



REPORT OF INDEPENDENT AUDITORS AND
COMBINED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY

December 31, 2020 and 2019

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of Public Utility District No.1 of Klickitat County (the District), which comprise the combined statements of net position as of December 31, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12, the schedule of changes in the total OPEB liability and related ratios on page 45, the schedule of proportionate share of the net pension liability on page 46, and the schedule of contributions on page 47 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in the accompanying schedule of debt service coverage on page 48 and schedule of cash and liquidity ratios on page 49 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Portland, Oregon
June 24, 2021

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Directory of Officials**

Office	Official	Term	Term Expiration
Board of Commissioners			
President	Douglas B. Miller	6 years	December 2022
Vice President	Randy L. Knowles	6 years	December 2024
Secretary	Dan G. Gunkel	6 years	December 2026

Office	Official	Address
Appointed Officials		
General Manager	James R. Smith	1313 S. Columbus Goldendale, WA 98620
Attorney	Ogden Murphy Wallace PLLC Athan E. Tramountanas	901 Fifth Avenue, Suite 3500 Seattle, WA 98164

Public Utility District No. 1 of Klickitat County – MCAG No. 1785 Management’s Discussion and Analysis

This section provides an overview and analysis of key data presented in the basic combined financial statements for the years ended December 31, 2020 and 2019, with additional comparative data for 2018. 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. The District also serves small areas in the surrounding counties of Yakima, Skamania, and Benton. As of December 31, 2020, the District had 13,616 electric, 1,216 water, and 1,270 wastewater customers. 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 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, 9% comes from the District’s shares of the McNary dam and Packwood hydroelectric projects and 12% comes from 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, 2020 and 2019, 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**

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Capital assets	\$ 248,825,600	\$ 249,323,709	\$ 250,360,416
Current, restricted, and other assets and deferred outflows of resources	<u>59,131,280</u>	<u>61,894,444</u>	<u>55,182,692</u>
Total assets and deferred outflows of resources	<u>\$ 307,956,880</u>	<u>\$ 311,218,153</u>	<u>\$ 305,543,108</u>
Long-term liabilities and deferred inflow of resources	\$ 172,854,723	\$ 185,889,367	\$ 184,469,828
Current liabilities	<u>19,325,187</u>	<u>18,583,989</u>	<u>18,859,185</u>
Total liabilities and deferred inflows of resources	<u>192,179,910</u>	<u>204,473,356</u>	<u>203,329,013</u>
Net investment in capital assets	108,014,183	100,722,048	88,977,673
Restricted – bond funds	-	-	9,757,835
Unrestricted	<u>7,762,787</u>	<u>6,022,749</u>	<u>3,478,587</u>
Total net position	<u>115,776,970</u>	<u>106,744,797</u>	<u>102,214,095</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 307,956,880</u>	<u>\$ 311,218,153</u>	<u>\$ 305,543,108</u>

Public Utility District No. 1 of Klickitat County – MCAG No. 1785 Management’s Discussion and Analysis

Financial Highlights – 2020

- Through prudent financial management activities of District staff, the District improved financial performance over 2019 results while meeting or exceeding financial policy requirements. The utility ended the year with a Debt Service Coverage Ratio of 2.69, excluding subordinate lien debt and 1.43 for all outstanding electric debt. The year ended with 285 days cash on hand compared to a budgeted outcome of 247 days. Please see the 'Supplemental Information' pages of this Financial Audit for additional detail which supports these calculations.
- The District maintained strong liquidity during 2020 with a Days Liquidity on Hand result of 378 days. The District has maintained a \$10 million operating line of credit to provide additional liquidity for the utility. This line was not utilized during 2020.
- During 2020, the District successfully negotiated a 20-year fixed price sales contract for volumes produced from the Renewable Natural Gas (RNG) project. This contract provides long-term revenue stability for the District and eliminates market/variable price risk for RNG output. This contract was effective as of July 1, 2020.
- The RNG facility contributed \$19.9 million in revenue to the District during 2020 vs. \$11.8 million in 2019.
- The District operates 16 water and wastewater systems. Water and wastewater rates are annually reviewed for each individual system and, in 2020, there were no rate increases applied to any system.
- The District elected to not adjust electric rates for any rate classes during 2020.
- The District’s rate stabilization fund balance at year-end 2020 was \$4.0 million, which continues to exceed the fiscal policy requirement of \$2.4 million. The District has maintained financial stability and does not project significant impacts that would require the utilization of this fund during this time of national economic uncertainty.
- Due to the diversity of the District customer base across several customer rate classes there has been no evidence of substantial load driven revenue impacts due to COVID-19. This is unlike results for utilities with a customer base and other revenue sources which are less diversified.
- The District was impacted by COVID-19, specifically Washington State Proclamation 20-23 as it prohibits specific debt collection actions resulting in a reduction of non-operating income and increased accounts receivable aging balances. Customer outreach and collection efforts continue, but are far less effective. The availability of CARES funding for residential customer assistance programs and small business relief has mitigated the full COVID-19 financial impact. There is an anticipated increase in bad debt, but it is not believed to be substantial at this time.
- The District revised the existing Low Income Elderly Discount Program and developed a COVID Small Business Discount Program in response to COVID-19 to help customers through this time of uncertainty.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Management's Discussion and Analysis**

- Long-term contracts for capacity held on the District owned 230kV transmission system provided an additional \$4.97 million in revenue. These contracts continue to provide stable and predictable revenues for the benefit of District ratepayers.

Financial Highlights – 2019

- Through prudent financial management activities of District staff, the District continues to improve financial performance, striving to meet and/or exceed financial policy requirements. The utility ended the year with a Debt Service Coverage Ratio of 2.54, excluding subordinate lien debt and 1.28 for all outstanding electric debt. The year ended with 335 days cash on hand compared to a budget of 164 days. Please see the 'Supplemental Information' pages of this Financial Audit for additional detail which supports these calculations.
- The District's Renewable Natural Gas (RNG) expansion project completed its first full year of commercial operation in 2019. The facility was dedicated on September 18, 2019, with Washington Governor Jay Inslee providing the keynote address. The RNG facility contributed \$11,789,257 in revenue to the District during 2019.
- The District's water rights agreement with V75 continues to result in additional water rights revenue for the District. The District continues to evaluate further options for the remaining water rights.
- During late 2019, the District realized load growth in the industrial rate class from the addition of a data center customer located in the Dallesport Industrial Park area.
- The District operates 16 water and wastewater systems. Water and wastewater rates are annually adjusted for each individual system and, in 2019, these adjustments varied from 0% to increases of 5%.
- In November 2019, the District issued the 2019 revenue and refunding bonds in the amount of \$62 million. The issue, along with a \$10 million contribution from the District's Reserve Account, provided funds for the purpose of financing and or reimbursing the District for certain capital improvements to the electric system (\$18 million), defeasing and refunding certain outstanding electric system bonds (\$54 million), and paying electric costs of issuance for the bonds.
- In the 1st quarter of 2019, the District signed a \$10 million operating line of credit with a financial institution lender. The line of credit will provide additional liquidity for the utility.
- The District elected to adjust electric rates by 1.5% for all rate classes with bills issued after May 1st, 2019.
- The District's rate stabilization fund balance at year-end 2019 was \$4.0 million, which exceeds the fiscal policy requirement of \$2.4 million. The decision to exceed fiscal policy will help ensure rate stability in future periods for District ratepayers.
- Excess District transmission capacity was marketed, as done in years past, resulting in approximately \$58 thousand in revenue.

