Report of Independent Auditors and
Combined Financial Statements
with Supplementary Information

Public Utility District No. 1 of Klickitat County

December 31, 2022 and 2021

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinions

We have audited the combined financial statements of Public Utility District No. 1 of Klickitat County, Washington (the District), which comprise the combined statements of net position as of December 31, 2022 and 2021, and the related combined statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the District as of December 31, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District 's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District 's internal control over financial reporting and compliance.

Moss Adams LLP

Portland, Oregon
June 12, 2023

Public Utility District No. 1 of Klickitat County – MCAG No. 1785
Directory of Officials
December 31, 2022 and 2021

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

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

See accompanying notes.

Management’s Discussion & Analysis

This section provides an overview and analysis of key data presented in the basic combined financial statements for the years ended December 31, 2022 and 2021, with additional comparative data for 2020. Information within this section should be read in conjunction with the basic combined financial statements and accompanying notes.

About Public Utility District No. 1 of Klickitat County

Public Utility District No. 1 of Klickitat County (the District) consists of the electric system, nine water systems, and five wastewater systems. The District also operates two additional water and wastewater systems that are owned by other public entities. The District's service area covers approximately 1,680 square miles in Klickitat County. Additionally, the District serves small areas in the surrounding counties of Yakima, Skamania, and Benton. As of December 31, 2022, the District had 14,004 electric, 1,276 water, and 903 wastewater customers. The District operates two additional water and wastewater systems for other entities, which provides service to an additional 10 water and 430 wastewater customers in Dallesport, Washington. The District's electric wholesale activities and transmission business line are significant parts of the District's electric system business. Wholesale revenues are generated from the sale of Renewable Natural Gas (RNG) production from the H. W. Hill Renewable Energy Facility. Wholesale revenue was also received from the White Creek Wind I power sale contract, related to the District's 13% share of generated output from this 205 MW project. The transmission business line is comprised of 230 kV transmission lines and substations that carry renewable generation produced by others to the BPA transmission system. The District's retail electric customers are supplied through several sources. Purchases from Bonneville Power Administration supply 77% of the District's load, 7% comes from the District's shares of the McNary Dam and Packwood hydroelectric projects and 16% 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, 2022 and 2021, 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.

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

	2022	2021	2020
Capital assets	$ 247,274,297	$ 245,728,859	$ 248,825,600
Current and other assets and deferred outflows of resources	66,479,640	68,508,428	59,131,280
Total assets and deferred outflows of resources	$ 313,753,937	$ 314,237,287	$ 307,956,880
Long-term liabilities and deferred inflows of resources	$ 161,726,391	$ 172,124,979	$ 172,854,723
Current liabilities	17,552,303	15,590,204	19,325,187
Total liabilities and deferred inflows of resources	179,278,694	187,715,183	192,179,910
Net investment in capital assets	109,726,637	109,034,356	108,014,183
Restricted – net pension asset	2,572,522	6,969,540	-
Unrestricted	22,176,084	10,518,208	7,762,787
Total net position	134,475,243	126,522,104	115,776,970
Total liabilities, deferred inflows of resources, and net position	$ 313,753,937	$ 314,237,287	$ 307,956,880

Financial Highlights – 2022

- Through prudent financial management activities of District staff, the District has maintained strong financial performance while striving to meet and/or exceed financial policy requirements. The utility ended the year with a Debt Service Coverage Ratio of 2.67, excluding subordinate lien debt, and 2.01 for all outstanding electric debt. The year ended with 256 days cash on hand compared to a budget of 192 days. This increase in days cash on hand is in part due to making no accelerated debt repayment. It was determined that with unpredictable supply-chain markets, and climbing interest rates it would be beneficial for the District to maintain a cash balance versus repay debt in advance. Please see the 'Supplemental Information' pages of this Financial Report for additional detail which supports these calculations.

- The District maintained strong liquidity during 2022 with a Days Liquidity on Hand result of 355 days, exceeding the budget of 268 days. The District has maintained a $10 million operating line of credit to provide additional liquidity for the utility. This line was not utilized in 2022.

- The District continues to benefit from the production of RNG and the revenue stability provided by the fixed price sales contracts. The RNG facility contributed $17.8 million in revenue during 2022, exceeding budgeted revenue by $400 thousand. Revenues increased from 2021 due to efforts to increase efficiency in the production facility and by optimizing landfill gas collection feeding the RNG facility in coordination with LOCI controls and the implementation of an automated wellfield tuning system to increase production.

- The White Creek Wind project exceeded projections by nearly $240 thousand due to market prices. Revenue was $740 thousand higher than 2021.

- The District operates 16 water and wastewater systems. Water and wastewater rates are annually reviewed for each individual system and, in 2022, these increases varied from 0% to increases of 5%.

- The District continues to prioritize vegetation management. The District contracted Kemp West to maintain right-of-way areas, an expense of nearly $1.6 million in 2022.

- The District elected not to implement the budgeted 2022 electric rate increase across any rate classes due to above budget performances across its various business lines. Electric rates were last increased in 2019.

- The District's rate stabilization fund balance at year-end 2022 was $4.0 million, which continues to exceed the fiscal policy requirement of $2.4 million. The District has maintained financial stability and does not project significant changes that would require the utilization of this fund during this time of national economic uncertainty.

