>(66,515)</u>	<u>(49,461)</u>
Balance, end of year	<u>\$ 1,162,649</u>	<u>\$ 1,357,525</u>

Sensitivity analysis – Below is a sensitivity analysis around the discount rate of 3.72% as well as the healthcare trend rate assumed in the actuarial assumptions:

<u>Discount Rate</u>	<u>1% Decrease 2.72%</u>	<u>Current Rate 3.72%</u>	<u>1% Increase 4.72%</u>
Total OPEB liability	\$ 1,277,833	\$ 1,162,649	\$ 1,062,738

<u>Healthcare Cost Trend</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 1,034,143	\$ 1,162,649	\$ 1,320,419

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Note 9 – Segment Information – Enterprise Funds

The District operates an electric, nine water, and five wastewater utilities which are primarily financed by user charges. The key financial data for the years ended December 31, 2023 and 2022, is as follows:

Condensed statement of net position:

	Electric System	Water- Wastewater Systems	Total 2023	Total 2022
Assets				
Current, restricted, other assets and deferred outflows	\$ 57,495,860	\$3,800,539	\$ 61,296,399	\$ 66,479,640
Capital assets	238,713,429	13,514,676	252,228,105	247,274,297
Total assets and deferred outflows	\$ 296,209,289	\$ 17,315,215	\$ 313,524,504	\$ 313,753,937
Liabilities				
Current liabilities	\$ 18,140,533	\$ 997,149	\$ 19,137,682	\$ 17,552,303
Noncurrent liabilities and deferred inflows	149,634,636	710,046	150,344,682	161,726,391
Total liabilities and deferred inflows	167,775,169	1,707,195	169,482,364	179,278,694
Net position				
Net investment in capital assets	\$ 109,515,536	\$ 12,663,320	\$ 122,178,856	\$ 109,726,637
Restricted	2,935,477	-	2,935,477	2,572,522
Unrestricted	15,983,107	2,944,700	18,927,807	22,176,084
Total net position	128,434,120	15,608,020	144,042,140	134,475,243
Total liabilities, deferred inflows and net position	\$ 296,209,289	\$ 17,315,215	\$ 313,524,504	\$ 313,753,937

Condensed statements of revenues, expenses, and changes in net position:

	Electric System	Water- Wastewater Systems	Total 2023	Total 2022
Operating revenues	\$ 69,697,007	\$ 1,556,781	\$ 71,253,788	\$ 67,213,561
Operating expenses	48,008,465	1,359,198	49,367,663	47,350,470
Depreciation	11,179,777	822,002	12,001,779	10,468,538
Operating income (loss)	10,508,765	(624,419)	9,884,346	9,394,553
Non-operating revenues (expenses)				
Interest income	1,430,532	141,704	1,572,236	627,797
Interest expense	(4,611,215)	(16,066)	(4,627,281)	(5,093,142)
Other non-operating revenue (expense), net	(143,280)	(2,162)	(145,442)	(209,226)
Capital contributions and grants	2,716,328	166,710	2,883,038	3,233,157
Change in net position	9,901,130	(334,233)	9,566,897	7,953,139
Net position, beginning of year	118,532,990	15,942,253	134,475,243	126,522,104
Net position, end of year	\$ 128,434,120	\$ 15,608,020	\$ 144,042,140	\$ 134,475,243

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Note 10 – Power Risk Management

As of December 31, 2023, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2023	
	Classification	Amount	Classification	Amount
Cash Flow Hedges:				
Financial Swap Forward	Deferred Inflow	\$ 247,563	Derivative Asset	\$ 247,563
Financial Swap Forward	Deferred Outflow	\$ 80,619	Derivative Liability	\$ 80,619

As of December 31, 2022, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2022	
	Classification	Amount	Classification	Amount
Cash Flow Hedges:				
Financial Swap Forward	Deferred Inflow	\$ 1,124,702	Derivative Asset	\$ 1,124,702
Financial Swap Forward	Deferred Outflow	\$ 950,119	Derivative Liability	\$ 950,119

The fair values of the financial swap contracts were based on the futures price curve for the Mid-Columbia Intercontinental Exchange for electricity.