Public Utility District No. 1 of Klickitat County – MCAG No. 1785 Management’s Discussion and Analysis

Financial Analysis

Capital Activity

2019 to 2020:

The District’s total net capital asset values decreased during 2020 by \$500 thousand. The decrease was due to plant additions, net of retirements and transfers, of \$8.5 million and net accumulated depreciation activity of \$9 million, thus the decrease in overall net capital assets.

2018 to 2019:

The District’s total net capital asset values decreased during 2019 by \$1.0 million. The decrease was due to plant additions, net of retirements and transfers, of \$7.4 million and net accumulated depreciation activity of \$8.4 million, thus the decrease in overall net capital assets. The sizeable increase in depreciation year over year is the Renewable Natural Gas project at the H. W. Hill Renewable Natural Gas Facility valued at more than \$35 million, along with continued electric system additions.

Debt Activity

2019 to 2020:

The District reduced long-term debt by approximately \$11.8 million between 2019 and 2020. No additional debt related activity occurred for the District in 2020 other than scheduled principal and interest payments.

2018 to 2019:

The District issued \$62 million in revenue and refunding bonds in November 2019. The bonds refunded were the 2006A Bonds for \$14,195,000; 2009B Bonds for \$19,490,000; 2011A Bonds for \$5,370,000; and the 2011B Bonds in the amount of \$8,240,000. The District made debt payments totaling approximately \$10.4 million during 2019. In the first quarter of 2019, the District signed a \$10 million line of credit agreement.

Current, Restricted, and Other Activity

2019 to 2020:

The District’s current assets decreased by \$1.7 million during 2020 as a result of increased debt principal payments versus 2019 and utilization of 2019 cash from new borrowing for 2020 capital expenditures.

2018 to 2019:

The District’s current assets increased by \$15.3 million during 2019 as a result of increased operating revenues along with increased cash from the new borrowing.

**Public Utility District No. 1 of Klickitat County –
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Management’s Discussion and Analysis**

Overall Results of Operations

2019 to 2020:

Overall net position of the District continued to grow versus 2019 results largely due to continued increases in production from the RNG facility.

2018 to 2019:

2019 was a year of full operation for the RNG plant, which led to an increase in operating revenues of over \$7 million. The District continued to focus on system improvements and maintenance, especially right-of-way clearing, and careful management of expenses throughout the year.

Electric System Operating Results

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 61,532,879	\$ 52,659,163	\$ 44,244,502
Operating expenses	<u>48,365,545</u>	<u>45,204,291</u>	<u>39,534,102</u>
Operating income	13,167,334	7,454,872	4,710,400
Net non-operating expense	(5,793,244)	(5,268,016)	(4,147,633)
Capital contributions	<u>2,067,934</u>	<u>2,469,677</u>	<u>2,174,646</u>
Change in net position	<u>\$ 9,442,024</u>	<u>\$ 4,656,533</u>	<u>\$ 2,737,413</u>

Operating Revenues

2019 to 2020:

Operating revenues increased \$8.8 million, or 16.8% over 2019. During 2020 the RNG facility exceeded 2019 production levels and contributed 8.1 million in revenue over 2019 results. Commercial retail sales increased with the addition of an industrial customer who came online in late 2019. COVID-19 had a minimal impact on load served due to diversified customer base. No rate increases were approved.

2018 to 2019:

Operating revenues increased \$8.4 million, or 19% over 2018. This large increase was a result of a full year of operation of the RNG facility, and normal retail rate revenues. Revenues from the White Creek Wind I project exceeded budgeted expectations due to favorable wholesale pricing and results from hedging activity.

Public Utility District No. 1 of Klickitat County – MCAG No. 1785 Management’s Discussion and Analysis

Operating Expenses

2019 to 2020:

Operating expenses increased \$3.1 million, or 7%, compared to 2019. Power Expense increases were largely related to increasing loads with the additional industrial customer operating for a full year. Operations and Maintenance expense increases include RNG fixed price contract related expenses. Distribution – Operations and Maintenance includes all divisions other than water/wastewater.

2018 to 2019:

Operating expenses increased \$5.7 million, or 14%, compared to 2018. The increase breakdown is as follows: Power Expense \$1.0 million; Distribution – Operation / Maintenance \$3.1 million; Administration and General \$1.0 million; Depreciation \$0.4 million; and Taxes \$0.2 million. Power Expense increase was due to higher retail electric loads and the District’s own use from a full year of operation of the Renewable Natural Gas (RNG) plant. The full year of operation also contributed to the increase in operation and maintenance expense. The plant value of over \$35 million along with other electric plant additions during the year resulted in higher annual depreciation. Distribution – Operations and Maintenance includes all divisions other than water/wastewater. The increase in administrative and general for 2019 compared to 2018 included the issuance costs incurred from the 2019 bond issue along with increased costs for liability and property insurance coverage.

Net Non-Operating Expense

2019 to 2020:

Net non-operating expense increased \$525 thousand or 10% in 2020. This was largely due to poor interest rates resulting in reduced interest income. COVID-19 also impacted the ability to assess collection-related fees resulting in a decrease in non-operating revenue that offsets collection-related expenses.

2018 to 2019:

Net non-operating expense increased \$1.1 million or 27% in 2019. The increase in interest expense with the refunding was a major contributing factor.

Capital Contributions

2019 to 2020:

Capital contributions received from customers by the District decreased in 2020 by \$401 thousand or 16% for the electric system. COVID-19 restrictions did influence this reduction as several customer-related capital projects were delayed.