- Long-term contracts for capacity held on the District owned 230kV transmission system provide $5.09 million in consistent revenue. These contracts continue to provide stable and predictable revenues for the benefit of District ratepayers. The District owns point to point transmission capacity on the John Day to COB path of 11 MW that was utilized to provide an additional $910 thousand of revenue; exceeding 2021 by nearly 100%.

- The District continues to improve net position. During 2022 net position improved by 6.3% as a result of continued focus on maximizing the value of assets. Net position has consistently improved since 2014.

Financial Highlights – 2021

- Through prudent financial management activities of District staff, the District improved financial performance over 2020 results while meeting or exceeding financial policy requirements. The utility ended the year with a Debt Service Coverage Ratio of 2.94 excluding subordinate lien debt and 2.17 for all outstanding electric debt. The year ended with 321 days cash on hand compared to a budgeted outcome of 204 days. Please see the 'Supplemental Information' pages of this Financial Report for additional detail which supports these calculations.

- The District maintained strong liquidity during 2021 with a Days Liquidity on Hand result of 438 days, which exceeded the budget of 287 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 2021.

- The District refinanced two areas of outstanding debt in 2021 to take advantage of low interest rates and favorable loan terms:

  - RNG related debt was refinanced and the original loan maturity was extended to 2028 improving District annual cash flow by over $4 million.

  - The District also refinanced the 2035 and 2036 maturities of the 2015A Tax-Exempt Revenue and Refunding Bonds, which were callable during 2020 for a lower rate. These maturities totaling $19.345 million were refinanced at a rate of 3.01%, for an interest savings of over $3 million.

  - Under the terms of the refinancing the District negotiated the ability to make excess payments on this debt should cash flow allow. The District utilized this provision and paid an additional $1 million towards principal further reducing the debt level of the District and providing additional interest expense savings over time.

- The District benefited from the production of the RNG facility and the revenue stability provided by the fixed price sales contracts. The RNG facility contributed $16.7 million in revenue during 2021, which was $3.2 million less than budget due to production volumes. In an effort to optimize landfill gas collection feeding the RNG facility, an agreement was reached with LOCI controls to utilize their automated wellfield tuning system, The District believes this will increase gas collection resulting in increased RNG production and revenues.

- White Creek Wind project exceeded projections by nearly $1 million due to market prices. Revenue was $1.5 million higher than 2020.

- The District operates 16 water and wastewater systems. Water and wastewater rates are annually reviewed for each individual system and, in 2021, these adjustments varied from 0% to increases of 5%.

- The District elected not to implement the budgeted electric rate increase across any rate classes due to project performance. Electric rates were last increased in 2019.

- The District's rate stabilization fund balance at year-end 2021 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.

- The District was impacted by COVID-19, specifically Washington State Proclamation 20-23 as it prohibits specific debt collection actions resulting in increased accounts receivable aging balances and bad debt. The availability of CARES funding for residential customer assistance programs and small business relief has mitigated the full COVID-19 financial impact.

- Long-term contracts for capacity held on the District owned 230kV transmission system provided an additional $5.03 million in revenue. These contracts continue to provide stable and predictable revenues for the benefit of District ratepayers. The District owns point to point transmission capacity on the John Day to COB path of 11 MW that was utilized to provide an additional $456 thousand of revenue.

- The District continues to improve net position. During 2021 net position improved by 9.3% as a result of continued focus. Net position has consistently improved since 2014.

Financial Analysis

Capital Activity

2021 to 2022:
The District's total net capital asset values increased during 2022 by $1.5 million. There was an increase in total utility plant of $11 million. This increase was driven by overhaul to major equipment to ensure reliability, as well as renovations to facilities and equipment purchases. The increase in accumulated depreciation of $9.5 million decreased the overall net capital assets. The sizeable increase in depreciation year over year is related to the Renewable Natural Gas project, which is valued at more than $35 million, along with continued electric system additions.

2020 to 2021:
The District's total net capital asset values decreased during 2021 by $3.1 million. There was an increase in total utility plant due to projects transferring between construction work in progress and plant in service, of $6.3 million. The increase in accumulated depreciation of $9.4 million decreased the overall net capital assets. The sizeable increase in depreciation year over year is the Renewable Natural Gas project valued at more than $35 million, along with continued electric system additions.

Debt Activity

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

2020 to 2021:
The District refinanced two outstanding debts totaling $40.3 million in 2021. The debt restructuring reduced total debt by lowering interest rates and extending loan maturity. The District made debt payments totaling approximately $8 million during 2021, including an accelerated debt repayment of $1 million.

Current, Restricted, and Other Activity

2021 to 2022:
The utility industry continues to face significant delays in the delivery of materials and supplies. As such, the District increased the stock level of materials and supplies on hand by nearly $1 million during 2022 to maintain reliability for existing customers, as well as continue additional service installations and other capital improvements.

2020 to 2021:
The District's current assets increased by $3.1 million during 2021 as a result of increased cash of $3.9 million due to project performance and debt restructuring savings and increased pension asset due to state investment pool performance.

Overall Results of Operations

2021 to 2022
Overall net position of the District increased by 6.3%. Operating revenue and expenses saw change across rate classes with residential growth continuing and being offset by conservation and customer generation efforts. The District continued to focused on right-of-way clearing and hazard tree removal. Additionally, capital contributions for new customer projects helped to increase overall net position.

2020 to 2021:
Overall net position of the District increased by 9.3%. Operating revenue and expenses saw minimal change, as the District focused on right-of-way clearing and careful management of expenses. Customer project growth drove the increase in capital contribution and overall net position.

