



Report of Independent Auditors  
and Financial Statements for  
Public Utility District No. 1 of  
Okanogan County, Washington  
December 31, 2016 and 2015

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Public Utility District No. 1 of Okanogan County, Washington (the District), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

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

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the financial statements. The accompanying schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Everett, Washington

May 18, 2017

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of Public Utility District No. 1 of Okanogan County's (the District's) financial activity, and identify changes in the District's financial position during 2016 and 2015. Please consider the information presented here in conjunction with the financial statements as a whole, including the footnotes and other supplementary information that are provided.

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

### **Overview of the Financial Statements**

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

The financial statements are presented as of and for the years ended December 31, 2016 and 2015, and consist of:

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

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

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

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

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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**Selected Financial Information**

	December 31,		
	2016	2015	2014 as restated
<b>ASSETS</b>			
Current and other assets	\$ 33,711,017	\$ 34,640,030	\$ 32,977,841
Net utility plant	<u>122,414,960</u>	<u>115,043,427</u>	<u>110,840,366</u>
Total assets	<u>156,125,977</u>	<u>149,683,457</u>	<u>143,818,207</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,932,871</u>	<u>1,350,479</u>	<u>1,003,758</u>
Total assets and deferred outflows of resources	<u><u>\$ 158,058,848</u></u>	<u><u>\$ 151,033,936</u></u>	<u><u>\$ 144,821,965</u></u>
<b>LIABILITIES</b>			
Current liabilities	\$ 10,077,835	\$ 10,512,056	\$ 9,770,233
Long-term debt	32,813,925	34,798,616	36,421,163
Other long-term liabilities	<u>7,800,644</u>	<u>6,885,902</u>	<u>4,891,530</u>
Total liabilities	<u>50,692,404</u>	<u>52,196,574</u>	<u>51,082,926</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	\$ 306,236	\$ 1,315,585	2,155,121
<b>NET POSITION</b>			
Net investment in capital assets	87,982,572	78,817,814	73,148,265
Restricted	7,832,300	7,978,922	8,147,685
Unrestricted	<u>11,245,336</u>	<u>10,725,041</u>	<u>10,287,968</u>
Total net position	<u>107,060,208</u>	<u>97,521,777</u>	<u>91,583,918</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 158,058,848</u></u>	<u><u>\$ 151,033,936</u></u>	<u><u>\$ 144,821,965</u></u>

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Selected Financial Information (continued)**

	Years Ended December 31,		
	2016	2015	2014 as restated
<b>REVENUE</b>			
Operating			
Electric - retail	\$ 45,153,587	\$ 43,881,058	\$ 42,911,047
Electric - wholesale	2,451,474	3,189,997	4,680,273
Telecommunications	2,682,434	2,609,109	2,516,289
Other operating revenue	1,510,428	1,391,935	1,301,167
Total operating income	<u>51,797,923</u>	<u>51,072,099</u>	<u>51,408,776</u>
Nonoperating			
Interest income	61,005	45,244	42,574
Other nonoperating income	4,403,171	3,965,326	3,980,191
Contributed capital	767,312	1,397,164	1,294,511
Total nonoperating income	<u>5,231,488</u>	<u>5,407,734</u>	<u>5,317,276</u>
Total revenue	<u>57,029,411</u>	<u>56,479,833</u>	<u>56,726,052</u>
<b>EXPENSES</b>			
Operating			
Cost of power	25,163,647	25,369,144	24,884,068
Taxes	2,795,174	2,742,672	2,713,281
Depreciation and amortization	5,906,256	5,841,292	4,717,805
Other operating expenses	12,705,931	13,887,457	12,932,044
Total operating expenses	<u>46,571,008</u>	<u>47,840,565</u>	<u>45,247,198</u>
Nonoperating			
Interest expense net of AFUDC	857,440	1,050,882	1,105,587
Other expense	62,532	1,650,527	3,749,437
Total nonoperating	<u>919,972</u>	<u>2,701,409</u>	<u>4,855,024</u>
Total expenses	<u>47,490,980</u>	<u>50,541,974</u>	<u>50,102,222</u>
CHANGE IN NET POSITION	9,538,431	5,937,859	6,623,830
NET POSITION, beginning of period	<u>97,521,777</u>	<u>91,583,918</u>	<u>91,548,350</u>
ACCUMULATED EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE			(6,588,262)
NET POSITION, beginning of period, as restated			<u>84,960,088</u>
NET POSITION, end of period	<u>\$ 107,060,208</u>	<u>\$ 97,521,777</u>	<u>\$ 91,583,918</u>



# **PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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## **Financial Highlights**

During 2016, the District's overall financial position remained strong in spite of a decrease in retail load of 1.4%. The decrease in retail sales was driven by mild temperatures and less irrigation demands. The District did benefit from a 2.0% retail rate increase that went into effect on July 1, 2015, and did not see the total benefit of the increase until 2016. Unfortunately, mild weather also drove wholesale energy prices lower, and as a result, the District's wholesale revenues were 23.2% lower in 2016 compared to 2015. The District's net position increased \$9,538,431 compared with an increase in net position in 2015 of \$5,937,860.

The following is an analysis of key financial factors with an emphasis on changes between 2016 and 2015:

**Cash and investments** - The District had cash and investments totaling \$24,106,261, \$25,862,415, and \$23,041,940 as of December 31, 2016, 2015, and 2014, respectively. The decrease of \$1,756,154 in 2016 was driven by significant progress and capital outlay made on the construction of a 27-mile transmission line. As noted in Note 1 to the financial statements, investments in the amount of \$10,563,915 are considered restricted as of December 31, 2016. The funds are restricted as follows: \$284,415 for debt service payments, \$1,944,500 for bond reserve requirements, \$2,200,000 for customer deposits and compensated absences, and the remaining \$6,135,000 is restricted in a rate stabilization fund.

**Utility plant** - Net utility plant increased by \$7,371,533, or 6.4%, during 2016, compared with an increase of \$4,203,061, or 3.8%, during 2015. A summary of utility plant in service is included in Note 3 to the financial statements.

**Long-term debt** - As of December 31, 2016, the District had \$31,389,354 in revenue bonds outstanding, compared with \$33,105,000 as of December 31, 2015. During 2016, the District refunded the majority of its 2003 revenue bonds, which resulted in borrowing an additional \$39,354 to cover issuance costs. The decrease in revenue bonds outstanding was a result of scheduled debt payments made during 2016.

In addition, in 2010, the District authorized a not-to-exceed \$3,667,855 loan with the United States Department of Agriculture (USDA) for broadband improvements (the RUS Note) related to the American Recovery and Reinvestment Act (ARRA) award. As of December 31, 2016, the RUS Note had a balance outstanding in the amount of \$3,127,637.

During 2014, the District renewed a line of credit in the aggregate principal amount not to exceed \$10,000,000, to cover operating costs and capital outlays as the need arises. As of December 31, 2016, the entire \$10,000,000 is available to the District if needed.

**Net operating revenues (expenses)** - The District recorded revenues from operations of \$51,797,923, which were \$5,226,915 more than operating expenses of \$46,571,008 in 2016, in comparison with 2015, when operating revenues exceeded operating expenses by \$3,231,534. In 2014, operating revenues exceeded operating expenses by \$6,161,578.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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### Financial Highlights (continued)

**Operating revenue** - Revenues from the retail sale of electricity increased by 2.9%, from \$43,881,058 in 2015 to \$45,153,587 in 2016, compared with an increase in retail sales in 2015 of 2.3%. This increase was due to the remaining impact of a 2% increase on July 1, 2015, as well as a COPA (cost of power adjustment) that was implemented on November 1, 2015.