2018 to 2019:

Capital contributions and grants received by the District increased in 2019 by \$295 thousand or 14%. Contributions are customer driven and activity for overall line extensions and new customer projects in terms of dollars was up compared to 2018.

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Management’s Discussion and Analysis**

Water and Wastewater Systems Operating Results

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 1,302,418	\$ 1,316,090	\$ 1,285,443
Operating expenses	<u>1,794,535</u>	<u>1,741,756</u>	<u>1,439,539</u>
Operating loss	(492,117)	(425,666)	(154,096)
Net non-operating revenue	27,634	47,138	33,657
Capital contributions and grants	<u>54,632</u>	<u>252,697</u>	<u>446,070</u>
Change in net position	<u>\$ (409,851)</u>	<u>\$ (125,831)</u>	<u>\$ 325,631</u>

Operating Revenues

2019 to 2020:

Operating revenues decreased slightly - \$14 thousand, or 1% - below 2019. No rate increases were applied in 2020 across the various systems.

2018 to 2019:

Operating revenues increased slightly \$31 thousand, or 2%, over 2018. The increase was due to small rate increases in the various systems.

Operating Expenses

2019 to 2020:

Operating expenses increased slightly by \$53 thousand or 3% reflecting stabilization of operating expenses. The District strives to improve efficiency of operations and maintenance across all systems.

2018 to 2019:

Operating expenses increased over the past 3 years. The 2019 total was approximately \$302 thousand above 2018. The District’s increased emphasis on improving maintenance on all systems, an increase in state and federal regulations, along with increased testing requirements make up this increase.

Public Utility District No. 1 of Klickitat County – MCAG No. 1785 Management’s Discussion and Analysis

Net Non-Operating Revenues

2019 to 2020:

Net non-operating expense decreased \$19.5 thousand in 2020. This was largely due to poor interest rates resulting in reduced interest income.

2018 to 2019:

Net Non-operating revenues increased \$13 thousand over 2018. The small increase was the result of more interest income and lower interest expense.

Capital Contributions and Grants

2019 to 2020:

Capital contributions received from customers by the District decreased in 2020 by \$198 thousand or 78%.

2018 to 2019:

Capital contributions were down \$193 thousand from 2018. The various system improvement plans called for fewer capital improvements in 2019. That, coupled with minimal growth, resulted in lower contributions. As described in the Operating Expense section, the year emphasized maintaining plant versus adding to the infrastructure.

The District Looking Forward

The successful execution of a long-term fixed price contract for output from the Renewable Natural Gas (RNG) plant will provide additional revenue certainty for the District. Optimizing and maximizing methane flow to the facility will continue to be a high priority item for District staff. Additional technology is being deployed in 2021 to further monitor and optimize landfill methane flow. Surplus funds as a result of RNG operations will be utilized for the benefit of District customers. The District seeks to deploy a portion of these funds towards the accelerated repayment of customer-funded debt thus reducing long-term interest expense and debt service payments for customers. We remain engaged in discussions related to BPA contract renewal and expect draft post-2028 BPA contracts to be available in the 2024 timeframe. We anticipate continuation as a BPA customer after the current contract expires, however we are evaluating all alternatives and options for power supply. 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.

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**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Combined Statements of Net Position**

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

	December 31,	
	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 26,520,910	\$ 29,614,254
Notes receivable	12,748	29,745
Accounts receivable, net	1,886,479	2,192,149
Unbilled revenue	2,749,687	2,763,433
Other receivables	5,119,614	3,581,220
Materials and supplies	1,848,515	1,960,116
Prepayments	1,260,505	986,608
Current portion of prepaid power contract	<u>1,180,359</u>	<u>1,180,359</u>
Total current assets	<u>40,578,817</u>	<u>42,307,884</u>
CAPITAL ASSETS		
Total plant in service	381,368,525	372,026,236
Construction work in progress	<u>6,644,743</u>	<u>7,476,116</u>
Total utility plant	388,013,268	379,502,352
Accumulated provision for depreciation	<u>(139,187,668)</u>	<u>(130,178,643)</u>
Net capital assets	<u>248,825,600</u>	<u>249,323,709</u>
OTHER ASSETS		
Other assets and prepaid power contract	7,093,484	8,279,019
Derivative asset	408,267	81,853
Special funds, power cost stabilization – designated	4,000,000	4,000,000
Regulatory asset – issuance costs	<u>489,204</u>	<u>519,779</u>
Total other assets	11,990,955	12,880,651
DEFERRED OUTFLOWS OF RESOURCES		
Pension	919,294	765,241
Other post employment benefit obligations	190,657	98,317
Accumulated decrease in fair value of hedging derivatives	106,502	15,084
Deferred loss on refunding	<u>5,345,055</u>	<u>5,827,267</u>
Total deferred outflows of resources	<u>6,561,508</u>	<u>6,705,909</u>
Total assets and deferred outflows of resources	<u><u>\$ 307,956,880</u></u>	<u><u>\$ 311,218,153</u></u>

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Combined Statements of Net Position**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31,	
	2020	2019
CURRENT LIABILITIES		
Accounts payable	\$ 4,609,866	\$ 4,491,855
Current portion of long-term debt	11,374,615	11,243,697
Consumers deposits	1,066,000	1,081,519
Other current and accrued liabilities	2,274,706	1,766,918
Total current liabilities	19,325,187	18,583,989
NONCURRENT LIABILITIES		
Long-term debt	\$ 141,372,106	153,153,159
Net pension liability	2,711,032	2,703,696
Total OPEB liability	1,264,110	1,173,267
Derivative liability	106,502	15,084
Total noncurrent liabilities	145,453,750	157,045,206
DEFERRED INFLOWS OF RESOURCES		
Pension	920,498	1,780,217
OPEB	295,899	338,783
Regulatory liability – rate stabilization	4,000,000	4,000,000
Accumulated increase in fair value of hedging derivatives	408,267	81,853
Regulatory liability – CIAC	21,776,309	22,643,308
Total deferred inflows of resources	27,400,973	28,844,161
NET POSITION		
Net investment in capital assets	108,014,183	100,722,048
Unrestricted	7,762,787	6,022,749
Total net position	115,776,970	106,744,797
Total liabilities, deferred inflows of resources and net position	\$ 307,956,880	\$ 311,218,153