Electric System Operating Results

	2022	2021	2020
Operating revenues	$ 65,623,350	$ 61,145,915	$ 61,532,879
Operating expenses	55,794,189	48,589,965	48,365,545
Operating income	9,829,161	12,555,950	13,167,334
Net non-operating expense	(4,715,992)	(5,212,181)	(5,793,244)
Capital contributions	3,061,324	3,653,345	2,067,934
Change in net position	$ 8,174,493	$ 10,997,114	$ 9,442,024

Operating Revenues

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

2020 to 2021:
Operating revenues remained stable. They included $16.8 million in RNG production sales and $2.7 million from White Creek Wind generation, which exceeded 2020 level by $1.5 million due to favorable market pricing. Commercial retail sales continued to increase with an industrial customer who came online in late 2019. No rate increases were required.

Operating Expenses

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

2020 to 2021:
Operating expenses increased by a minimal 0.5% due to reduction of pension expense by $4 million as a result of the Participating Employer Financial Information Report, which Washington state provides to assess retirement pool performance. This significant reduction offset the increase in wholesale power expenses, largely related to increased loads with industrial customer and inflation across the industry. Operations and Maintenance expense decreased, while generation expenses including RNG and McNary increased.

Net Non-Operating Expense

2021 to 2022:
Net non-operating expense decreased $496 thousand or 9% in 2022. A major contributing factor was an increase in earned interest rates, resulting in interest income of $628 thousand.

2020 to 2021:
Net non-operating expense decreased $581 thousand or 10% in 2021. Interest rates continued to be poor and resulting in reduced interest income of $145 thousand; however, debt restructuring activities reduced 2021 interest expense by $541 thousand. Grant funding offset COVID-19 impact and increased non-operating revenue.

Capital Contributions

2021 to 2022:
Capital contributions received from customers by the District decreased $592 thousand or 16% for the electric system. Contributions are customer requested activity for overall line extensions and new customer projects, which are cost recovery driven.

2020 to 2021:
Capital contributions received from customers by the District increased in 2021 by $1.6 million or 77% for the electric system. Contributions are customer requested activity for overall line extensions and new customer projects, which are cost recovery driven. COVID-19 restrictions delayed projects in 2020 and contributed to the increase in activity for 2021.

Water and Wastewater Systems Operating Results

	2022	2021	2020
Operating revenues	$ 1,590,211	$ 1,384,914	$ 1,302,418
Operating expenses	2,024,819	1,971,151	1,794,535
Operating loss	(434,608)	(586,237)	(492,117)
Net non-operating revenue	41,421	(5,859)	27,634
Capital contributions and grants	171,833	340,116	54,632
Change in net position	$ (221,354)	$ (251,980)	$ (409,851)

Operating Revenues

2021 to 2022:
Operating revenues increased by $205 thousand or 15% from 2021. The Roosevelt Water system recognized $144 thousand in additional revenues due to bulk water filling. The remaining $61 thousand in additional revenues is attributed to conservative rate increases across the various systems.

2020 to 2021:
Operating revenues increased by $82 thousand, just over 6% from 2020. This was following conservative rate increases across the various systems. Additionally, there was customer growth in multiple systems including Wishram and Glenwood.

Operating Expenses

2021 to 2022:
Operating expenses increased by $54 thousand or 2.7%. This increase was primarily due to additional labor costs to ensure compliance with state and federal regulations as well as improving efficiencies of the operations and maintenance of the various sytems. This small increase reflects stabilization of operating expenses.

2020 to 2021:
Operating expenses increased by $177 thousand or 10% primarily due to additional transportation costs in relation to COVID-19 safety precautions, as well as an additional staff member for adequate training and succession planning. The District strives to improve efficiency and ensure continuity of services provided by operations and maintenance across all systems.

Net Non-Operating Revenues

2021 to 2022:
Net non-operating income increased $47 thousand over 2021 as a result of improved interest income, as well as decreased interest expense.

2020 to 2021:
Net non-operating income decreased due to low interest rates and interest expense remained the same. This resulted in net expense for non-operating impact of $6 thousand.

Capital Contributions and Grants

2021 to 2022:
Capital contributions received by the District in 2022 totaled $168 thousand, a decrease of 50% from 2021 in the absence of new housing developments. The Glenwood Water System received an infrastructure grant totaling $140 thousand from Klickitat County.

2020 to 2021:
Capital contributions received from customers by the District increased in 2021 by $285 thousand as a result of customer growth within the systems, largely Wishram's housing development and Glenwood's growth. The District continues to evaluate water use efficiency goals in conjunction with the capital plans and revenue needs to support trending growth by system.

The District Looking Forward

The long-term fixed price contract for output from the Renewable Natural Gas (RNG) plant will provide additional revenue certainty for the District. Increasing reliability and efficiency of the production facility, as well as optimizing and maximizing methane flow to the facility will continue to be a high priorty item for District staff. Surplus funds as a result of RNG operations will be utilized for the benefit of District customers. The District remains engaged in discussion 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, while also continuing to closely monitor the open power market for 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. The District has continued to see customer growth and additional demand for connections. The District has positioned itself to improve electric infrastructure including implementing AMI metering, adding a new substation, and upgrading existing facilities to increase capacity to serve existing and new customers while maintaining a high level of reliability.