During 2016, revenue from wholesale sales of electricity decreased 23.2%, from \$3,189,997 to \$2,451,474. The decrease in wholesale sales of electricity was due to lower market prices than 2015. In 2015, wholesale electricity decreased 31.8% from \$4,680,273 in 2014 to \$3,189,997.

In 2016, wholesale telecommunications revenue growth of 2.8% pushed revenue to \$2,682,434, compared with \$2,609,109 in 2015 and \$2,516,289 in 2014.

**Operating expenses** - Operating expenses decreased by \$1,269,557 or 2.65%, from \$47,840,565 in 2015 to \$46,571,008 in 2016 in comparison to an increase in operating expenses during 2015 of 5.7%. The decrease in operating expenses is due to the pension expense related to the implementation of GASB 68.

**Rates** - The last rate increase for the District was during 2015, which increased retail energy rates by 2% on July 1, 2015. The District also passes through increases in contracted power costs to its customers using a COPA. The COPA was last increased on November 1, 2015, from 0.40¢/kWh to the current rate of 0.56¢/kWh. The District is in the process of updating its equity management plan and reviewing energy rates.

### Significant Capital Assets and Long-Term Debt

The District anticipates issuing new debt in the future to finance projects as discussed in the following paragraphs:

In spring 2016, the District broke ground on a project to construct an approximately 27-mile transmission line to serve the Methow Valley. The project had been held up while the District obtained a right-of-way across land owned by the State of Washington. The District has awarded a contract for the construction of the line, which was substantially completed during 2016. Construction is expected to be completed during the summer of 2017. The District has funded construction costs to date through rates and reserves, and does not expect to issue additional bonds for the completion of the project.

The District continues to invest in wholesale telecommunications infrastructure. As of December 31, 2016, the District has invested a total of \$15,280,947 in wholesale telecommunications plant in service, which is an increase of \$162,878 over year-end 2015. The District's telecommunications network is connected to the Northwest Open Access Network, a fiber optic system that is member-owned. The network is currently utilized by eight retail service providers, supporting over 2,100 end-user customers.

# **PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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## **Significant Capital Assets and Long-Term Debt (continued)**

The District is the current owner of the Enloe Hydroelectric Dam, a small non-operating hydroelectric project on the Similkameen River near Oroville, Washington. On July 9, 2013, the Federal Energy Regulatory Commission (FERC) issued the District a new 50-year operating license. The District is currently in the process of selecting a contractor to re-energize the dam using a design/build construction format. The District has requested proposals for the project to be completed using a third party and a power purchase agreement. In addition, the District is reviewing other financing options for this project.

The District is still recovering from two years of record setting wildfires. During 2014, the Carlton Complex Fire consumed more than 250,000 acres located in Okanogan County. The District's loss of infrastructure due to the fire was significant, amounting to almost \$3,000,000 in historical costs and an estimated \$14,000,000 in replacement costs. The 2015 Okanogan Complex Fires burned over 300,000 acres located in Okanogan County. The District's loss of infrastructure due to the 2015 fire was in excess of \$1,600,000 in historical costs and an estimated \$3,900,000 in replacement costs. At the end of 2016, the majority of the repairs had been completed for both fires. The District expects to be reimbursed up to 87.5% by the State of Washington and the Federal Emergency Management Agency (FEMA). The District plans on funding the remaining costs through reserves and future revenues, including a rate increase of 2%, which took effect July 1, 2015.

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

## **Contacting the District's Financial Management**

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



Don Coppock  
Director of Finance/Auditor

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

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**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	December 31,	
	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash and temporary investments		
Cash and cash equivalents	\$ 12,551,256	\$ 12,849,948
Temporary investments	991,090	2,444,846
Accounts receivable, less allowance for doubtful accounts of \$25,000 for 2016 and 2015	3,225,278	2,859,947
Unbilled revenue	3,489,778	3,073,391
Materials and supplies	2,571,844	2,511,047
Prepayments and other	71,636	21,140
Total current assets	<u>22,900,882</u>	<u>23,760,319</u>
<b>RESTRICTED ASSETS</b>		
Investments		
Bond reserve and debt service	2,228,915	2,232,621
Board-designated reserve	8,335,000	8,335,000
Total restricted assets	<u>10,563,915</u>	<u>10,567,621</u>
<b>UTILITY PLANT, at cost</b>		
Plant in service	161,717,497	152,285,942
Construction work in progress	39,361,941	38,180,196
	201,079,438	190,466,138
Less accumulated depreciation and amortization	<u>78,664,478</u>	<u>75,422,711</u>
Net utility plant	<u>122,414,960</u>	<u>115,043,427</u>
<b>OTHER ASSETS</b>		
Conservation loans and notes receivable	<u>246,220</u>	<u>312,090</u>
Total assets	<u>156,125,977</u>	<u>149,683,457</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows related to pensions	1,537,393	880,055
Loss on refinancing of debt	<u>395,478</u>	<u>470,424</u>
Total deferred outflows of resources	<u>1,932,871</u>	<u>1,350,479</u>
Total assets and deferred outflows of resources	<u>\$ 158,058,848</u>	<u>\$ 151,033,936</u>

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

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**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

	December 31,	
	2016	2015
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 3,568,235	\$ 4,210,830
Accrued compensated absences	1,935,919	1,807,138
Accrued taxes	1,217,087	1,217,276
Customer deposits	669,326	639,690
Customer prepayments	544,457	597,830
Accrued bond interest	128,870	141,872
Current portion of long-term debt	2,013,941	1,897,420
Total current liabilities	10,077,835	10,512,056
<b>LONG-TERM DEBT</b>		
Revenue bonds	29,522,805	31,350,000
Other long-term debt	2,980,245	3,128,607
Bond issue premium	341,819	356,111
Bond issue discount	(30,944)	(36,102)
Total long-term debt	32,813,925	34,798,616
<b>LONG-TERM LIABILITIES</b>		
Net pension liability	7,800,644	6,885,902
Total liabilities	50,692,404	52,196,574
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferred inflows	306,236	1,315,585
<b>NET POSITION</b>		
Net investment in capital assets	87,982,572	78,817,814
Restricted	7,832,300	7,978,922
Unrestricted	11,245,336	10,725,041
Total net position	107,060,208	97,521,777
Total liabilities, deferred inflows of resources, and net position	\$ 158,058,848	\$ 151,033,936

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	Years Ended December 31,	
	2016	2015
<b>OPERATING REVENUES</b>		
Electric - retail	\$ 45,153,587	\$ 43,881,058
Electric - wholesale	2,451,474	3,189,997
Telecommunications	2,682,434	2,609,109
Other operating revenues	1,510,428	1,391,935
Total operating revenues	<u>51,797,923</u>	<u>51,072,099</u>
<b>OPERATING EXPENSES</b>		
Cost of power	25,163,647	25,369,144
Transmission	81,271	179,121
Distribution	5,890,315	5,555,223
Telecommunications	925,550	1,015,892
Customer accounts	1,551,550	1,521,406
Customer service and information	531,743	567,434
Administration and general	3,725,502	5,048,381
Depreciation and amortization	5,906,256	5,841,292
Taxes	2,795,174	2,742,672
Total operating expenses	<u>46,571,008</u>	<u>47,840,565</u>
Net operating revenues	<u>5,226,915</u>	<u>3,231,534</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	61,005	45,244
Grant revenue	3,997,676	3,560,701
Contributed capital	767,312	1,397,164
Interest on long-term debt	(1,889,530)	(1,925,917)
Allowance for funds used during construction	1,032,090	875,036
Loss on disposition of property	(62,532)	(1,650,528)
Other revenue	405,495	404,625
Net nonoperating revenues	<u>4,311,516</u>	<u>2,706,325</u>
CHANGE IN NET POSITION	9,538,431	5,937,859
<b>ACCUMULATED NET POSITION</b>		
Beginning of year	<u>97,521,777</u>	<u>91,583,918</u>
End of year	<u>\$ 107,060,208</u>	<u>\$ 97,521,777</u>