**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,	
	2020	2019
OPERATING REVENUES		
Electric system		
Sales to retail customers	\$ 34,451,502	\$ 33,743,050
RNG sales	19,957,563	11,789,257
Sales to wholesale and transmission customers	6,681,279	6,424,101
Water/wastewater systems	1,310,085	1,316,090
Other operating revenues	434,868	702,755
	<u>62,835,297</u>	<u>53,975,253</u>
OPERATING EXPENSES		
Power expense	13,719,467	13,270,170
Operations expense	16,514,068	15,028,721
Maintenance expense	3,140,374	2,269,272
Administrative and general expense	4,343,507	4,804,853
Depreciation expense	9,879,732	9,172,274
Tax expense	2,562,932	2,400,757
	<u>50,160,080</u>	<u>46,946,047</u>
	<u>12,675,217</u>	<u>7,029,206</u>
OPERATING INCOME		
NON-OPERATING REVENUE/(EXPENSE)		
Interest income	241,197	735,828
Other non-operating revenues	64,108	526,281
Interest expense	(5,570,542)	(6,432,005)
Other expenses	(500,373)	(50,982)
	<u>(5,765,610)</u>	<u>(5,220,878)</u>
	<u>6,909,607</u>	<u>1,808,328</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS		
	<u>2,122,566</u>	<u>2,722,374</u>
CAPITAL CONTRIBUTIONS AND GRANTS		
	<u>9,032,173</u>	<u>4,530,702</u>
CHANGE IN NET POSITION		
NET POSITION, beginning of year	<u>106,744,797</u>	<u>102,214,095</u>
NET POSITION, end of year	<u>\$ 115,776,970</u>	<u>\$ 106,744,797</u>

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Combined Statements of Cash Flows**

	Years Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 61,617,797	\$ 54,151,412
Payments to suppliers for goods and services	(29,797,820)	(26,869,230)
Payments to employees for services	(8,224,647)	(7,634,303)
Taxes paid	(1,699,765)	(3,230,669)
	<u>21,895,565</u>	<u>16,417,210</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Other non-operating income	45,947	695,231
	<u>45,947</u>	<u>695,231</u>
Net change in cash flows from non-capital financing activities	<u>45,947</u>	<u>695,231</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(11,241,487)	(10,575,869)
Payment for defeasance of revenue bonds	-	(52,181,077)
Issuance of long-term debt	-	62,219,120
Interest payments	(5,908,510)	(6,509,846)
Capital contributions and grants	1,255,567	1,855,375
Utility plant additions net of costs of removal and salvage proceeds	(9,381,623)	(8,180,522)
	<u>(25,276,053)</u>	<u>(13,372,819)</u>
Net change in cash flows from capital and related financing activities	<u>(25,276,053)</u>	<u>(13,372,819)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	241,197	783,479
	<u>241,197</u>	<u>783,479</u>
Net change in cash flows from investing activities	<u>241,197</u>	<u>783,479</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,093,344)	4,523,101
CASH AND CASH EQUIVALENTS, beginning of year	<u>33,614,254</u>	<u>29,091,153</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 30,520,910</u>	<u>\$ 33,614,254</u>
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 26,520,910	\$ 29,614,254
Special funds cash and cash equivalents	4,000,000	4,000,000
	<u>\$ 30,520,910</u>	<u>\$ 33,614,254</u>

**Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Combined Statements of Cash Flows**

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
OPERATING INCOME	\$ 12,675,217	\$ 7,029,206
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation expense	9,879,732	9,172,274
Pension credit	(1,006,436)	(747,834)
OPEB credit	(44,381)	80,023
Amortization of prepaid power contract	1,185,535	1,180,359
Regulatory assets – issuance costs amortization	30,575	104,975
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Receivables and unbilled revenue	(1,201,981)	(613,093)
Materials and supplies	111,601	(13,938)
Prepayments	(273,897)	75,428
Accounts payable	118,011	230,263
Consumer deposits	(15,519)	789,252
Other current and accrued liabilities	437,108	(869,705)
	<u>9,220,348</u>	<u>9,388,004</u>
Total adjustments		
Net cash from operating activities	<u>\$ 21,895,565</u>	<u>\$ 16,417,210</u>

**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, 2020, the District had 13,616 electric, 1,216 water and 1,270 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, 2020 and 2019 was \$163,897 and \$84,699, 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.

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

Note 1 – Organization and Significant Accounting Policies (continued)

Materials and supplies

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

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 and allowance for funds (i.e. interest) used during construction. 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.

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

Note 1 – Organization and Significant Accounting Policies (continued)

Debt expense, unamortized premium and 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. 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. After the annual transfer of PTO hours into Volunteer Employee Beneficiary Association (VEBA) or deferred compensation, any hours over the 700-hour 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.

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. The District's restricted net position was zero as of December 31, 2020 and 2019.

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

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

Note 1 – Organization and Significant Accounting Policies (continued)

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.

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.

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

Note 1 – Organization and Significant Accounting Policies (continued)

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, bad debt expense, 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 January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for financial reporting purposes and how the activities should be reported. The District adopted GASB Statement No. 84 in conjunction with Statement No. 97, which did not impact the financial statements as of and for the year ended December 31, 2020.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The District adopted this statement in fiscal year 2020 and it did not impact the financial 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, 2020:

	Designated Cash and Cash Equivalents	Unrestricted Cash and Cash Equivalents	Total 2020
Special funds, power cost stabilization	\$ 4,000,000	\$ -	\$ 4,000,000
Cash – general funds	-	26,520,910	26,520,910
Totals	<u>\$ 4,000,000</u>	<u>\$ 26,520,910</u>	<u>\$ 30,520,910</u>

Cash and cash equivalents consist of the following at December 31, 2019:

	Designated Cash and Cash Equivalents	Unrestricted Cash and Cash Equivalents	Total 2019
Special funds, power cost stabilization	\$ 4,000,000	\$ -	\$ 4,000,000
Cash – general funds	-	29,614,254	29,614,254
Totals	<u>\$ 4,000,000</u>	<u>\$ 29,614,254</u>	<u>\$ 33,614,254</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 2020 and 2019, 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**

Note 2 – Deposits and Investments (continued)

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, 2020:

Description	Balance 01/01/20	Increases	Decreases	Transfers / Adjustments	Balance 12/31/20
Capital assets not being depreciated					
Organization	\$ 14,767	\$ -	\$ -	\$ -	\$ 14,767
Franchises and consents	211,427	-	-	-	211,427
Land and land rights	1,847,543	30,948	-	-	1,878,491
Construction work in progress	7,476,116	9,037,690	(9,869,063)	-	6,644,743
	<u>9,549,853</u>	<u>9,068,638</u>	<u>(9,869,063)</u>	<u>-</u>	<u>8,749,428</u>
Capital assets being depreciated					
Electric plant					
Distribution plant	127,704,395	3,746,954	(754,949)	-	130,696,400
Transmission plant	56,131,451	1,533,153	(16,098)	-	57,648,506
Generating plant	148,674,214	3,200,350	-	(7,792)	151,866,772
Water and wastewater plant	23,900,228	1,070,973	-	(2,912)	24,968,289
General plant	13,542,211	808,270	(266,608)	-	14,083,873
	<u>369,952,499</u>	<u>10,359,700</u>	<u>(1,037,655)</u>	<u>(10,704)</u>	<u>379,263,840</u>
Total capital assets	379,502,352	19,428,338	(10,906,718)	(10,704)	388,013,268
Accumulated depreciation	(130,178,643)	(10,260,759)	1,251,902	(168)	(139,187,668)
Net capital assets	<u>\$ 249,323,709</u>	<u>\$ 9,167,579</u>	<u>\$ (9,654,816)</u>	<u>\$ (10,872)</u>	<u>\$ 248,825,600</u>

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

Note 3 – Capital Assets (Utility Plant) (continued)

The following are changes in capital assets for the year ended December 31, 2019:

Description	Balance 01/01/19	Increases	Decreases	Transfers / Adjustments	Balance 12/31/19
Capital assets not being depreciated					
Organization	\$ 14,767	\$ -	\$ -	\$ -	\$ 14,767
Franchises and consents	211,427	-	-	-	211,427
Land and land rights	1,851,493	12,078	(16,028)	-	1,847,543
Construction work in progress	3,308,129	8,437,911	(4,269,924)	-	7,476,116
	<u>5,385,816</u>	<u>8,449,989</u>	<u>(4,285,952)</u>	<u>-</u>	<u>9,549,853</u>
Capital assets being depreciated					
Electric plant					
Distribution plant	126,309,901	3,441,609	(525,817)	(1,521,298)	127,704,395
Transmission plant	55,463,614	841,036	(22,603)	(150,596)	56,131,451
Generating plant	150,865,657	-	-	(2,191,443)	148,674,214
Water and wastewater plant	22,745,842	1,202,470	-	(48,084)	23,900,228
General plant	11,338,956	842,261	(403,867)	1,764,861	13,542,211
	<u>366,723,970</u>	<u>6,327,376</u>	<u>(952,287)</u>	<u>(2,146,560)</u>	<u>369,952,499</u>
Total capital assets	372,109,786	14,777,365	(5,238,239)	(2,146,560)	379,502,352
Accumulated depreciation	<u>(121,749,370)</u>	<u>(9,515,923)</u>	<u>1,086,650</u>	<u>-</u>	<u>(130,178,643)</u>
Net capital assets	<u>\$ 250,360,416</u>	<u>\$ 5,261,442</u>	<u>\$ (4,151,589)</u>	<u>\$ (2,146,560)</u>	<u>\$ 249,323,709</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:

	2020	2019
Prepaid power contract, net of current portion	\$ 7,048,013	\$ 8,233,548
Preliminary investigation charges	<u>45,471</u>	<u>45,471</u>
	<u>\$ 7,093,484</u>	<u>\$ 8,279,019</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 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 December 31, 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, 2020 and 2019, there was no outstanding balance on the line of credit.

Note 6 – Long-Term Debt

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

	Balance 01/01/2020	Additions	Payments/ Amortization	Balance 12/31/2020	Due Within One Year
Electric revenue bonds	\$ 157,680,528	\$ -	\$ 11,077,469	\$ 146,603,059	\$ 11,216,514
Unamortized bond premium	5,237,593	-	408,648	4,828,945	-
W/WW revenue bonds	8,500	-	6,500	2,000	2,000
W/WW loans	1,470,235	-	157,518	1,312,717	156,101
Total long-term debt	\$ 164,396,856	\$ -	\$ 11,650,135	\$ 152,746,721	\$ 11,374,615

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

	Balance 01/01/2019	Additions	Payments/ Amortization	Balance 12/31/2019	Due Within One Year
Electric revenue bonds	\$ 157,443,328	\$ 59,105,000	\$ 58,867,800	\$ 157,680,528	\$ 11,079,678
Unamortized bond premium	2,294,237	3,114,120	170,764	5,237,593	-
W/WW revenue bonds	17,500	-	9,000	8,500	6,500
W/WW loans	1,627,678	-	157,443	1,470,235	157,519
Total long-term debt	\$ 161,382,743	\$ 62,219,120	\$ 59,205,007	\$ 164,396,856	\$ 11,243,697

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 0.993% to 5.893% for the years ended December 31, 2020 and 2019. 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, 2020 and 2019 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.

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

Note 6 – Long-Term Debt (continued)

In November 2019, the District issued \$62,219,120 in 2019 electric system electric revenue refunding bonds and utilized the proceeds to redeem the remaining balance on the 2006-2011 electric system revenue bonds, pay for the costs of issuance and deposit funds into escrow and construction reserve funds. The refunding transaction resulted in a net present value savings of \$3,314,483. The Electric System Revenue Refunding Bonds, Series 2019, are due annually through December 1, 2037, with interest ranging from 1.92% to 5.00% per annum.

Future maturities are as follows as of December 31, 2020:

Electric Revenue Bonds			
Year(s)	Principal	Interest	Totals
2021	\$ 11,216,514	\$ 5,647,351	\$ 16,863,865
2022	11,344,702	5,274,733	16,619,434
2023	11,490,116	4,886,245	16,376,361
2024	4,626,728	4,486,309	9,113,037
2025	4,795,000	4,319,815	9,114,815
2026-2030	26,825,000	18,767,021	45,592,021
2031-2035	41,220,000	12,206,072	53,426,072
2036-2040	31,225,000	3,120,179	34,345,179
2041	3,860,000	115,800	3,975,800
	<u>\$ 146,603,059</u>	<u>\$ 58,823,526</u>	<u>\$ 205,426,585</u>

Water/Wastewater Revenue Bonds			
Year(s)	Principal	Interest	Totals
2021	2,000	50	2,050
	<u>\$ 2,000</u>	<u>\$ 50</u>	<u>\$ 2,050</u>

Water/Wastewater PWTF, SRF and USDA Loans			
Year(s)	Principal	Interest	Totals
2021	\$ 156,101	\$ 9,476	\$ 165,577
2022	157,673	8,744	166,417
2023	148,455	8,021	156,476
2024	140,538	7,342	147,880
2025	140,612	6,673	147,285
2026-2030	362,899	23,510	386,409
2031-2035	81,607	15,244	96,851
2036-2040	26,450	12,170	38,620
2041-2045	29,379	9,241	38,620
2046-2050	32,644	5,976	38,620
2051-2055	36,265	2,355	38,620
2056	94	2	96
	<u>\$ 1,312,717</u>	<u>\$ 108,754</u>	<u>\$ 1,421,471</u>