Financial Statements

Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Combined Statements of Net Position
December 31, 2022 and 2021

	2022	2021
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	$ 28,364,433	$ 30,388,834
Notes receivable	6,967	9,756
Accounts receivable, net	1,984,972	1,686,728
Unbilled revenue	2,995,488	2,652,792
Other receivables	5,550,873	4,242,004
Materials and supplies	3,208,057	2,234,490
Prepayments	1,389,612	1,312,678
Current portion of prepaid power contract	1,180,362	1,180,359
Total current assets	44,680,764	43,707,641
CAPITAL ASSETS		
Total plant in service	399,967,063	390,171,614
Construction work in progress	5,321,899	4,112,845
Total utility plant	405,288,962	394,284,459
Accumulated provision for depreciation	(158,014,665)	(148,555,600)
Net capital assets	247,274,297	245,728,859
OTHER ASSETS		
Other assets and prepaid power contract	5,538,772	5,914,797
Net pension asset	2,572,522	6,969,540
Derivative asset	1,124,702	1,299,256
Special funds, power cost stabilization – designated	4,000,000	4,000,000
Regulatory asset – issuance costs	428,053	458,629
Total other assets	13,664,049	18,642,222
DEFERRED OUTFLOWS OF RESOURCES		
Pension	2,608,739	841,509
Other post employment benefit obligations	215,779	215,659
Accumulated decrease in fair value of hedging derivatives	950,119	248,774
Deferred loss on refunding	4,360,190	4,852,623
Total deferred outflows of resources	8,134,827	6,158,565
Total assets and deferred outflows of resources	$ 313,753,937	$ 314,237,287

See accompanying notes.

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

Combined Statements of Net Position

December 31, 2022 and 2021

	2022	2021
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 6,203,207	$ 5,978,309
Current portion of long-term debt	7,218,163	7,006,643
Consumers deposits	1,278,253	1,251,136
Other current and accrued liabilities	2,852,680	1,354,116
Total current liabilities	17,552,303	15,590,204
NONCURRENT LIABILITIES		
Long-term debt	130,318,661	137,571,433
Net pension liability	1,479,669	665,365
Total OPEB liability	1,357,525	1,298,346
Derivative liability	950,119	248,774
Total noncurrent liabilities	134,105,974	139,783,918
DEFERRED INFLOWS OF RESOURCES		
Pension	2,172,344	5,799,308
Other post-employment benefits (OPEB)	270,227	321,575
Deferred gain on refunding	10,832	11,611
Regulatory liability – rate stabilization	4,000,000	4,000,000
Accumulated increase in fair value of hedging derivatives	1,124,702	1,299,256
Regulatory liability – contribution in aid of construction (CIAC)	20,042,312	20,909,311
Total deferred inflows of resources	27,620,417	32,341,061
NET POSITION		
Net investment in capital assets	109,726,637	109,034,356
Restricted for Net Pension	2,572,522	6,969,540
Unrestricted	22,176,084	10,518,208
Total net position	134,475,243	126,522,104
Total liabilities, deferred inflows of resources and net position	$ 313,753,937	$ 314,237,287

See accompanying notes.

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

Combined Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Electric system		
Sales to retail customers	$ 37,634,248	$ 35,693,647
RNG sales	17,877,823	16,764,063
Sales to wholesale and transmission customers	9,402,628	8,158,347
Water/wastewater systems	1,590,210	1,384,914
Other operating revenues	708,652	529,858
Total operating revenues	67,213,561	62,530,829
OPERATING EXPENSES		
Power expense	18,620,926	17,196,219
Operations expense	16,504,828	15,241,672
Maintenance expense	4,071,424	3,641,929
Administrative and general expense	5,478,869	1,593,031
Depreciation expense	10,468,538	10,276,170
Tax expense	2,674,423	2,612,095
Total operating expenses	57,819,008	50,561,116
OPERATING INCOME	9,394,553	11,969,713
NON-OPERATING REVENUE (EXPENSE)		
Interest income	627,797	86,812
Other non-operating revenues	331,995	404,106
Interest expense	(5,093,142)	(5,048,726)
Other expenses	(541,221)	(660,232)
Total non-operating expense	(4,674,571)	(5,218,040)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	4,719,982	6,751,673
CAPITAL CONTRIBUTIONS AND GRANTS	3,233,157	3,993,461
CHANGE IN NET POSITION	7,953,139	10,745,134
NET POSITION, beginning of year	126,522,104	115,776,970
NET POSITION, end of year	$ 134,475,243	$ 126,522,104

See accompanying notes.

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

Combined Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 65,293,657	$ 63,893,213
Payments to suppliers for goods and services	(33,352,614)	(32,216,202)
Payments to employees for services	(9,386,443)	(8,684,691)
Taxes paid	(2,918,046)	(2,473,775)
Net change in cash flows from operating activities	19,636,554	20,518,545
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Other non-operating income	283,207	236,307
Net change in cash flows from non-capital financing activities	283,207	236,307
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(7,005,819)	(7,996,015)
Issuance of long-term debt	-	179,968
Interest payments	(5,110,673)	(5,104,727)
Capital contributions and grants	2,366,158	3,126,463
Utility plant additions net of costs of removal and salvage proceeds	(12,821,625)	(7,179,429)
Net change in cash flows from capital and related financing activities	(22,571,959)	(16,973,740)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	627,797	86,812
Net change in cash flows from investing activities	627,797	86,812
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,024,401)	3,867,924
CASH AND CASH EQUIVALENTS, beginning of year	34,388,834	30,520,910
CASH AND CASH EQUIVALENTS, end of year	$ 32,364,433	$ 34,388,834
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 28,364,433	$ 30,388,834
Special funds cash and cash equivalents	4,000,000	4,000,000
	$ 32,364,433	$ 34,388,834

See accompanying notes.