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

	Years Ended December 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 51,109,212	\$ 51,460,492
Payments to suppliers and employees	(42,092,866)	(39,830,015)
Net change in cash from operating activities	<u>9,016,346</u>	<u>11,630,477</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets, net	(13,340,322)	(11,694,883)
Proceeds from borrowings	4,069,354	292,467
Cash contributions in aid of construction	767,312	1,397,164
Proceeds from grants	3,997,676	3,560,701
Scheduled payments on debt and refundings	(5,928,390)	(1,824,766)
Interest paid on debt	(399,137)	(585,930)
Net change in cash from capital and related financing activities	<u>(10,833,507)</u>	<u>(8,855,247)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(10,793,453)	(14,599,532)
Sales and maturities of investments	12,250,917	15,057,825
Interest on investments	61,005	45,244
Net change in cash from investing activities	<u>1,518,469</u>	<u>503,537</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>(298,692)</u>	<u>3,278,767</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>12,849,948</u>	<u>9,571,181</u>
End of year	<u>\$ 12,551,256</u>	<u>\$ 12,849,948</u>
<b>RECONCILIATION OF NET OPERATING REVENUES</b>		
<b>TO CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net operating revenues	\$ 5,226,915	\$ 3,231,534
Adjustments to reconcile net operating revenues to net cash from operating activities		
Depreciation and amortization	5,906,256	5,841,293
Cash from changes in operating assets and liabilities		
Receivables	(365,331)	378,165
Unbilled revenue	(416,387)	(57,724)
Materials and supplies	(60,797)	475,505
Prepayments and other	(103,869)	516,077
Other assets	65,870	(12,104)
Accounts payable	(642,595)	345,100
Deferred pension expense	(751,942)	733,169
Accrued compensation, benefits, customer deposits, prepayments, and taxes	<u>158,226</u>	<u>179,462</u>
<b>NET CHANGE IN CASH FROM OPERATING ACTIVITIES</b>	<u>\$ 9,016,346</u>	<u>\$ 11,630,477</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Loss on disposition of property	<u>\$ (62,532)</u>	<u>\$ (1,650,528)</u>
Cash paid for interest on borrowings	<u>\$ (1,836,722)</u>	<u>\$ (1,860,106)</u>
Cash received as refund on interest on Build America Bonds	<u>\$ 405,495</u>	<u>\$ 404,625</u>

See accompanying notes.



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

## **NOTES TO FINANCIAL STATEMENTS**

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### **Note 1 - Summary of Significant Accounting Policies**

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

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

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

**New accounting standards** - In fiscal year 2016, the District Implemented GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of GASB Statement No. 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. Resulting disclosure pertinent to application of the standard is included in Note 2.

In fiscal year 2015, the District had implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB Statement No. 68 establishes standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Prior to implementing GASB Statement No. 68, employers participating in a cost-sharing plan recognized annual pension expense essentially equal to their contractually required contribution to the plan.

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

**Investments and restricted assets** - The District records investments at fair value in accordance with GASB 72. The District's investment portfolio consists both of fully insured, interest-bearing institutional deposits with terms of one year or less and Federal loan and mortgage securities where fair value can deviate from face/par value. The District's financial statements reflect no market adjustments. For information on fair market value at year-end 2016, see Note 2.

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1 - Summary of Significant Accounting Policies (continued)**

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

	<u>2016</u>	<u>2015</u>
Rate stabilization fund	\$ 6,135,000	\$ 6,135,000
Employee compensated absences fund	1,600,000	1,600,000
Customer deposit fund	600,000	600,000
Sinking funds - 2003 bonds	40,426	73,133
Sinking funds - 2010 bonds	216,021	214,988
Sinking funds - 2016 bonds	27,968	-
Bond reserve fund	<u>1,944,500</u>	<u>1,944,500</u>
	<u>\$ 10,563,915</u>	<u>\$ 10,567,621</u>

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 - Summary of Significant Accounting Policies (continued)

**Net position** - Net position consists of the following:

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

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

**Unrestricted** - Unrestricted net position components are those that do not meet the definition of "restricted" or "net investment in capital assets."

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

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

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

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

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1 - Summary of Significant Accounting Policies (continued)**

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

**Significant risk and uncertainties** - The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include weather and natural-disaster-related disruptions; collective bargaining labor disputes; fish and other Endangered Species Act issues; Environmental Protection Agency regulations; federal government regulations or orders; deregulation of the electrical industry; concentration risk in the form of Wells Hydroelectric Project (Note 11); and market risks inherent in buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

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

**Note 2 - Deposits and Investments**

As of December 31, 2016, the District held the following cash and investments:

	<u>2016</u>	<u>2015</u>
Bank certificates of deposit	\$ 3,735,000	\$ 3,735,000
U.S. Treasuries	1,600,000	-
Local Government Investment Pool	2,720,005	4,177,467
Money market funds	<u>3,500,000</u>	<u>5,100,000</u>
	<u>\$ 11,555,005</u>	<u>\$ 13,012,467</u>

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

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

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 - Deposits and Investments (continued)**

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

**Investments** - The District holds investments that are measured at fair value as of December 31, 2016. The District categorized its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments in an external government investment pool, such as the Local Government Investment Pool (LGIP), are not subject to reporting within the level hierarchy. The following tables show the District's investments measured at fair value as of December 31, 2016:

	Total as of December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
U.S. agency securities				
Federal Home Loan Bank	\$ 600,000	\$ -	\$ 600,000	\$ -
Federal Home Loan Mortgage Corporation	500,000	-	500,000	-
Federal Farm Credit Bank	500,000	-	500,000	-
Total	<u>\$ 1,600,000</u>	<u>\$ -</u>	<u>\$ 1,600,000</u>	<u>\$ -</u>

**Note 3 - Utility Plant**

Utility plant in service and other capital assets are recorded at cost when the historical cost is known. When historical cost is not known, assets are recorded at estimated fair value. Costs include labor, materials, overhead, capitalized interest, and related indirect costs. The District capitalizes assets with cost in excess of \$1,000. Depreciation expense is computed using the straight-line method employing useful lives of 4 to 50 years. Repairs are charged to operating expenses.

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

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

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 3 - Utility Plant (continued)**

During two consecutive years (2014 & 2015), the District sustained significant infrastructure damage due to wildfire. The District is still in the process of replacing the damaged infrastructure, including electrical distribution and transmission plant. Work orders pertaining to the 2014 losses were completed and closed to plant during 2016 and no further expenditures or recoveries are expected pertaining thereto. The District is still expecting some further reimbursement by the state of Washington and the Federal Emergency Management Agency (FEMA) for losses incurred in the 2015 fires.