Objective and strategies – The District enters into derivative energy transactions to hedge its known or expected positions within its approved Risk Management Policy. Decisions are made to enter into forward transactions to protect its financial position specifically to deal with 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:

Surplus Purchased Power Resources – The District purchases power to serve loads in excess of those served by the BPA system. These purchase requirements are for known quantities over each two-year BPA rate period. These purchases are made at a price based on the monthly Mid-Columbia index. The District utilizes financial hedges to effectively lock in the price paid for the majority of this power and as a result protects the District from variability in wholesale power expense.

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. Commodity transactions, both physical and financial, are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness. Counterparty credit limits are based on The Energy Authority's (TEA) 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 AA.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Basis risk – The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. There are no derivative transactions outstanding that carry basis risk as of December 31, 2023. 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. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

Termination risk – Hedging derivative contracts may be terminated by mutual agreement of the Board and the counterparty, or upon the occurrence of a termination event. Termination events include non-payment, non-delivery, deterioration of creditworthiness, or other material adverse changes. During the years ended December 31, 2023 and 2022, there were no terminations.

Note 11 – Risk Management and Self-Insurance

Unemployment insurance – The District maintains insurance against most normal hazards, except for unemployment insurance, where the District has elected to become self-insured with the Employment Security Department applying an experience rating that dictates payment amounts. The District reimburses the State Employment Security Department for actual costs upon receipt of any claim. The District does not estimate any future liability as the amount is not significant.

Public utility risk management services – The District, along with seventeen other public utility districts and one joint operating agency, is a member of the Public Utility Risk Management Services (PURMS) self-insurance fund. The program provides members with various liability, property, and health insurance coverages in three separate pools.

The District has not accrued a liability for any outstanding claims of the self-insured pools, including incurred-but-not-reported health and welfare claims, as the amount cannot be reasonably estimated. Management believes these claims, for those that are successful, will not have a significant impact on the financial position of the District.

Mile Marker 28 Fire

In July 2013, a wildfire broke out in the vicinity of an electrical power line located on active timber lands. The Washington Department of Natural Resources has conducted an investigation as to the cause of and any damages that may have resulted from the fire. Two complaints have been filed by: Bureau of Indian Affairs (BIA) on behalf of Yakama Nation and the Washington Department of Natural Resources (DNR). The District also received notification from the US Department of Agriculture (USDA) alleging the District owes the USDA suppression costs related to the mile marker 28 fire.

In March 2018, a mediation meeting took place between the District and representatives from the State of Washington, in which the parties reached a settlement of \$2.9 million and any and all claims were dismissed with prejudice. The settlement payment was made by PURMS and AEGIS.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

In May, 2023, all remaining claims were settled through mediation for \$7 million to avoid further delay, inconvenience, the cost and expense of litigation, and the uncertainty of litigation outcomes. This Settlement Agreement is not an admission of any negligence, wrongful conduct, or liability by any Party, nor a concession by any Party that its contentions are not well founded. Payment was made by PURMS and AEGIS.

PURMS and AEGIS, the insurance carriers for the District, has provided legal representation for both fires. The District's deductible is \$1,000,000, which is shared by the pools.

The District is a participant in the liability pool, which provides the District with shared excess coverage of \$35,000,000 general liability, and \$35,000,000 per occurrence Directors and Officers liability.

Note 12 – Joint Ventures

Conservation and Renewable Energy System (CARES) – The District, along with seven other public utility districts, is a member of CARES, a municipal corporation and joint operating agency of the State of Washington. CARES was formed pursuant to RCW Chapter 43.52. The purpose of CARES is to develop and acquire conservation, renewable, and high efficiency resources consistent with the Northwest Conservation and Electric Power Plan. CARES issued Conservation Project Revenue Bonds which are tax-exempt and unconditionally guaranteed by the BPA. The District has not contributed any money to CARES for several years. The District has no equity interest or liability for CARES operations.

McNary North Fishway Hydroelectric Project – On August 14, 1995, the District and Northern Wasco County PUD entered into an Ownership Agreement to jointly construct and operate the McNary North Fishway Hydroelectric Project. The project was completed in September 1997 and is generating approximately 10 MW of electricity. Both the District and Northern Wasco County PUD share equally in the output, as well as the construction and operation costs of the Project. The District contributed \$550,000 and \$ 500,000 in 2023 and 2022, respectively.