Public Utility District No. 1 of Klickitat County – MCAG No. 1785
Combined Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
OPERATING INCOME	$ 9,394,553	$ 11,969,713
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation expense	10,468,538	10,276,170
Pension credit	(182,872)	(4,058,612)
OPEB expense	7,711	34,909
Amortization of prepaid power contract	1,183,674	1,178,687
Regulatory assets – issuance costs amortization	30,576	30,575
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Receivables and unbilled revenue	(1,947,021)	1,177,248
Materials and supplies	(973,567)	(385,975)
Prepayments	(76,934)	(52,173)
Accounts payable	224,898	1,368,443
Consumer deposits	27,117	185,136
Other current and accrued liabilities	1,479,881	(1,205,576)
Total adjustments	10,242,001	8,548,832
Net cash from operating activities	$ 19,636,554	$ 20,518,545

See accompanying notes.

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, 2022, the District had 14,004 electric, 1,276 water and 903 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, 2022 and 2021 was $87,500 and $175,712, respectively.

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

Materials and supplies

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

Capital assets (utility plant)

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

Derivative instruments

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

It is the District's policy to document and apply as appropriate the normal purchases and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity and option contracts that require physical delivery and that are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity are considered to be derivatives under GASB Statement No. 53, and do not generally meet the "normal purchases and normal sales" criteria. See Note 10 for further discussion of the District's derivative instruments and risk management.

Debt expense, unamortized premium and deferred gain on refunding

Bond issue costs are generally expensed as incurred. However, the District utilized regulatory accounting for bond issuance costs and as such, amortizes them consistent with rate making decisions. Bond premiums are amortized to interest expense, using the weighted average method over the term of the bonds. Gain 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.

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

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

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

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

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

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

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

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

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

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

Adoption of new accounting standards
In GASB No. 87, Leases, was issued June 2017 to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments and increases the usefulness of governments' financial statements. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 87 was implemented by the District for the fiscal year ending December 31, 2022. Management has determined that there is no impact to the District's current financial accounting and reporting for the types of transactions identified in this statement.

Note 2 – Deposits and Investments

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

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

Cash and cash equivalents consist of the following at December 31, 2021:

	Designated Cash and Cash Equivalents	Unrestricted Cash and Cash Equivalents	Total 2021
Special funds, power cost stabilization	$ 4,000,000	$ -	$ 4,000,000
Cash – general funds	-	30,388,834	30,388,834
Totals	$ 4,000,000	$ 30,388,834	$ 34,388,834

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 2022 and 2021, 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.

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, 2022:

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

The following are changes in capital assets for the year ended December 31, 2021:

Description	Balance 01/01/21	Increases	Decreases	Balance 12/31/21
Capital assets not being depreciated				
Organization	$ 14,767	$ -	$ -	$ 14,767
Franchises and consents	211,427	-	-	211,427
Land and land rights	1,878,491	-	(15,721)	1,862,770
Construction work in progress	6,644,743	6,898,185	(9,430,083)	4,112,845
	8,749,428	6,898,185	(9,445,804)	6,201,809
Capital assets being depreciated				
Electric plant				
Distribution plant	130,696,400	5,029,779	(637,990)	135,088,189
Transmission plant	57,648,514	430,043	(12,877)	58,065,680
Generating plant	151,530,909	3,383,751	(302,819)	154,611,841
Water and wastewater plant	25,304,145	153,381	(8,038)	25,449,488
General plant	14,083,872	1,011,057	(227,477)	14,867,452
	379,263,840	10,008,011	(1,189,201)	388,082,650
Total capital assets	388,013,268	16,906,196	(10,635,005)	394,284,459
Accumulated depreciation	(139,187,668)	(10,665,963)	1,298,031	(148,555,600)
Net capital assets	$ 248,825,600	$ 6,240,233	$ (9,336,974)	$ 245,728,859

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:

	2022	2021
Prepaid power contract, net of current portion	$ 4,685,652	$ 5,869,326
Preliminary investigation charges	853,120	45,471
	$ 5,538,772	$ 5,914,797

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.

Note 5 – Line of Credit

Effective June 19, 2013, the District signed a $2.5 million line of credit agreement with a commercial lender. The line of credit is unsecured and bears interest at the daily SOFR rate, with a minimum of 3.1%. As of December 31, 2022 and 2021 there was no outstanding balance on the line of credit

Effective January 25, 2019, the District signed a $10 million line of credit agreement with a commercial lender. Interest on the line of credit is fixed at 2.34%. During 2020, the District extended their line of credit to December 1, 2023, at which time all unpaid interest and principal will be due in full. The line of credit is secured by the net revenues of the District, as defined by the lender, and is subordinate to any senior lien debt agreements outstanding. The line of credit also requires certain financial covenants including a debt service coverage ratio. As of December 31, 2022 and 2021, 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, 2022:

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

The following are changes in long-term debt for the year ended December 31, 2021:

	Balance 01/01/2021	Additions	Payments/ Amortization	Balance 12/31/2021	Due Within One Year
Electric revenue bonds	$ 146,603,059	$ 40,345,000	$ 48,182,914	$ 138,765,145	$ 6,849,002
Unamortized bond premium	4,828,945	179,968	352,598	4,656,315	-
W/WW revenue bonds	2,000	-	2,000	-	-
W/WW loans	1,312,717	-	156,101	1,156,616	157,641
Total long-term debt	$ 152,746,721	$ 40,524,968	$ 48,693,613	$ 144,578,076	$ 7,006,643

Substantially all electric revenues are pledged as security for the electric revenue bonds and substantially all water/wastewater (W/WW) revenues are pledged as security for the water/wastewater revenue bonds. Water/wastewater loans are secured by water/wastewater assets. Electric revenue bonds carry fixed interest rates ranging from 4.19% to 0.50% for the years ended December 31, 2022 and 2021. 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, 2022 and 2021 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.

In March 2021, the District issued $21,000,000 in 2021 electric system electric revenue refunding bonds and utilized the proceeds to redeem the full balance on the 2017 electric system revenue bonds. The Electric System Revenue Refunding Bonds, Series 2021, are due annually through December 1, 2028, with interest fixed at 3.10% per annum.

In May 2021, the District issued $19,345,000 in 2021 electric system electric revenue refunding bonds and utilized the proceeds to redeem the partial balance on the 2015A 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 $2,312,345 and a gain of $11,611 to be amortized over the life of the bond. The Electric System Revenue Refunding Bonds, Series 2021, are due annually through December 1, 2036, with interest fixed at 3.01% per annum.

Future maturities are as follows as of December 31, 2022:

Electric Revenue Bonds

Year(s)	Principal	Interest	Totals
2023	$ 7,069,740	$ 4,914,913	$ 11,984,653
2024	7,282,427	4,677,125	11,959,552
2025	7,529,900	4,428,394	11,958,294
2026	7,791,600	4,165,121	11,956,721
2027	8,065,800	3,893,285	11,959,085
2028-2032	34,157,500	15,547,711	49,705,211
2033-2037	44,205,000	7,294,231	51,499,231
2038-2041	15,815,000	1,163,171	16,978,171
	$ 131,916,967	$ 46,083,951	$ 178,000,918

Water/Wastewater PWTF, SRF and USDA Loans

Year(s)	Principal	Interest	Totals
2023	$ 148,423	$ 8,053	$ 156,476
2024	140,505	7,375	147,880
2025	140,578	6,706	147,284
2026	123,762	6,015	129,777
2027	92,587	5,332	97,919
2028-2032	211,837	19,073	230,910
2033-2037	24,618	14,002	38,620
2038-2042	27,357	11,263	38,620
2043-2047	30,391	8,229	38,620
2048-2052	33,762	4,858	38,620
2053-2057	25,155	1,210	26,365
	$ 998,975	$ 92,116	$ 1,091,091

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, 2022:

Aggregate Pension Amounts – All Plans		
Net pension asset	$	2,572,522
Net pension liability		1,479,669
Deferred outflows of resources		2,608,739
Deferred inflows of resources		2,172,344
Pension credit		(263,491)

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.

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	2022	2021
Employer	10.25%	12.97%
Employee	6.00%	6.00%

The District's actual contributions to the plan were $321,980 and $347,833 for the years ended December 31, 2022 and 2021, 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.

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 2022 were as follows:

PERS Plan 2 / 3 Actual Contribution Rates	2022	2021
Employer	10.25%	12.97%
Employee	6.36%	7.90%

The District's actual contributions to the plan were $545,101 and $581,066 for the years ended December 31, 2022 and 2021, respectively.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022, with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Experience Study and the 2021 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022.

Plan liabilities (assets) were rolled forward from June 30, 2021 to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments. The total pension liability (asset) as of June 30, 2022 was determined using the following actuarial assumptions:

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

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

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.00% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.00% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.00% was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022, are summarized in the table below. The inflation component used to create the table is 1.50% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic	
		2022	2021
Fixed Income	20%	1.50%	2.20%
Tangible Assets	7%	4.70%	5.10%
Real Estate	18%	5.40%	5.80%
Global Equity	32%	5.90%	6.30%
Private Equity	23%	8.90%	9.30%
	100%		

Sensitivity of NPL

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.40%)
PERS 1 Liability	$ 1,976,817	$ 1,479,669	$ 1,045,775
PERS 2/3 Asset	$ (3,029,481)	$ (2,572,522)	$ (7,174,921)

Pension Plan Fiduciary Net Position

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

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

At December 31, 2022 the District reported a net pension liability of $1,479,669 for PERS 1 and net pension asset of $2,572,522 for PERS 2/3 for its proportionate share of the total net pension liability (asset). At December 31, 2022, the District reported a combined total net pension asset of $6,304,175 for its proportionate share of the net pension liability.