Capital asset activity for the years ended December 31, 2016 and 2015, was as follows:

	Balance January 1, 2016	Additions	Retirements and Transfers	Balance December 31, 2016
Intangible plant	\$ 92,297	\$ -	\$ -	\$ 92,297
Generation plant	588,394	-	-	588,394
Transmission plant	4,907,477	1,391,983	(518,770)	5,780,690
Distribution plant	101,735,655	6,180,427	(1,122,407)	106,793,675
General plant	29,211,506	4,437,216	(1,099,772)	32,548,950
Telecommunications plant	15,118,069	285,345	(122,467)	15,280,947
Acquisition adjustment	632,544	-	-	632,544
	152,285,942	12,294,971	(2,863,416)	161,717,497
Construction work in progress	38,180,196	12,118,764	(10,937,019)	39,361,941
Total utility plant	190,466,138	24,413,735	(13,800,435)	201,079,438
Accumulated depreciation	(75,422,711)	(6,174,748)	2,932,981	(78,664,478)
Net utility plant	<u>\$ 115,043,427</u>	<u>\$ 18,238,987</u>	<u>\$ (10,867,454)</u>	<u>\$ 122,414,960</u>
	Balance January 1, 2015	Additions	Retirements and Transfers	Balance December 31, 2015
Intangible plant	\$ 92,297	\$ -	\$ -	\$ 92,297
Generation plant	588,394	-	-	588,394
Transmission plant	4,907,477	-	-	4,907,477
Distribution plant	99,750,723	2,561,107	(576,175)	101,735,655
General plant	28,671,752	795,060	(255,306)	29,211,506
Telecommunications plant	14,817,952	1,097,619	(797,502)	15,118,069
Acquisition adjustment	632,544	-	-	632,544
	149,461,139	4,453,786	(1,628,983)	152,285,942
Construction work in progress	30,913,419	10,406,218	(3,139,441)	38,180,196
Total utility plant	180,374,558	14,860,004	(4,768,424)	190,466,138
Accumulated depreciation	(69,534,192)	(6,148,386)	259,867	(75,422,711)
Net utility plant	<u>\$ 110,840,366</u>	<u>\$ 8,711,618</u>	<u>\$ (4,508,557)</u>	<u>\$ 115,043,427</u>

Plant in-service balances presented above include nondepreciable land of \$1,126,051 as of December 31, 2016 and 2015, respectively.

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

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 4 - Long-Term Debt**

In 2003, the District issued \$10,565,000 in 20-year serial bonds to finance capital construction and to refund a previous short-term debt obligation. Interest rates on the 2003 issuances range from 2.46% to 5.46%.

During 2010, the District issued \$9,105,000 in 10-year Series A bonds with interest rates ranging from 2.00% to 4.50%, and \$23,355,000 in 30-year Series B taxable Build America Bonds with interest rates ranging between 1.095% and 6.046%. These interest rates are subject to a federal subsidy payment from the federal government, which was 32.5% of the interest rate during the prior year. From this issuance, \$5,285,000 was used to defease the 2002 bonds, which were fully repaid in 2011. The remaining \$27,175,000 of the new debt was earmarked for capital projects including, but not limited to, the new District headquarters facility constructed in 2010 and the Pateros-Twisp transmission line, now nearing completion of construction. This debt is subject to certain covenants.

In 2010, the District authorized a not-to-exceed \$3,667,855 loan with the United States Department of Agriculture (USDA) for broadband improvements related to the American Recovery and Reinvestment Act (ARRA) award granted in 2010. During 2011, the District began drawing funds on the loan and as of December 31, 2015, a total of \$3,602,640, in loan funds related to this award had been received. No draws were made in 2016. These funds are to be paid back over a 23-year period starting one year after the initial draw. This initial draw occurred on August 15, 2011. This direct cost of money loan will bear interest at the rate applicable to each advance of loan funds based on the average yield on outstanding marketable obligations of the United States, having a final maturity comparable to the final maturity of the advance. Interest rates as of December 31, 2016, ranged from 2.3223% to 3.6342%. Additional information describing this award can be found in Note 9.

Late in 2016 the District made the decision to exercise the option of redeeming its outstanding 2003 Series A Parity Bonds through the issuance of a direct-placement junior-lien refunding bond. The 2016 Junior Lien Refunding Revenue Bond was placed with Key Government Finance, Inc. at an interest rate of 1.82% and will be repaid over the exact same term as the 2003 Series A Bonds that it replaced. Final installments of principal and interest are scheduled be made in 2022. The bonds carry a debt covenant requiring the District to maintain net revenues in each fiscal year that are at least equal to 1.25 times the annual debt service on all outstanding Net Revenue Bonds.

Total long-term debt principal outstanding at December 31, 2016, is \$34,516,991, for which substantially all revenues of the District are pledged as security.

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 4 - Long-Term Debt (continued)**

The following are changes in long-term debt for the years ended December 31, 2016 and 2015:

	Balance January 1, 2016	Additions	Payments/ Amortization	Balance December 31, 2016	Current Portion
2003 revenue bonds	\$ 5,140,000	\$ -	\$ (4,680,000)	\$ 460,000	\$ 460,000
2010 revenue bonds	27,965,000	-	(1,105,000)	26,860,000	1,145,000
2016 revenue bonds	-	4,069,354	-	4,069,354	261,549
2011 ARRA loan	3,271,027	-	(143,390)	3,127,637	147,392
Unamortized bond premium	356,111	-	(14,292)	341,819	-
Unamortized bond discount	(36,102)	-	5,158	(30,944)	-
<b>Total long-term debt</b>	<b>\$ 36,696,036</b>	<b>\$ 4,069,354</b>	<b>\$ (5,937,524)</b>	<b>\$ 34,827,866</b>	<b>\$ 2,013,941</b>
	Balance January 1, 2015	Additions	Payments/ Amortization	Balance December 31, 2015	Current Portion
2003 revenue bonds	\$ 5,755,000	\$ -	\$ (615,000)	\$ 5,140,000	\$ 650,000
2010 revenue bonds	29,040,000	-	(1,075,000)	27,965,000	1,105,000
2011 ARRA loan	3,113,326	292,467	(134,766)	3,271,027	142,420
Unamortized bond premium	370,403	-	(14,292)	356,111	-
Unamortized bond discount	(41,259)	-	5,157	(36,102)	-
<b>Total long-term debt</b>	<b>\$ 38,237,470</b>	<b>\$ 292,467</b>	<b>\$ (1,833,901)</b>	<b>\$ 36,696,036</b>	<b>\$ 1,897,420</b>

During 2010, the District established a \$10 million operating line of credit with a financial institution. As of December 31, 2016 and 2015, respectively, there was no outstanding balance on that line of credit.

The annual debt service payment requirements (principal and interest) on debt outstanding as of December 31, 2016, are as follows:

	2016 Bonds		2010 Bonds		2003 Bonds		ARRA Grant		Total
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	
2017	\$ 74,062	\$ 261,549	\$ 1,447,263	\$ 1,145,000	\$ 25,116	\$ 460,000	\$ 90,903	\$ 147,392	\$ 3,651,285
2018	69,302	732,534	1,418,705	1,175,000	-	-	86,492	151,803	3,633,836
2019	55,970	747,866	1,371,705	1,220,000	-	-	81,947	156,348	3,633,836
2020	42,359	762,277	1,322,905	1,270,000	-	-	77,269	161,026	3,635,836
2021	28,485	774,801	1,272,105	1,320,000	-	-	72,432	165,862	3,633,685
2022-2026	14,384	790,327	5,643,651	4,035,000	-	-	284,367	907,108	11,674,837
2027-2031	-	-	4,412,708	4,980,000	-	-	139,256	1,052,218	10,584,182
2032-2036	-	-	2,831,131	6,005,000	-	-	10,195	385,880	9,232,206
2037-2041	-	-	879,694	5,710,000	-	-	-	-	6,589,694
	<b>\$ 284,562</b>	<b>\$ 4,069,354</b>	<b>\$20,599,867</b>	<b>\$26,860,000</b>	<b>\$ 25,116</b>	<b>\$ 460,000</b>	<b>\$ 842,861</b>	<b>\$3,127,637</b>	<b>\$56,269,397</b>



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

## **NOTES TO FINANCIAL STATEMENTS**

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### **Note 5 - Retirement and Deferred Compensation Plans**

Substantially all of the District's full-time and qualifying part-time employees participate in one of the 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 (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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

	Aggregate Pension Amounts - All Plans	
	2016	2015
Net pension liability	\$ 7,800,644	\$ 6,885,902
Deferred outflows of resources	1,537,393	880,055
Deferred inflows of resources	306,236	1,315,585
Pension expense	64,119	1,546,158

### **Public Employees' Retirement System (PERS)**

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

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 - Retirement and Deferred Compensation Plans (continued)**

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

**Contributions**

The PERS Plan 1 member contribution rate is established by state statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<u>PERS Plan 1</u> <u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
January through June 2016	11.18%	6.00%
July through December 2016	11.18%	6.00%

The District's actual contributions to the plan were \$0 and \$2,282 for the years ended December 31, 2016 and 2015, respectively.