White Creek Public, LLC & White Creek Project, LLC – The District, along with Cowlitz PUD, formed White Creek Public, LLC to participate in White Creek Project, LLC which also includes as members Tanner Electric Co-op and Lakeview Light & Power. Early development of the project was done by the utilities involved, but prior to the end of 2007 the project was sold to Prudential and Lehman Brothers. Energy purchase agreements were signed by the utilities for 20 years of power that began commercial operation on November 21, 2007 (see Note 4). The percentage owned by each utility was determined based upon their contribution made during the original development stage. Phases 1 and 2 of White Creek Wind I have a total of 89 2.3 MW wind turbines for an anticipated output of 205 MW.

Note 13 – Contingencies

Lawsuits – The District is a defendant in various lawsuits from time to time, it is the opinion of District management that resolution of these matters will not have a material adverse effect on the financial condition of the District. See also Note 11.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Construction financing – On April 17, 2001, the District entered into a thirty (30)-year agreement with Goldendale Energy, Inc. in order to provide for the transmission of the electric energy to be produced at Goldendale Energy Inc. generating facility from the E.E. Clouse Substation to Bonneville's Harvalum Substation. The generating facility was sold through bankruptcy auction in February 2007 to Puget Sound Energy. The District established a new letter of credit for the transmission line service, which the District built and operates for the generation facility. The letter of credit covers the net present value of the remaining contract amount including the debt outstanding.

Grants – Grants received by the District are subject to audit by the granting agency and may result in certain costs being disallowed and required to be returned. Management believes it has complied with grant guidelines and the likelihood of disallowed costs is remote.

Note 14 – Power Contracts

From October 1, 2017 through September 30, 2023, the District was entered into a Load following Agreement with Bonneville Power Administration (BPA). The agreement was for Load Following service coupled with a new Tiered Rate Methodology (TRM). The TRM established an initial Contract High Water Mark (CHWM) load that qualifies for service at BPA's lower cost power (Tier 1) from the Federal Base System (FBS). Any requirement above the CHWM load is known as Above3 High Water Mark (AHWM) load. The AHWM load obligation for each year is established in advance of each rate period, which spans two years, based upon load forecasts and projected FBS capability. The AHWM load can be served with non-federal resources or purchased from BPA as Tier 2 power. Tier 2 power purchased from BPA is expected to be priced at or around market pricing. The District's AHWM was served by non-federal resource power through a power purchase contract from The Energy Authority. Effective October 1, 2023, AHWM needs are solely provided by utilizing the BPA Tier 2 product.

Note 15 – Generation Assets

McNary Dam Hydroelectric project is a 10 MW plant that the District shares joint ownership with Northern Wasco People's Utility District in The Dalles, Oregon. The facility is located on the north shore fish bypass area of McNary Dam and received a 50-year license on September 30, 1991. The District receives 4.5 MWs, which are dedicated to serve the load of District customers.

The H.W. Hill Landfill Gas Facility was first developed to produce electricity from the regional landfill. In 2018 the facility was redeveloped as a Renewable Natural Gas Facility, converting the captured landfill gas into compressed natural gas, which is injected into the nearby natural gas pipeline and utilized by downstream parties as renewable vehicle fuel. The District recognized \$19,172,725 and \$17,877,823 in revenues related to the output from the facility during the year ended December 31, 2023 and 2022, respectively.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Notes to Combined Financial Statements**

Note 16 – Union Contracts

The District has a contract with the International Brotherhood of Electrical Workers (IBEW) as well as the Water/Wastewater Workers which covers these workers employed by the District. The District signed a new contract with the unions in April 2020, which expires in March 2025.

Required Supplementary Information

Public Utility District No. 1 of Klickitat County
Schedule of Changes in Total OPEB Liability and Related Ratios
Last Ten Years*