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

	Proportionate Share 6/30/22	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.053142%	0.054483%	-0.001341%
PERS 2/3	0.069363%	0.069964%	-0.000601%

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, 2022, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2021, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense/(Credit)
For the years ended December 31, 2022 and 2021, the District recognized a pension credit of $263,491 and $1,653,236, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022		2021	
PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (245,224)	$ -	$ (738,332)
Contributions subsequent to the measurement date	172,394	-	149,586	-
Total	$ 172,394	$ (245,224)	$ 149,586	$ (738,332)
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 637,411	$ 58,235	$ 338,500	$ 85,439
Net difference between projected and actual investment earnings on pension plan investments	-	1,901,884	-	5,824,901
Changes of assumptions	1,433,826	375,427	10,185	494,953
Changes in proportion and differences between contributions and proportionate share of contributions	75,360	82,022	87,885	132,347
Contributions subsequent to the measurement date	289,748	-	255,353	-
Total	$ 2,436,345	$ 2,417,568	$ 691,923	$ 6,537,640
Combined PERS 1 & PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 637,411	$ 58,235	$ 338,500	$ 85,439
Net difference between projected and actual investment earnings on pension plan investments	-	1,656,660	-	5,086,569
Changes of assumptions	1,433,826	375,427	10,185	494,953
Changes in proportion and differences between contributions and proportionate share of contributions	75,360	82,022	87,885	132,347
Contributions subsequent to the measurement date	462,142	-	404,939	-
Total	$ 2,608,739	$ 2,172,344	$ 841,509	$ 5,799,308

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

		PERS 1
Year Ended December 31,	2023	$ (103,774)
	2024	(94,254)
	2025	(118,238)
	2026	71,041
	Total	$ (245,225)

		PERS 2/3
Year Ended December 31,	2023	$ (615,974)
	2024	(527,570)
	2025	(617,692)
	2026	877,502
	2027	310,562
	Thereafter	302,201
	Total	$ (270,971)

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, 2021, membership includes 84 active participants, 22 retirees and surviving spouses, and 18 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 January 1, 2022:

	Medical	Dental
Pre-65		
Retiree Only	$ 787	$ 48
Retiree + Spouse	$ 1,594	$ 98
Post-65		
Retiree Only	$ 590	$ 48
Retiree + Spouse	$ 1,195	$ 98

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

The District's total OPEB liability of $1,357,525 was measured as of December 31, 2021 and was determined by an actuarial valuation as of January 1, 2021.

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

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

	December 31, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 54,689	$ 122,842
Changes in assumptions or inputs	111,509	198,733
Contributions made subsequent to measurement date	49,461	-
	$ 215,659	$ 321,575

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

Years ending December 31,	2023	$	(26,179)
	2024		(26,179)
	2025		(26,179)
	2026		(27,791)
	2027		(27,262)
	Thereafter		12,627
		$	(120,963)

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

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

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

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

Discount rate
The discount rate used to measure the total pension OPEB liability was 2.06% and 2.12% percent for the June 30, 2022 and 2021 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:

	2022	2021
Balance, beginning of year	$ 1,298,346	$ 1,264,110
Changes for the year		
Service cost	71,878	75,576
Interest on total OPEB liability	28,527	35,869
Effect of economic/demographic gains or losses	-	61,441
Effect of assumptions changes or inputs	8,235	(77,024)
Benefit payments	(49,461)	(61,626)
Balance, end of year	$ 1,357,525	$ 1,298,346

Sensitivity analysis

Below is a sensitivity analysis around the discount rate of 2.06% as well as the healthcare trend rate assumed in the actuarial assumptions:

Discount Rate	1% Decrease 1.06%	Current Rate 2.06%	1% Increase 3.06%
Total OPEB liability	$ 1,506,868	$ 1,357,525	$ 1,229,526

Healthcare Cost Trend	1% Decrease	Current Rate	1% Increase
Total OPEB liability	$ 1,178,439	$ 1,357,525	$ 1,581,352

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, 2022 and 2021, is as follows:

Condensed statement of net position:

	Electric System	Water-Wastewater Systems	Total 2022	Total 2021
Assets				
Current, restricted, other assets and deferred outflows	$ 62,763,837	$ 3,715,803	$ 66,479,640	$ 68,508,428
Capital assets	233,298,483	13,975,814	247,274,297	245,728,859
Total assets and deferred outflows	$ 296,062,320	$ 17,691,617	$ 313,753,937	$ 314,237,287
Liabilities				
Current liabilities	$ 16,653,490	$ 898,813	$ 17,552,303	$ 15,590,204
Noncurrent liabilities and deferred inflows	160,875,840	850,551	161,726,391	172,124,979
Total liabilities and deferred inflows	177,529,330	1,749,364	179,278,694	187,715,183
Net position				
Net investment in capital assets	$ 96,749,797	$ 12,976,840	$ 109,726,637	$ 109,034,356
Restricted	2,572,522	-	2,572,522	6,969,540
Unrestricted	19,210,671	2,965,413	22,176,084	10,518,208
Total net position	118,532,990	15,942,253	134,475,243	126,522,104
Total liabilities, deferred inflows and net position	$ 296,062,320	$ 17,691,617	$ 313,753,937	$ 314,237,287

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

	Electric System	Water-Wastewater Systems	Total 2022	Total 2021
Operating revenues	$ 65,623,350	$ 1,590,211	$ 67,213,561	$ 62,530,829
Operating expenses	46,135,421	1,215,049	47,350,470	40,284,946
Depreciation	9,658,768	809,770	10,468,538	10,276,170
Operating income (loss)	9,829,161	(434,608)	9,394,553	11,969,713
Non-operating revenues (expenses)				
Interest income	569,956	57,841	627,797	86,812
Interest expense	(5,079,080)	(14,062)	(5,093,142)	(5,048,726)
Other non-operating revenue				-
(expense), net	(206,868)	(2,358)	(209,226)	(256,126)
Capital contributions and grants	3,061,324	171,833	3,233,157	3,993,461
Change in net position	8,174,493	(221,354)	7,953,139	10,745,134
Net position, beginning of year	110,358,497	16,163,607	126,522,104	115,776,970
Net position, end of year	$ 118,532,990	$ 15,942,253	$ 134,475,243	$ 126,522,104

Note 10 – Power Risk Management

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

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

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

	Changes in Fair Value			Fair Value at December 31, 2021		
	Classification	Amount		Classification	Amount	
Cash Flow Hedges:						
Financial Swap Forward	Deferred Inflow	$	1,299,256	Derivative Asset	$	1,299,256
Financial Swap Forward	Deferred Outflow	$	248,774	Derivative Liability	$	248,774

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.