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

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

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 - Retirement and Deferred Compensation Plans (continued)**

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

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

**Contributions**

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarial accrued liability and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
January through June 2016	11.18%	6.12%	Varies
July through December 2016	11.18%	6.12%	Varies

The District’s actual contributions to the plan were \$816,064 and \$810,707 for the years ended December 31, 2016 and 2015, respectively.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) 2007–2012 Experience Study.

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

## NOTES TO FINANCIAL STATEMENTS

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### **Note 5 - Retirement and Deferred Compensation Plans (continued)**

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity
- Investment rate of return: 7.5%

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 that each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- For Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5%.

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% 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 (including PERS 2/3 employers, whose rates include a component for the PERS 1 liabilities). 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 7.5% 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 7.5% 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 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon.

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 - Retirement and Deferred Compensation Plans (continued)**

**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, 2016, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</u>
Fixed income	20%	1.70%
Tangible assets	5%	4.40%
Real estate	15%	5.80%
Global equity	37%	6.60%
Private equity	<u>23%</u>	9.60%
	<u><u>100%</u></u>	

**Sensitivity of Net Pension Liability (Asset)**

The table below presents the District's proportionate share of the Net Pension Liability (NPL) calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the NPL would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
PERS 1	\$ 4,279,440	\$ 3,548,754	\$ 2,919,953
PERS 2/3	7,828,494	4,251,890	(2,213,354)

**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.

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 - Retirement and Deferred Compensation Plans (continued)**

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

At December 31, 2016, and 2015, the District reported a total pension liability of \$7,800,644 and \$6,885,902, respectively, for its proportionate share of the net pension liabilities as follows:

	Liability	
	2016	2015
PERS 1	\$ 3,548,754	\$ 3,680,691
PERS 2/3	4,251,890	3,205,211

At December 31, 2016, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.070364%	0.066079%	-0.004285%
PERS 2/3	0.089705%	0.084448%	-0.005257%

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, 2016, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the years ended December 31, 2016 and 2015, the District recognized pension expense as follows:

	Pension Expense	
	2016	2015
PERS 1	\$ (422,111)	\$ 240,222
PERS 2/3	486,230	1,305,936

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 - Retirement and Deferred Compensation Plans (continued)**

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>PERS 1</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	89,352	-
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
	<u>\$ 89,352</u>	<u>\$ -</u>
<u>PERS 2/3</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 226,410	\$ (140,362)
Net difference between projected and actual investment earnings on pension plan investments	520,309	-
Changes of assumptions	43,947	-
Changes in proportion and differences between contributions and proportionate share of contributions	182,520	(165,874)
Contributions subsequent to the measurement date	474,855	-
	<u>\$ 1,448,041</u>	<u>\$ (306,236)</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 - Retirement and Deferred Compensation Plans (continued)**

Combined PERS 1 and PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 226,410	\$ (140,362)
Net difference between projected and actual investment earnings on pension plan investments	609,661	-
Changes of assumptions	43,947	-
Changes in proportion and differences between contributions and proportionate share of contributions	182,520	(165,874)
Contributions subsequent to the measurement date	474,855	-
	<u>\$ 1,537,393</u>	<u>\$ (306,236)</u>

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PERS 1	PERS 2/3	Combined
2017	\$ (22,000)	\$ 27,152	\$ 5,152
2018	(22,000)	27,152	5,152
2019	82,060	376,420	458,480
2020	51,292	236,226	287,518
2021	-	-	-
Thereafter	-	-	-
	<u>\$ 89,352</u>	<u>\$ 666,950</u>	<u>\$ 756,302</u>

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



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

## **NOTES TO FINANCIAL STATEMENTS**

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### **Note 5 - Retirement and Deferred Compensation Plans (continued)**

Additionally, the District adopted a 401(a) defined contribution plan (the 401(a) Plan) effective January 1, 2000. Participation in the 401(a) Plan is open to eligible employees of the District as defined in the plan document. The District makes matching contributions to the 401(a) Plan at a rate of 50% of the employee's contribution to their 457 deferred compensation plan. The match is capped at 2% of gross wages for nonexempt employees and 6% of gross wages for exempt employees. During 2016 and 2015, the District contributed \$222,443 and \$223,779, respectively, to the 401(a) Plan.

**VEBA plan** - In August 2005, the District implemented a voluntary employees' beneficiary association (VEBA) plan designed to provide limited employer funding on a tax-free basis for employee medical premiums and benefits for all eligible employees of the District, as defined in the plan document. The District's current VEBA contribution rate is \$150 per month per employee for all employees having met the annual qualification requirements. Plan assets, although under District control, are held in trust for the exclusive benefit of the plan participants and their designated beneficiaries and are not subject to the claims of the District's general creditors. During 2016 and 2015, the District contributed \$157,650 and \$167,000, respectively, to the VEBA plan.

### **Note 6 - Other Post-Employment Benefits**

Effective January 1, 2015 the partial reimbursement for health care insurance premiums for retired employees is discontinued. In lieu thereof, an HRA VEBA contribution will be made by the District for employees voluntarily separating service after December 31, 2014, and who have reached their 50th birthday as of their separation date/last date of employment. Employees separating service between January 1, 2015, and December 31, 2015, are eligible for \$4 times years of service times remaining months between their 60th and 65th birthday. The dollar value of the contribution is set to decrease \$1 each year until it expires on December 31, 2018. The estimated future liability is \$27,245 and \$44,905 at December 31, 2016 and 2015, respectively. The District is funding this liability on a pay-as-you-go basis with contributions of \$6,450 and \$0 expensed in 2016 and 2015, respectively.

### **Note 7 - Self Insurance**

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

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 7 - Self Insurance (continued)**

The Fund operates three separate insurance pools: the Liability Pool, the Property Pool, and the Health and Welfare Pool. Fund members may belong to one, two, or all three pools according to their insurance needs. The Liability Pool insures on a \$1,000,000 self-insured retention with a \$250 deductible. Coverage is on an occurrence basis. In addition, the Liability Pool purchases excess general liability and excess public official liability coverage. The Property Pool operates on a maximum \$500,000 self-insured retention, with a \$75,000 deductible on listed major generating units and a \$250 deductible on all other listed items of property. Coverage is on an occurrence basis and the Property Pool purchases excess property coverage above the self-insured retention level. The Health and Welfare Pool is funded by paid claims reimbursement from the member generating the claim and by pooled assessment for administration and excess stop-loss insurance coverage. In all pools, members are assessed as necessary to maintain designated minimum pool balances. Because the Fund is a cooperative program, there is joint liability among the participants of each pool. The District participates in only the Liability and Property Pools. In 2016 and 2015, the District contributed \$115,705 and \$69,817, respectively, to the Liability Pool and \$38,282 and \$20,402, respectively, to the Property Pool. Should any member terminate its affiliation with the Fund, it remains financially responsible to the Fund for any unresolved, unreported, and in-process claims for the period that it was a signatory to the agreement.

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

**Note 8 - Conservation Programs**

The District operates a number of energy conservation programs. These include both residential and commercial weatherization loan programs, appliance and water heater rebate programs, appliance loan programs, and residential and commercial energy audits. Loan programs will provide five-year loans of up to \$10,000 on residential dwellings and up to \$25,000 on commercial enterprises for qualifying conservation measures. The District incurred conservation program costs of \$47,904 and \$209,806 in 2016 and 2015, respectively, which were charged to operations.