	December 31,					
	2023	2022	2021	2020	2019	2018
<i>Total OPEB Liability</i>						
Service cost	\$ 74,999	\$ 71,878	\$ 75,576	\$ 60,399	\$ 68,258	\$ 61,916
Interest cost	28,828	28,527	35,869	46,672	51,068	53,391
Effect of economic/demographic gains or losses	(13,838)	-	61,441	(64,464)	(124,771)	-
Effect of assumptions changes	(218,350)	8,235	(77,024)	110,561	(196,362)	46,736
Benefit payments	(66,515)	(49,461)	(61,626)	(62,325)	(89,518)	(98,983)
Net change in total OPEB liability	(194,876)	59,179	34,236	90,843	(291,325)	63,060
Total OPEB liability, beginning of period	<u>1,357,525</u>	<u>1,298,346</u>	<u>1,264,110</u>	<u>1,173,267</u>	<u>1,464,592</u>	<u>1,401,532</u>
Total OPEB liability, end of period	<u>\$ 1,162,649</u>	<u>\$ 1,357,525</u>	<u>\$ 1,298,346</u>	<u>\$ 1,264,110</u>	<u>\$ 1,173,267</u>	<u>\$ 1,464,592</u>
Covered employee payroll	\$ 9,903,130	\$ 9,330,796	\$ 8,224,647	\$ 7,634,303	\$ 7,149,496	\$ 6,861,924
Total OPEB liability as a percent of covered payroll	11.74%	14.55%	15.79%	16.56%	16.41%	21.34%

* - Additional years will be added as information is obtained.

Public Utility District No. 1 of Klickitat County
Schedule of Proportionate Share of the Net Pension Liability
Last Ten Years*

PERS 1

	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the net pension asset	0.055498%	0.053142%	0.054483%	0.052127%	0.053025%	0.050830%	0.052794%	0.057652%	0.070364%
Proportionate share of the net pension liability	\$ 1,266,871	\$ 1,479,669	\$ 665,365	\$ 1,840,367	\$ 2,038,999	\$ 2,270,085	\$ 2,505,117	\$ 3,096,184	\$ 3,680,682
Covered-employee payroll	\$ 9,903,130	\$ 9,330,796	\$ 8,682,282	\$ 7,469,617	\$ 6,679,129	\$ 6,888,007	\$ 6,684,510	\$ 6,630,605	\$ 6,507,405
Proportionate share of the net pension liability as percentage of covered-employee payroll	13%	16%	8%	25%	31%	33%	37%	47%	57%
Plan's fiduciary net position	\$ 9,225,521,000	\$ 9,093,254,000	\$ 9,625,832,000	\$ 7,726,256,000	\$ 7,851,279,000	\$ 7,677,378,000	\$ 7,496,920,000	\$ 7,126,401,000	\$ 7,558,312,000
Plan fiduciary net position as a percentage of the total pension liability	80%	77%	89%	69%	67%	63%	61%	57%	59%

PERS 2/3

	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the net pension asset	0.071620%	0.069363%	0.069964%	0.068077%	0.068431%	0.065435%	0.067908%	0.073869%	0.089705%
Proportionate share of the net pension liability (asset)	\$ (2,935,477)	\$ (2,572,522)	\$ (6,969,540)	\$ 870,665	\$ 664,697	\$ 1,117,243	\$ 2,359,477	\$ 3,719,245	\$ 3,205,210
Covered-employee payroll	\$ 9,903,130	\$ 9,330,796	\$ 8,682,282	\$ 7,469,617	\$ 6,679,129	\$ 6,888,007	\$ 6,684,510	\$ 6,630,605	\$ 6,497,821
Proportionate share of the net pension liability (asset) as percentage of covered-employee payroll	-30%	-28%	-80%	12%	10%	16%	35%	56%	49%
Plan's fiduciary net position	\$ 62,501,051,000	\$ 58,833,978,000	\$ 59,057,337,000	\$ 44,751,593,000	\$ 42,531,828,000	\$ 38,685,317,000	\$ 35,000,803,000	\$ 30,482,624,000	\$ 29,511,959,000
Plan fiduciary net position as a percentage of the total pension liability	107%	107%	120%	97%	98%	96%	91%	86%	89%

* - Additional years will be added as information is obtained.

Public Utility District No. 1 of Klickitat County

Schedule of Contributions

Last Ten Years*

PERS 1

	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Contractually required contribution (actuarially determined)	\$ 378,180	\$ 325,687	\$ 405,835	\$ 376,778	\$ 371,493	\$ 360,069	\$ 321,420	\$ 318,217	\$ 296,743
Contributions in relation to the actuarially determined contribution	(378,180)	(325,687)	(405,835)	(376,778)	(371,493)	(360,069)	(321,420)	(318,217)	(296,743)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 9,903,130	\$ 9,330,796	\$ 8,682,282	\$ 7,469,617	\$ 6,679,129	\$ 6,289,795	\$ 6,687,962	\$ 6,630,605	\$ 6,507,405
Contributions as a percentage of covered-employee payroll	4%	3%	5%	5%	6%	6%	5%	5%	5%