**Public Utility District No. 1 of Klickitat County –
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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, 2020:

Aggregate Pension Amounts – All Plans		
Net pension liabilities	\$	2,711,032
Deferred outflows of resources	\$	919,294
Deferred inflows of resources	\$	920,498
Pension credit	\$	35,540

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 –
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Note 7 – Retirement Benefits (continued)

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		
Actual Contribution Rates	2020	2019
Employer	12.86%	12.83%
Employee	6.00%	6.00%

The District’s actual contributions to the plan were \$376,778 and \$371,493 for the years ended December 31, 2020 and 2019, 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 –
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Note 7 – Retirement Benefits (continued)

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 2020 were as follows:

PERS Plan 2 / 3	2020	2019
Actual Contribution Rates		
Employer	12.86%	12.86%
Employee	7.90%	7.90%

The District's actual contributions to the plan were \$622,765 and \$578,148 for the years ended December 31, 2020 and 2019, respectively.

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

Note 7 – Retirement Benefits (continued)

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020.

Plan liabilities were rolled forward from June 30, 2019 to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments. The total pension liability as of June 30, 2020 was determined using the following actuarial assumptions:

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation.
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.40%.

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 7.40%.

To determine that rate, an asset sufficiency test included an assumed 7.40% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40% 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 7.40% was used to determine the total liability.

**Public Utility District No. 1 of Klickitat County –
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Note 7 – Retirement Benefits (continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.40% was determined using a building-block-method. 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 7.40% 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, 2020, 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>% Long-Term Expected Real Rate of Return Arithmetic</u>	
		<u>2020</u>	<u>2019</u>
Fixed Income	20%	2.20%	2.20%
Tangible Assets	7%	5.10%	5.10%
Real Estate	18%	5.80%	5.80%
Global Equity	32%	6.30%	6.30%
Private Equity	23%	9.30%	9.30%
	<u>100%</u>		

**Public Utility District No. 1 of Klickitat County –
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Note 7 – Retirement Benefits (continued)

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.40%, 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 (6.40%) or 1-percentage point higher (8.40%) than the current rate.

	<u>1% Decrease (6.40%)</u>	<u>Current Discount Rate (7.40%)</u>	<u>1% Increase (8.40%)</u>
PERS 1	\$ 2,305,161	\$ 1,840,367	\$ 1,435,014
PERS 2/3	\$ 5,417,517	\$ 870,665	\$ (2,873,668)

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

At December 31, 2020 and 2019, the District reported a total pension liability of \$2,711,031 and \$2,703,696, respectively for its proportionate share of the net pension liability.

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

	<u>Proportionate Share 6/30/20</u>	<u>Proportionate Share 6/30/19</u>	<u>Change in Proportion</u>
PERS 1	0.052127%	0.053025%	-0.000898%
PERS 2/3	0.068077%	0.068431%	-0.000354%

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*.

The collective net pension liability was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2020, with update procedures used to roll forward the total pension liability to the measurement date.

**Public Utility District No. 1 of Klickitat County –
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Note 7 – Retirement Benefits (continued)

Pension Expense/(Credit)

For the years ended December 31, 2020 and 2019, the District recognized a pension credit of \$1,006,436 and \$747,834, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1				
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(10,246)	-	136,223
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	198,243	-	178,023	-
Total	\$ 198,243	\$ (10,246)	\$ 178,023	\$ 136,223
PERS 2/3				
Differences between expected and actual experience	\$ 311,686	\$ 109,115	\$ 190,437	\$ 142,906
Net difference between projected and actual investment earnings on pension plan investments	-	44,217	-	967,529
Changes of assumptions	12,401	594,740	17,021	278,885
Changes in proportion and differences between contributions and proportionate share of contributions	71,251	182,672	85,217	254,674
Contributions subsequent to the measurement date	325,713	-	294,543	-
Total	\$ 721,051	\$ 930,744	\$ 587,218	\$ 1,643,994
Combined PERS 1 & PERS 2/3				
Differences between expected and actual experience	\$ 311,686	\$ 109,115	\$ 190,437	\$ 142,906
Net difference between projected and actual investment earnings on pension plan investments	-	33,971	-	\$ 1,103,752
Changes of assumptions	12,401	594,740	17,021	278,885
Changes in proportion and differences between contributions and proportionate share of contributions	71,251	182,672	85,217	254,674
Contributions subsequent to the measurement date	523,956	-	472,566	-
Total	\$ 919,294	\$ 920,498	\$ 765,241	\$ 1,780,217

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

Note 7 – Retirement Benefits (continued)

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

	<u>PERS 1</u>
Year Ended December 31, 2021	\$ 46,499
2022	1,462
2023	(14,188)
2024	<u>(23,527)</u>
Total	<u>\$ 10,246</u>

	<u>PERS 2/3</u>
Year Ended December 31, 2021	\$ (397,550)
2022	(122,633)
2023	(20,801)
2024	66,415
2025	(21,632)
Thereafter	(39,205)
Total	<u>\$ (535,406)</u>

**Public Utility District No. 1 of Klickitat County –
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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, 2019, membership includes 83 active participants, 24 retirees and surviving spouses, and 13 spouses of current retirees.

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 December 31, 2020:

	Medical	Dental	
Pre-65			
Retiree Only	\$ 730	\$ 44	
Retiree + Spouse	\$ 1,480	\$ 91	
Post-65			
Retiree Only	\$ 548	\$ 44	
Retiree + Spouse	\$ 1,110	\$ 91	

Total OPEB liability, OPEB expense, deferred outflows of resources, and deferred inflows of resources related to OPEB

The District's total OPEB liability of \$1,264,110 was measured as of December 31, 2018 and was determined by an actuarial valuation as of January 1, 2019.