**Note 9 - Telecommunications**

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

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 9 - Telecommunications (continued)**

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

Condensed telecom revenues and expenditures and assets and liabilities information follows:

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 2,694,577	\$ 2,630,022
Operating expenses	(2,638,720)	(2,742,140)
Nonoperating revenues - grant	-	991,787
Nonoperating expenses	<u>(203,917)</u>	<u>(334,260)</u>
Change in net position	<u>\$ (148,060)</u>	<u>\$ 545,409</u>
Total assets	\$ 8,773,985	\$ 9,306,551
Total liabilities	<u>(4,119,660)</u>	<u>(4,504,166)</u>
Total net position	<u>\$ 4,654,325</u>	<u>\$ 4,802,385</u>

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

**Note 10 - Energy Northwest**

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

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 10 - Energy Northwest (continued)**

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

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

The District's net billing obligations in 2016 and 2015 were as follows:

<b>ENW Fiscal 2017 Budget Year</b>	<u>No. 1</u>	<u>No. 2</u>	<u>No. 3</u>	<u>Total</u>
Annual budget	\$ 60,017,000	\$ 662,326,000	\$ 86,685,000	\$ 809,028,000
District's share	0.00255	0.01042	0.00143	-
District's net billing obligation	153,043	6,901,437	123,960	7,178,440
<b>ENW Fiscal 2016 Budget Year</b>				
Annual budget	\$ 74,026,000	\$ 424,166,000	\$ 150,508,000	\$ 648,700,000
District's share	0.00255	0.01042	0.00143	-
District's net billing obligation	188,766	4,419,810	215,226	4,823,802

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

Pursuant to an exchange agreement entered into between the District, ENW, and BPA, the District had purchased .424% of the output of the Hanford Project and is obligated to pay ENW the same percentage of the annual costs.

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

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

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

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

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 10 - Energy Northwest (continued)**

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

#### **Note 11 - Other Power Supply Agreements**

**Wells Hydroelectric Project** - Since the initial construction of the Wells Hydroelectric Project, the District has been a party to a power sales contract governing the apportionment of the project output. The District's current share of the total output from Wells Hydroelectric Project is 7.64%, which represents 35.55% and 35.26% of the District's total power purchases in 2016 and 2015, respectively. During the 1980s, both the District and Public Utility District No. 1 of Douglas County (Douglas PUD) contested several provisions of the 1963 agreement and sought resolution of the disputed issues in Chelan County Superior Court. Disputes between the parties were resolved with a Memorandum of Understanding signed on August 5, 1991, requiring the two Districts to negotiate a new power sale contract commencing in September 2018 and extending for an additional 50 years. Negotiations on this contract had been ongoing for a number of years and were recently concluded with the placement of the final signatures on May 15, 2017. The terms of the contract will allow the District's portion of the project output to grow relative to its increasing loads until peaking at a 30% share. The District's contractual purchases are to be at Wells Project cost of production and operation.

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

On March 3, 1983, the District was issued a license by FERC for renovation and resumed operation of the Enloe project. The District subsequently appealed 14 of the licensing provisions. After extensive review, on March 6, 1986, FERC repealed the license previously granted to the District and placed the license in a "License Application Pending File" until all outstanding issues were resolved. FERC dismissed the license application in December 1987.

In February 1988, the District submitted a new application for a preliminary permit on the project. FERC granted the permit on June 8, 1988, and the District began the required preliminary studies. The District then submitted a license application to FERC on June 1, 1991, and FERC prepared an environmental assessment with the possibility of issuing an operating license.

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 11 - Other Power Supply Agreements (continued)**

On September 13, 1996, FERC again issued a license to the District for restoration of the project. Although fish passage was not a stated requirement of the license, the licensing language left an open-ended opportunity for certain federal agencies to intervene and require fish passage at a later date. The uncertainty of this language made it impossible to accurately forecast the project costs or determine feasibility, so the District, along with several other entities, appealed the licensing conditions. A stay of the license was issued as a result of the pending listing of the Upper Columbia Steelhead under the Endangered Species Act and a determination of the Enloe project's negative impact upon them. On February 23, 2000, FERC rescinded the license because the National Marine Fisheries Service (NMFS) continued to require upstream fish passage as a condition of the license, while the British Columbia Provincial and Tribal Authorities remain opposed to any such passage requirements.

On January 21, 2005, the District again submitted a new application to FERC for a preliminary permit on the project. Using the FERC Traditional Licensing Process (TLP), the District filed the license application with FERC on August 22, 2008. The proposed configuration would approximately double the project output to 47,300 MWh of energy per year and 9,000 KW of capacity.

Since then, the District has spent the better part of a decade on environmental assessments, resource studies, permitting issues, and litigation. On August 31, 2011, FERC issued the Final Environmental Assessment for the Enloe Hydroelectric Project, and the District continued in the development of the state and local permitting processes. The District received its Section 401 Water Quality Permit in late 2012, but it was immediately appealed by various environmental groups before finally being settled by the Washington State Pollution Control Hearing Board. FERC issued the District a new 50-year operating license on July 9, 2013, and the District is now preparing for final design, financing, bidding, and construction. While the District continued its compliance with all license terms for the project, in early 2015, it was determined that the District was encountering some time constraints, so on March 19, 2015, the District submitted a request for a two-year extension of the commencement of construction deadline. The extension was subsequently granted on July 31, 2015, and on May 9, 2016, the District Board of Commissioners formally declared by Resolution #1620 their intent to construct a new power house and reenergize Enloe Dam.

**Note 12 - Northwest Open Access Network**

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

In July 2001, NoaNet issued \$27 million in Telecommunications Network Revenue Bonds (taxable) to finance the repayment of startup funds advanced by founding members and the initial costs of construction and commissioning. The outstanding balance of \$5,510,000 as of December 31, 2014, was paid in full during the 2015 year.

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

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 12 - Northwest Open Access Network (continued)**

In 2012, NoaNet established a nonrevolving line of credit in the amount of \$5 million for capital financing of sale opportunities. In September 2014, NoaNet established an additional line of credit in the amount of \$1 million on which an additional draw in the amount of \$1 million was taken during the year, bringing the total balance to \$2 million. Both the 2012 and 2014 lines of credit were subsequently refinanced through a \$13 million line of credit established in December 2014, which had a balance outstanding of \$9,350,638 and \$6,295,837 as of December 31, 2016 and 2015, respectively.

The District's ownership interest in NoaNet was 8.04% as of December 31, 2016 and 2015. During 2016, NoaNet incurred a net loss from operations of \$4,235,837. This operating loss, partially offset by interest revenue but increased by interest expense, reduced net position of \$82,051,773 in 2015 to \$77,496,151 in 2016. NoaNet financial results for 2016 are estimated; however, any variance will not have a material impact on the District's financial position.

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

#### **Note 13 - Pending Litigation**

**Pateros-Twisp transmission line** - For many years, the District has sought to construct a second transmission line into the Methow Valley. This project, along with a proposed new substation, would alleviate the current issues of both marginal electrical capacity and reliability. A coalition of local citizens and environmental groups has been consistently opposing the project and challenged the validity of the District's Final Environmental Impact Statement (FEIS) on grounds of various alleged deficiencies. On November 22, 2006, a ruling by an Okanogan County Superior Court judge upheld the validity of the FEIS; however, that decision was appealed by the plaintiffs to the Washington State Court of Appeals and spent the entire year of 2007 undergoing further review. On May 1, 2008, the appellate court upheld Okanogan County Superior Court's ruling on all counts. The plaintiffs then filed a petition for review with the Washington State Supreme Court on June 5, 2008, which was subsequently denied on December 2, 2008.