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, 2022. 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, 2022 and 2021, there were no terminations.

Note 11 – Risk Management and Self-Insurance

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

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

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

Mile Marker 28 Fire

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

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

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, 2022, a tentative settlement was reached for $7 million, 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 in 2022 and 2021.

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.

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

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 H.W. Hill Landfill Gas Facility was first developed to produce electricity from the regional landfill. In 2018 the facility was redeveloped as a Renewable Natural Gas Facility, converting the captured landfill gas into compressed natural gas, which is injected into the nearby natural gas pipeline and utilized by downstream parties as renewable vehicle fuel. The District recognized $17,877,823 and $16,764,063 in revenues related to the output from the facility during the year ended December 31, 2022 and 2021, 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, 2022	2021	2020	2019	2018
Total OPEB Liability					
Service cost	$ 71,878	$ 75,576	$ 60,399	$ 68,258	$ 61,916
Interest cost	28,527	35,869	46,672	51,068	53,391
Effect of economic/demographic gains or losses	-	61,441	(64,464)	(124,771)	-
Effect of assumptions changes	8,235	(77,024)	110,561	(196,362)	46,736
Benefit payments	(49,461)	(61,626)	(62,325)	(89,518)	(98,983)
Net change in total OPEB liability	59,179	34,236	90,843	(291,325)	63,060
Total OPEB liability, beginning of period	1,298,346	1,264,110	1,173,267	1,464,592	1,401,532
Total OPEB liability, end of period	$ 1,357,525	$ 1,298,346	$ 1,264,110	$ 1,173,267	$ 1,464,592
Covered employee payroll	$ 9,330,796	$ 8,224,647	$ 7,634,303	$ 7,149,496	$ 6,861,924
Total OPEB liability as a percent of covered payroll	14.55%	15.79%	16.56%	16.41%	21.34%

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

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

PERS 1

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

PERS 2/3

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

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

Public Utility District No. 1 of Klickitat County
Schedule of Contributions
Last Ten Years*

PERS 1

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

PERS 2/3

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

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

Notes to schedules

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

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

Supplementary Information

Public Utility District No. 1 of Klickitat County
Schedule of Debt Service Coverage
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Electric system		
Sales to retail customers	$ 37,634,248	$ 35,693,647
Sales to wholesale and transmission customers	9,402,628	8,158,346
RNG Generation Revenues	17,877,823	16,764,064
Water/wastewater systems	1,590,210	1,384,914
Other operating revenues	708,652	529,858
Total operating revenues	67,213,561	62,530,829
OPERATING EXPENSES		
Power expense	18,620,926	17,196,219
Operations expense	16,504,828	15,241,672
Maintenance expense	4,071,424	3,641,929
Administrative and general expense	5,478,869	1,593,031
Tax expense	2,674,423	2,612,095
Total operating expense, excluding depreciation and amortization	47,350,470	40,284,946
Net operating revenue	19,863,091	22,245,883
INTEREST INCOME	627,797	86,812
OTHER NON-OPERATING REVENUES (INCLUDING CAPITAL CONTRIBUTIONS AND GRANTS)	3,565,152	4,397,567
BALANCE FOR DEBT SERVICE	$ 24,056,040	$ 26,730,262
Debt service – principal and interest payments – senior/parity and subordinate lien debt	$ 11,971,526	$ 12,295,756
Debt service – principal and interest payments – senior/parity lien debt only	$ 8,994,390	$ 9,098,156
Debt service coverage senior/parity and subordinate lien debt	2.01	2.17
Debt service coverage senior/parity lien debt only	2.67	2.94

Public Utility District No. 1 of Klickitat County
Schedule of Cash and Liquidity Ratios
Years Ended December 31, 2022 and 2021

	2022	2021
DAYS CASH ON HAND		
Unrestricted funds		
Cash and cash equivalents	$ 28,364,433	$ 30,388,834
Power cost stabilization fund	4,000,000	4,000,000
Total unrestricted funds (a)	32,364,433	34,388,834
Expenses		
Operating expenses	57,819,008	50,561,116
Less – Depreciation	(10,468,538)	(10,276,170)
Less – Amortization of prepaid power contract	(1,183,674)	(1,178,687)
Total expenses (b)	46,166,796	39,106,259
Days cash on hand (a / b * 365)	256	321
DAYS LIQUIDITY ON HAND		
Available borrowing capacity - line of credit (c)	$ 12,500,000	$ 12,500,000
Day liquidity on hand ((a + c) / b * 365)	355	438

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Klickitat County, Washington (the District), which comprise the combined statement of net position and the related combined statements of revenues, expenses and changes in net positions, and cash flows, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 12, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams LLP

Portland, Oregon
June 12, 2023