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

	December 31, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 143,663
Changes in assumptions or inputs	129,031	152,236
Contributions made subsequent to measurement date	61,626	-
	\$ 190,657	\$ 295,899

**Public Utility District No. 1 of Klickitat County –
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Note 8 – Post-Employment Benefits Other than Pension (continued)

	December 31, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 164,484
Changes in assumptions or inputs	35,992	174,299
Contributions made subsequent to measurement date	62,325	-
	<u>\$ 98,317</u>	<u>\$ 338,783</u>

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

Years ending December 31, 2021	\$ (25,362)
2022	(25,362)
2023	(25,362)
2024	(25,362)
2025	(25,362)
Thereafter	(40,058)
	<u>\$ (166,868)</u>

Actuarial assumptions

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

Valuation Date	January 1, 2019
Measurement Date	December 31, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	2.74%
Inflation	2.30%
Projected Salary Increase	3.05%

Mortality rates for healthy retirees and beneficiaries were based on the RP-2000 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 6.6% in the first year and in future years varies between 6.6% and 4.7%, 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.

**Public Utility District No. 1 of Klickitat County –
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Note 8 – Post-Employment Benefits Other than Pension (continued)

Discount rate

The discount rate used to measure the total pension OPEB liability was 2.74% and 4.10% percent for the December 31, 2019 and December 31, 2018 measurement dates, respectively. This rate is consistent with the Bond Buyer 20-year General Obligation Bond index.

Changes in total OPEB liability

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

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 1,173,267	\$ 1,464,592
Changes for the year		
Service cost	60,399	68,258
Interest on total OPEB liability	46,672	51,068
Effect of economic/demographic gains or losses	(64,464)	(124,771)
Effect of assumptions changes or inputs	110,561	(196,362)
Benefit payments	<u>(62,325)</u>	<u>(89,518)</u>
Balance, end of year	<u>\$ 1,264,110</u>	<u>\$ 1,173,267</u>

Sensitivity analysis

Below is a sensitivity analysis around the discount rate of 2.74% as well as the healthcare trend rate assumed in the actuarial assumptions:

<u>Discount Rate</u>	<u>1% Decrease 1.74%</u>	<u>Current Rate 2.74%</u>	<u>1% Increase 3.74%</u>
Total OPEB liability	\$ 1,401,811	\$ 1,264,110	\$ 1,143,931
<u>Healthcare Cost Trend</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 1,092,619	\$ 1,264,110	\$ 1,475,802

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, 2020 and 2019, is as follows:

Condensed statement of net position:

	Electric System	Water- Wastewater Systems	Total 2020	Total 2019
Assets				
Current, restricted, other assets and deferred outflows	\$ 56,539,026	\$ 2,592,254	\$ 59,131,280	\$ 61,894,444
Capital assets	233,872,787	14,952,813	248,825,600	249,323,709
Total assets and deferred outflows	\$ 290,411,813	\$ 17,545,067	\$ 307,956,880	\$ 311,218,153
Liabilities				
Current liabilities	\$ 19,067,571	\$ 257,616	\$ 19,325,187	\$ 18,583,989
Noncurrent liabilities and deferred inflows	171,698,107	1,156,616	172,854,723	185,889,367
Total liabilities and deferred inflows	190,765,678	1,414,232	192,179,910	204,473,356
Net position				
Net investment in capital assets	94,377,539	13,636,644	108,014,183	100,722,048
Restricted	-	-	-	-
Unrestricted	5,268,596	2,494,191	7,762,787	6,022,749
Total net position	99,646,135	16,130,835	115,776,970	106,744,797
Total liabilities, deferred inflows and net position	\$ 290,411,813	\$ 17,545,067	\$ 307,956,880	\$ 311,218,153

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

	Electric System	Water- Wastewater Systems	Total 2020	Total 2019
Operating revenues	\$ 61,532,879	\$ 1,302,418	\$ 62,835,297	\$ 53,975,253
Operating expenses	39,242,619	1,037,729	40,280,348	37,773,773
Depreciation	9,122,926	756,806	9,879,732	9,172,274
Operating income (loss)	13,167,334	(492,117)	12,675,217	7,029,206
Non-operating revenues (expenses)				
Interest income	213,133	28,064	241,197	735,828
Interest expense	(5,568,194)	(2,348)	(5,570,542)	(6,432,005)
Other non-operating revenue (expense), net	(438,183)	1,918	(436,265)	475,299
Capital contributions and grants	2,067,934	54,632	2,122,566	2,722,374
Change in net position	9,442,024	(409,851)	9,032,173	4,530,702
Net position, beginning of year	90,543,587	16,201,210	106,744,797	102,214,095
Net position, end of year	\$ 99,985,611	\$ 15,791,359	\$ 115,776,970	\$ 106,744,797

**Public Utility District No. 1 of Klickitat County –
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Note 10 – Power Risk Management

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

	Changes in Fair Value		Fair Value at December 31, 2020	
	Classification	Amount	Classification	Amount
Cash Flow Hedges:				
Financial Swap Forward	Deferred Inflow	\$ 408,267	Derivative Asset	\$ 408,267
Financial Swap Forward	Deferred Outflow	\$ 106,502	Derivative Liability	\$ 106,502

As of December 31, 2019, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2019	
	Classification	Amount	Classification	Amount
Cash Flow Hedges:				
Financial Swap Forward	Deferred Inflow	\$ 81,853	Derivative Asset	\$ 81,853
Financial Swap Forward	Deferred Outflow	\$ 15,084	Derivative Liability	\$ 15,084

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

Note 10 – Power Risk Management (continued)

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, 2020. As applicable, all power related transactions are to be settled on the relevant Mid-Columbia index, and all gas transactions are to be settled on the relevant Sumas/Huntingdon index. 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, 2020 and 2019, 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.

**Public Utility District No. 1 of Klickitat County –
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Note 11 – Risk Management and Self-Insurance (continued)

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.

The claims settled were for State claims only. The settlement process with the BIA and the USDA is still ongoing. Management believes there is substantial doubt regarding the initial investigation report and, as such, does not believe damages are estimable. The District has access to the shared insurance pool, noted below of \$35 million per occurrence. Subsequent to December 31, 2020, the claim was reduced, however negotiation and mediation are still ongoing.

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 \$600,000 and \$450,000 in 2020 and 2019, respectively.

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

Note 12 – Joint Ventures (continued)

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. Although the outcome of these lawsuits is not presently determinable, 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.

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.

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

Note 14 – Power Contracts

Effective October 1, 2017, the District entered into a Load following Agreement with the BPA. The agreement is for Load Following service coupled with a new Tiered Rate Methodology (TRM). The TRM establishes an initial Contract High Water Mark (CHWM) load that qualifies for service at Bonneville Power Administration's (BPA) lower cost power (Tier 1) from the Federal Base System (FBS). Any requirement above the CHWM load is known as Above 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. The District's AHWM was served by non-federal resource power through a power purchase contract from The Energy Authority for the two-year rate period.