During 2009, the District started the process of acquiring right-of-way easements and various other permits required for construction. Condemnation proceedings were initiated against two landowners, one being a private individual and one being a state entity, to obtain the remaining easements necessary to complete the route. In 2010, Okanogan County Superior Court granted "public use and necessity" against the two landowners. The condemnation process moved to the appraisal stage and a court date was set for July 5, 2011, to determine values for the take. This hearing date was subsequently stayed when the Washington State Department of Natural Resources (DNR) appealed to the Washington State Supreme Court for review of the District's authority and ability to exercise condemnation authority against a State Agency. The Washington State Supreme Court heard the case on February 25, 2014, and on January 29, 2015, issued a ruling upholding the District's condemnation authority. Throughout the latter half of 2015, fair compensation was negotiated and access to the route has been obtained. On April 1, 2016, groundbreaking for the project took place near Gold Creek. Construction of the transmission line is underway and is expected to be complete in late 2017.

**Other litigation** - The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material adverse impact on its financial position or results of operations.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**AS OF JUNE 30**

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Schedule of Proportionate Share of the Net Pension Liability  
Public Employees' Retirement System (PERS)  
As of June 30, 2016  
Last 10 Fiscal Years\*

	2016		2015		2014	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Employer's proportion of the net pension liability	0.066079%	0.084448%	0.070364%	0.089705%	0.064331%	0.081669%
Employer's proportionate share of the net pension liability	\$ 3,548,754	\$ 4,251,890	\$ 3,680,691	\$ 3,205,211	\$ 3,240,704	\$ 1,650,825
Employer's covered employee payroll	\$ 5,720	\$ 7,944,672	\$ 44,842	\$ 7,961,648	\$ 44,854	\$ 7,052,508
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	62041.15%	53.52%	8208.13%	40.26%	7225.01%	23.41%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	85.82%	59.10%	89.20%	61.19%	93.29%

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

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS AS OF DECEMBER 31**

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Schedule of Employer Contributions  
Public Employees' Retirement System (PERS)  
As of December 31, 2016  
Last 10 Fiscal Years\*

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

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

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON THE AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statements of net position, and the related statements of revenues, expenses, and changes in net position, and cash flows and related notes to the financial statements of Public Utility District No. 1 of Okanogan County, Washington (the District) as of and for the year ended December 31, 2016, and have issued our report thereon dated May 18, 2017.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Everett, Washington

May 18, 2017

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for the Major Federal Program**

We have audited Public Utility District No.1 of Okanogan County, Washington's (the District's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2016. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, contracts, and the terms and conditions of its federal award applicable to its federal program.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

## ***Opinion on the Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

## **Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Everett, Washington  
May 18, 2017

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?  Yes  No

**Identification of Major Federal Programs and Type of Auditor's Report Issued on Compliance for Major Federal Programs:**

CFDA Numbers	Name of Federal Program or Cluster	Type of Auditor's Report Issued on Compliance for Major Federal Program
97.036	U.S. Department of Homeland Security: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<i>Unmodified</i>

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?  Yes  No

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**

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**Section II - Financial Statement Findings**

None reported

**Section III - Federal Award Findings and Questioned Costs**

None reported



**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FINDING - 2015-001 - Suspension and Debarment**

*Criteria or specific requirement* - OMB Circular A-110 required institutions to have internal controls in place to restrict contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance.

*Condition* - We noted during our testing of the District's major program that there was no evidence or documentation being maintained showing that vendors are being checked for suspension or debarment on the EPLS/SAM website.

*Questioned costs* - None.

*Status* - During 2016 management reviewed its policies on contracting with vendors, and vendor review was performed to ensure none were suspended or debarred. This finding was corrected in 2016.

**SUPPLEMENTARY INFORMATION**

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**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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<u>Federal Grant or Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Homeland Security		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 3,914,209
Total expenditures of federal awards		<u>\$ 3,914,209</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Public Utility District #1 of Okanogan County (the District) under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirement of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles in the Uniform Guidance wherein certain types of expenditures are not allowable or limited as to reimbursement. Expenditures reported include any property or equipment acquisitions incurred under federal programs.

The District has not elected to use the 10 percent de minimis indirect cost rate as described in 2 CFR 200.414.

**Note 3 - Funds Related to a Prior Period**

The balance of \$661,506 on the 2016 Schedule of Expenditures for Federal Awards relates to federal FEMA awards granted during the 2015 year.

**Note 4 - Relationship to the Financial Statements**

Federal awards are reported in the financial statements as an increase in value of electric plant assets and grant revenue.

**SUPPLEMENTARY INFORMATION (Unaudited)**

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**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**COMPARATIVE RESULTS OF OPERATIONS AND DEBT SERVICE COVERAGE (Unaudited)**

	Years Ended December 31,				
	2016	2015	2014	2013	2012
<b>OPERATING REVENUES</b>					
Electric - retail	\$ 45,153,587	\$ 43,881,058	\$ 42,911,047	\$ 39,861,279	\$ 35,588,404
Electric - wholesale	2,451,474	3,189,997	4,680,273	5,132,270	3,531,677
Telecommunications	2,682,434	2,609,109	2,516,289	2,217,116	2,096,256
Other operating revenue	1,510,428	1,391,935	1,301,167	1,286,159	1,412,834
<b>Total operating revenues</b>	<b>51,797,923</b>	<b>51,072,099</b>	<b>51,408,776</b>	<b>48,496,824</b>	<b>42,629,171</b>
<b>OPERATING EXPENSES</b>					
Cost of power	25,163,647	25,369,144	24,884,068	23,534,220	23,198,810
Electric operations and maintenance	5,971,586	5,734,344	5,718,362	5,119,745	5,466,456
Telecommunications operations and maintenance	925,550	1,015,892	1,011,714	1,130,469	924,802
Customer accounting and information	2,083,293	2,088,840	1,960,419	2,066,317	2,095,783
Administration and general	3,725,502	5,048,381	4,241,549	4,420,433	4,169,687
Depreciation and amortization	5,906,256	5,841,292	4,717,805	4,584,884	4,601,137
Taxes	2,795,174	2,742,672	2,713,281	2,413,881	2,220,161
<b>Total operating expenses</b>	<b>46,571,008</b>	<b>47,840,565</b>	<b>45,247,198</b>	<b>43,269,949</b>	<b>42,676,836</b>
<b>Net operating revenue (expense)</b>	<b>5,226,915</b>	<b>3,231,534</b>	<b>6,161,578</b>	<b>5,226,875</b>	<b>(47,665)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	61,005	45,244	42,574	58,695	74,313
Grant revenue	3,997,676	3,560,701	3,509,879	2,573,201	1,618,792
Contributed capital	767,312	1,397,164	1,294,511	990,165	991,816
Interest on long-term debt	(1,889,530)	(1,925,917)	(1,980,623)	(2,356,815)	(2,018,950)
Allowance for funds used during construction (AFUDC)	1,032,090	875,036	937,714	800,989	632,432
Other revenue	405,495	404,625	407,633	492,647	446,441
Other expenses	(62,532)	(1,650,528)	(3,749,436)	(146,655)	-
<b>Net nonoperating revenues (expenses)</b>	<b>4,311,516</b>	<b>2,706,325</b>	<b>462,252</b>	<b>2,412,227</b>	<b>1,744,844</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 9,538,431</b>	<b>\$ 5,937,859</b>	<b>\$ 6,623,830</b>	<b>\$ 7,639,102</b>	<b>\$ 1,697,179</b>
<b>DEBT SERVICE COVERAGE ADJUSTMENTS</b>					
Interest charges (net AFUDC)	\$ 857,440	\$ 1,050,881	\$ 1,042,909	\$ 1,555,826	\$ 1,386,518
Depreciation and amortization	5,906,256	5,841,292	4,717,805	4,584,884	4,601,137
Capital grant	(3,997,676)	(3,560,701)	(3,509,879)	(2,573,201)	(1,618,792)
Impairment of investment	-	1,650,381	3,746,773	-	-
Rate stabilization transfer (to) from	-	-	-	-	-
<b>Total debt service coverage adjustments</b>	<b>2,766,020</b>	<b>4,981,853</b>	<b>5,997,608</b>	<b>3,567,509</b>	<b>4,368,863</b>
<b>AVAILABLE FOR DEBT SERVICE</b>	<b>\$ 12,304,451</b>	<b>\$ 10,919,712</b>	<b>\$ 12,621,438</b>	<b>\$ 11,206,611</b>	<b>\$ 6,066,042</b>
<b>TOTAL DEBT SERVICE</b>	<b>\$ 3,695,758</b>	<b>\$ 3,684,871</b>	<b>\$ 3,780,993</b>	<b>\$ 3,589,687</b>	<b>\$ 3,508,662</b>
<b>DEBT SERVICE COVERAGE</b>	<b>3.33</b>	<b>2.96</b>	<b>3.34</b>	<b>3.12</b>	<b>1.73</b>