PERS 2/3

	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2016
Contractually required contribution (actuarially determined)	\$ 629,696	\$ 557,241	\$ 622,747	\$ 622,765	\$ 559,805	\$ 533,228	\$ 449,348	\$ 412,412	\$ 379,656
Contributions in relation to the actuarially determined contribution	(629,696)	(557,241)	(622,747)	(622,765)	(559,805)	(533,228)	(449,348)	(412,412)	(379,656)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 9,903,130	\$ 9,330,796	\$ 8,682,282	\$ 7,469,617	\$ 6,679,129	\$ 6,289,795	\$ 6,687,962	\$ 6,630,605	\$ 6,497,821
Contributions as a percentage of covered-employee payroll	6%	6%	7%	8%	8%	8%	7%	6%	6%

* - Additional years will be added as information is obtained.

Notes to schedules

DRS allocates a certain portion of contributions from PERS Plan 2/3 to PERS Plan 1 in order to fund its unfunded actuarially accrued liability (UAAL).

NOTE - Changes made to presentation

The PERS 1 UAAL is considered a PERS 1 contribution as it is contributed to that plan. This has been added to the PERS 1 contributions and deducted from PERS 2/3.

Supplementary Information

Public Utility District No. 1 of Klickitat County
Schedule of Debt Service Coverage
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Electric system		
Sales to retail customers	\$ 38,067,225	\$ 37,634,248
Sales to wholesale and transmission customers	9,342,196	9,402,628
RNG Generation Revenues	19,172,725	17,877,823
Water/wastewater systems	1,899,661	1,590,210
Other operating revenues	<u>2,771,981</u>	<u>708,652</u>
Total operating revenues	<u>71,253,788</u>	<u>67,213,561</u>
OPERATING EXPENSES		
Power expense	19,708,583	18,620,926
Operations expense	17,895,434	16,504,828
Maintenance expense	4,494,504	4,071,424
Administrative and general expense	4,435,705	5,478,869
Tax expense	<u>2,833,437</u>	<u>2,674,423</u>
Total operating expense, excluding depreciation and amortization	<u>49,367,663</u>	<u>47,350,470</u>
Net operating revenue	<u>21,886,125</u>	<u>19,863,091</u>
INTEREST INCOME	<u>1,572,236</u>	<u>627,797</u>
OTHER NON-OPERATING REVENUES (INCLUDING CAPITAL CONTRIBUTIONS AND GRANTS)	<u>3,235,338</u>	<u>3,565,152</u>
BALANCE FOR DEBT SERVICE	<u>\$ 26,693,699</u>	<u>\$ 24,056,040</u>
Debt service – principal and interest payments – senior/parity and subordinate lien debt	\$ 11,970,410	\$ 11,971,526
Debt service – principal and interest payments – senior/parity lien debt only	\$ 8,993,307	\$ 8,994,390
Debt service coverage senior/parity and subordinate lien debt	2.23	2.01
Debt service coverage senior/parity lien debt only	2.97	2.67

Public Utility District No. 1 of Klickitat County
Schedule of Cash and Liquidity Ratios
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
DAYS CASH ON HAND		
Unrestricted funds		
Cash and cash equivalents	\$ 25,860,485	\$ 28,364,433
Power cost stabilization fund	<u>4,000,000</u>	<u>4,000,000</u>
Total unrestricted funds (a)	29,860,485	32,364,433
Expenses		
Operating expenses	61,369,442	57,819,008
Less – Depreciation	(12,001,779)	(10,468,538)
Less – Amortization of prepaid power contract	<u>(1,176,336)</u>	<u>(1,183,674)</u>
Total expenses (b)	48,191,327	46,166,796
Days cash on hand (a / b * 365)	226	256
DAYS LIQUIDITY ON HAND		
Available borrowing capacity – line of credit (c)	\$ 9,716,003	\$ 12,500,000
Day liquidity on hand ((a + c) / b * 365)	300	355

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Klickitat County, Washington (the District), which comprise the combined statement of net position and the related combined statements of revenues, expenses and changes in net positions, and cash flows, as of and for the year ended December 31, 2023, and the related notes to the combined financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 12, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Portland, Oregon

June 12, 2024