Note 15 – Generation Assets

H. W. Hill Landfill Gas project is a 26.0 MW plant that takes methane gas from the regional landfill and produces electricity from two 10 MW Combined Cycle combustion turbines and one 6 MW steam generator. The entire output is sold under contract to an off taker through mid-year 2018. The project was taken offline in June 2018 in preparation for the new RNG facility. Future use of this facility is under consideration by District staff.

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 declared to load.

The Renewable Natural Gas Facility went online in November 2018 with production of RNG. The RNG is injected into the nearby natural gas pipeline and utilized by downstream parties as renewable vehicle fuel. The output from the facility is sold as part of a 15-year contract to IGI Resources and its parent company, British Petroleum North America. The District recognized \$19,957,563 and \$11,789,257 in revenues related to the output from the facility during the year ended December 31, 2020 and 2019, respectively.

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,		
	2020	2019	2018
<i>Total OPEB Liability</i>			
Service cost	\$ 60,399	\$ 68,258	\$ 61,916
Interest cost	46,672	51,068	53,391
Effect of economic/demographic gains or losses	(64,464)	(124,771)	-
Effect of assumptions changes	110,561	(196,362)	46,736
Benefit payments	<u>(62,325)</u>	<u>(89,518)</u>	<u>(98,983)</u>
Net change in total OPEB liability	90,843	(291,325)	63,060
Total OPEB liability, beginning of period	<u>1,173,267</u>	<u>1,464,592</u>	<u>1,401,532</u>
Total OPEB liability, end of period	<u><u>\$ 1,264,110</u></u>	<u><u>\$ 1,173,267</u></u>	<u><u>\$ 1,464,592</u></u>
Covered employee payroll	\$ 7,634,303	\$ 7,149,496	\$ 6,861,924
Total OPEB liability as a percent of covered payroll	16.56%	16.41%	21.34%

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

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
PERS 1						
Proportion of the net pension asset	0.052127%	0.053025%	0.050830%	0.052794%	0.057652%	0.070364%
Proportionate share of the net pension liability	\$ 1,840,367	\$ 2,038,999	\$ 2,270,085	\$ 2,505,117	\$ 3,096,184	\$ 3,680,682
Covered-employee payroll	\$ 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	25%	31%	33%	37%	47%	57%
Plan's fiduciary net position	\$ 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	69%	67%	63%	61%	57%	59%
PERS 2/3						
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the net pension asset	0.068077%	0.068431%	0.065435%	0.067908%	0.073869%	0.089705%
Proportionate share of the net pension liability	\$ 870,665	\$ 664,697	\$ 1,117,243	\$ 2,359,477	\$ 3,719,245	\$ 3,205,210
Covered-employee payroll	\$ 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 as percentage of covered-employee payroll	12%	10%	16%	35%	56%	49%
Plan's fiduciary net position	\$ 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	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, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Contractually required contribution (actuarially determined)	\$ 376,778	\$ 371,493	\$ 360,069	\$ 321,420	\$ 318,217	\$ 296,743
Contributions in relation to the actuarially determined contribution	<u>(376,778)</u>	<u>(371,493)</u>	<u>(360,069)</u>	<u>(321,420)</u>	<u>(318,217)</u>	<u>(296,743)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 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	5%	6%	6%	5%	5%	5%

PERS 2/3

	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Contractually required contribution (actuarially determined)	\$ 622,765	\$ 559,805	\$ 533,228	\$ 449,348	\$ 412,412	\$ 379,656
Contributions in relation to the actuarially determined contribution	<u>(622,765)</u>	<u>(559,805)</u>	<u>(533,228)</u>	<u>(449,348)</u>	<u>(412,412)</u>	<u>(379,656)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 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	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
As of December 31

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Electric system		
Sales to retail customers	\$ 34,451,502	\$ 33,743,050
Sales to wholesale and transmission customers	26,638,842	18,213,358
Water/wastewater systems	1,310,085	1,316,090
Other operating revenues	<u>434,868</u>	<u>702,755</u>
Total operating revenues	<u>62,835,297</u>	<u>53,975,253</u>
OPERATING EXPENSES		
Power expense	13,719,467	13,270,170
Operations expense	16,514,068	15,028,721
Maintenance expense	3,140,374	2,269,272
Administrative and general expense	4,343,507	4,804,853
Tax expense	<u>2,562,932</u>	<u>2,400,757</u>
Total operating expense, excluding depreciation and amortization	<u>40,280,348</u>	<u>37,773,773</u>
Net operating revenue	<u>22,554,949</u>	<u>16,201,480</u>
INTEREST INCOME	<u>241,197</u>	<u>735,828</u>
OTHER NON-OPERATING REVENUES (INCLUDING CAPITAL CONTRIBUTIONS AND GRANTS)	<u>2,186,674</u>	<u>3,248,655</u>
BALANCE FOR DEBT SERVICE	<u>\$ 24,982,820</u>	<u>\$ 20,185,963</u>
Debt service – principal and interest payments – senior/parity and subordinate lien debt	\$ 17,096,111	\$ 15,748,952
Debt service – principal and interest payments – senior/parity lien debt only	\$ 9,116,111	\$ 7,932,285
Debt service coverage senior/parity and subordinate lien debt	1.46	1.28
Debt service coverage senior/parity lien debt only	2.74	2.54

Public Utility District No. 1 of Klickitat County
Schedule of Cash and Liquidity Ratios
As of December 31

	<u>2020</u>	<u>2019</u>
DAYS CASH ON HAND		
Unrestricted funds		
Cash and cash equivalents	\$ 26,520,910	\$ 29,614,254
Power cost stabilization fund	<u>4,000,000</u>	<u>4,000,000</u>
Total unrestricted funds (a)	30,520,910	33,614,254
Expenses		
Operating expenses	50,160,080	46,946,047
Less – Depreciation	(9,879,732)	(9,172,274)
Less – Amortization of prepaid power contract	<u>(1,185,535)</u>	<u>(1,180,359)</u>
Total expenses (b)	39,094,813	36,593,414
Days cash on hand (a / b * 365)	285	335
DAYS LIQUIDITY ON HAND		
Available borrowing capacity - line of credit (c)	\$ 10,000,000	\$ 10,000,000
Day liquidity on hand ((a + c) / b * 365)	378	435

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 No. 1 of Klickitat County

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 combined financial statements of Public Utility District No. 1 of Klickitat County (the District), which comprise the combined statement of net position as of December 31, 2020, and the related combined statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 24, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Moss Adams LLP".

Portland, Oregon
June 24, 2021