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**CUSTOMER STATISTICAL DATA (Unaudited)**

	Years Ended December 31,				
	2016	2015	2014	2013	2012
<b>ACTIVE CUSTOMER ACCOUNTS</b>					
Residential	17,121	17,026	16,958	16,999	17,001
General service	2,500	2,472	2,422	2,389	2,387
Industrial	3	3	3	3	4
Irrigation and frost control	1,343	1,344	1,327	1,345	1,336
Street lighting	21	21	21	20	21
Sales for resale	5	5	5	4	6
Telecommunications	18	18	19	16	19
<b>Total active customer accounts</b>	<b>21,011</b>	<b>20,889</b>	<b>20,755</b>	<b>20,776</b>	<b>20,774</b>
<b>REVENUES BILLED</b>					
Residential	\$ 22,131,755	\$ 21,113,464	\$ 21,594,991	\$ 21,328,140	\$ 18,862,657
General service	15,902,364	15,394,511	14,699,325	13,854,328	12,425,572
Industrial	2,444,584	2,453,501	2,227,514	1,347,794	1,135,306
Irrigation and frost control	4,528,774	4,776,955	4,248,172	3,194,235	3,029,476
Street lighting	146,110	142,627	141,045	136,782	135,393
Sales for resale	2,451,474	3,189,997	4,680,273	5,132,270	3,531,677
Telecommunications	2,682,434	2,609,109	2,516,289	2,217,116	2,096,256
Other operating revenue	1,510,428	1,391,935	1,301,167	1,286,159	1,412,834
<b>Total revenues billed</b>	<b>\$ 51,797,923</b>	<b>\$ 51,072,099</b>	<b>\$ 51,408,776</b>	<b>\$ 48,496,824</b>	<b>\$ 42,629,171</b>
<b>ENERGY CONSUMED (kWh)</b>					
Residential	271,006,607	269,949,470	288,719,419	293,419,767	289,639,794
General service	223,505,336	223,376,404	216,537,020	211,564,358	204,212,439
Industrial	42,795,190	44,235,060	39,843,330	23,517,840	20,583,710
Irrigation and frost control	70,713,251	79,162,514	67,931,145	62,319,197	65,131,338
Street lighting	1,364,433	1,368,734	1,359,997	1,363,740	1,359,672
Sales for resale	174,261,000	175,444,000	198,744,000	193,128,000	267,366,000
<b>Total energy consumed (kWh)</b>	<b>783,645,817</b>	<b>793,536,182</b>	<b>813,134,911</b>	<b>785,312,902</b>	<b>848,292,953</b>
<b>AVERAGE ANNUAL REVENUE PER CUSTOMER</b>					
Residential	\$ 1,293	\$ 1,240	\$ 1,273	\$ 1,255	\$ 1,110
General service	6,361	6,228	6,069	5,799	5,206
Industrial	814,861	817,834	742,505	449,265	283,827
Irrigation and frost control	3,372	3,554	3,201	2,375	2,268
Street lighting	6,958	6,792	6,716	6,839	6,447
Sales for resale	490,295	637,999	936,055	1,283,068	588,613
Telecommunications	149,024	144,951	132,436	138,570	110,329
<b>Total annual average revenue per customer</b>	<b>\$ 2,465</b>	<b>\$ 2,445</b>	<b>\$ 2,477</b>	<b>\$ 2,334</b>	<b>\$ 2,052</b>
<b>AVERAGE ANNUAL kWh PER CUSTOMER</b>					
Residential	15,829	15,855	17,026	17,261	17,037
General service	89,402	90,363	89,404	88,558	85,552
Industrial	14,265,063	14,745,020	13,281,110	7,839,280	5,145,928
Irrigation and frost control	52,653	58,901	51,192	46,334	48,751
Street lighting	64,973	65,178	64,762	68,187	64,746
<b>Total annual average kWh per customer</b>	<b>29,035</b>	<b>29,622</b>	<b>29,636</b>	<b>28,531</b>	<b>27,998</b>

**PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON**  
**OTHER FINANCIAL DATA (Unaudited)**

	Years Ended December 31,				
	2016	2015	2014	2013	2012
<b>COST OF POWER</b>					
Bonneville Power Administration	\$ 16,158,335	\$ 15,301,707	\$ 15,407,731	\$ 15,235,772	\$ 15,407,149
Douglas County PUD - Wells Hydroelectric Project	3,993,203	4,041,858	3,784,405	3,646,318	3,551,725
Energy NW - Nine Canyon Wind Project	3,009,427	3,042,858	3,040,382	3,008,055	3,029,067
Other cost of power, including market purchases	<u>2,002,682</u>	<u>2,982,721</u>	<u>2,651,550</u>	<u>1,644,075</u>	<u>1,210,869</u>
Total cost of purchased power	<u>\$ 25,163,647</u>	<u>\$ 25,369,144</u>	<u>\$ 24,884,068</u>	<u>\$ 23,534,220</u>	<u>\$ 23,198,810</u>
<b>ENERGY RESOURCES MWh</b>					
Bonneville Power Administration	451,899	434,936	473,822	472,322	509,404
Douglas County PUD - Wells Hydroelectric Project	293,474	291,554	300,617	296,743	319,040
Energy NW - Nine Canyon Wind Project	40,839	35,544	40,613	37,724	43,321
Other cost of power, including market purchases	<u>39,323</u>	<u>64,871</u>	<u>29,993</u>	<u>20,975</u>	<u>13,587</u>
Total energy resources MWh	<u>825,535</u>	<u>826,905</u>	<u>845,045</u>	<u>827,764</u>	<u>885,352</u>
<b>AVERAGE COST PER MWh</b>					
Bonneville Power Administration	\$ 35.76	\$ 35.18	\$ 32.52	\$ 32.26	\$ 30.25
Douglas County PUD - Wells Hydroelectric Project	13.61	13.86	12.59	12.29	11.13
Energy NW - Nine Canyon Wind Project	73.69	85.61	74.86	79.74	69.92
Other cost of power, including market purchases	50.93	45.98	88.41	78.38	89.12
Average cost per MWh (all resources)	\$ 30.48	\$ 30.68	\$ 29.45	\$ 28.43	\$ 26.20
<b>PEAK DEMAND MW</b>	164	152	170	155	154
<b>NET UTILITY PLANT</b>	\$ 122,414,960	\$ 115,043,427	\$ 110,840,366	\$ 106,028,834	\$ 97,967,535
<b>EMPLOYEE DATA</b>					
Full-time employees	91	90	91	90	92
Part-time employees	<u>-</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total employees	<u>91</u>	<u>92</u>	<u>93</u>	<u>92</u>	<u>94</u>