



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

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

December 31, 2021 and 2020



MOSSADAMS

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

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, and related statements of revenues, expenses and changes in net position, and cash flows as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2022, on our consideration of Public Utility District No. 1 of Okanogan County, Washington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Public Utility District No. 1 of Okanogan County, Washington's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Utility District No. 1 of Okanogan County, Washington's internal control over financial reporting and compliance.



Everett, Washington
May 27, 2022

Public Utility District No. 1 of Okanogan County, Washington

Management's Discussion and Analysis

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 2021 and 2020. Please consider the information presented here in conjunction with the financial statements as a whole, including the footnotes and other supplementary information that is 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 basic financial statements are presented as of and for the years ended December 31, 2021 and 2020, 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)

Selected Financial Information

	December 31,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
ASSETS			
Current and other assets	\$ 69,928,741	\$ 67,912,722	\$ 30,926,797
Net utility plant	<u>128,979,784</u>	<u>114,937,136</u>	<u>112,563,273</u>
Total assets	198,908,525	182,849,858	143,490,070
DEFERRED OUTFLOWS OF RESOURCES			
	<u>954,769</u>	<u>1,177,435</u>	<u>1,032,587</u>
Total assets and deferred outflows of resources	<u>\$ 199,863,294</u>	<u>\$ 184,027,293</u>	<u>\$ 144,522,657</u>
LIABILITIES			
Current liabilities	\$ 12,730,520	\$ 11,262,928	\$ 10,609,284
Long-term debt	59,711,689	61,583,812	26,409,826
Other long-term liabilities	<u>736,001</u>	<u>2,903,355</u>	<u>2,964,405</u>
Total liabilities	<u>73,178,210</u>	<u>75,750,095</u>	<u>39,983,515</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>8,095,488</u>	<u>1,059,008</u>	<u>1,933,465</u>
NET POSITION			
Net investment in capital assets	67,582,685	51,169,220	84,130,786
Restricted	27,662,973	40,374,205	8,344,665
Unrestricted	<u>23,343,938</u>	<u>15,674,765</u>	<u>10,130,226</u>
Total net position	<u>118,589,596</u>	<u>107,218,190</u>	<u>102,605,677</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 199,863,294</u>	<u>\$ 184,027,293</u>	<u>\$ 144,522,657</u>

Public Utility District No. 1 of Okanogan County, Washington
Management's Discussion and Analysis (continued)

Selected Financial Information (continued)

	Years Ended December 31,		
	2021	2020	2019
REVENUE			
Operating			
Electric - retail	\$ 49,357,210	\$ 46,271,092	\$ 45,810,067
Electric - wholesale	3,867,948	3,542,929	3,880,384
Telecommunications	3,409,958	3,182,638	2,831,472
Other operating revenue	3,015,924	1,748,733	1,773,699
Total operating income	<u>59,651,040</u>	<u>54,745,392</u>	<u>54,295,622</u>
Nonoperating			
Interest income	84,457	212,312	310,680
Other nonoperating income	419,923	1,034,331	1,300,664
Total nonoperating income	<u>504,380</u>	<u>1,246,643</u>	<u>1,611,344</u>
Income before contributed capital	<u>60,155,420</u>	<u>55,992,035</u>	<u>55,906,966</u>
Contributed capital	<u>2,066,519</u>	<u>1,214,361</u>	<u>891,735</u>
Total revenue	<u>62,221,939</u>	<u>57,206,396</u>	<u>56,798,701</u>
EXPENSES			
Operating			
Cost of power	26,735,325	25,358,054	28,755,100
Taxes	3,064,663	2,906,689	2,871,178
Depreciation and amortization	5,963,154	6,035,441	6,678,205
Other operating expenses	12,492,228	14,704,582	14,426,942
Total operating expenses	<u>48,255,370</u>	<u>49,004,766</u>	<u>52,731,425</u>
Nonoperating			
Interest expense	2,573,659	1,995,985	1,571,559
Other expense	21,504	1,593,132	-
Total nonoperating	<u>2,595,163</u>	<u>3,589,117</u>	<u>1,571,559</u>
Total expenses	<u>50,850,533</u>	<u>52,593,883</u>	<u>54,302,984</u>
CHANGE IN NET POSITION	11,371,406	4,612,513	2,495,717
NET POSITION, beginning of period	<u>107,218,190</u>	<u>102,605,677</u>	<u>100,109,960</u>
NET POSITION, end of period	<u>\$ 118,589,596</u>	<u>\$ 107,218,190</u>	<u>\$ 102,605,677</u>

Public Utility District No. 1 of Okanogan County, Washington Management's Discussion and Analysis (continued)

Financial Highlights

During 2021, the District's overall financial position stayed positive with an increase in retail electric load of 3%. The increase in retail sales was driven by increases in residential, general service, and irrigation and frost control loads.

There was minimal effect on the District's customer accounts receivable due to the COVID-19 pandemic emergency. The District's 90-day arrearages in March of 2020 were in the \$3,000-\$5,000 range. They were highest in March of 2021 at about \$70,000, however by December 2021, 90-day arrearages had returned to the pre-pandemic level of \$3,000 to \$5,000.

On February 16, 2021, the District called its remaining 2010A Bonds. These bonds had a maturity date of December 1, 2021, and a principal amount of \$630,000. The early payoff of these bonds resulted in interest cost savings of about \$22,000 for the District. It also allowed for a reduction in the Debt Service Reserve Fund of \$372,960, which meant freeing up restricted funds for the District to use as unrestricted funds.

The District implemented a rate increase to retail customers effective April 1, 2021, resulting in an average 3.25% revenue increase. The cost of power between 2019 and 2020 was also analyzed resulting in a cost of power adjustment of 0.73% which was effective April 1, 2021.

Wholesale energy sales decreased in volume, but the average price per kilowatt-hour increased. As a result, the District's wholesale revenues were up 9.2%. The District's net position increased \$11,371,406, compared with an increase in net position in 2020 of \$4,612,513.

The following is an analysis of key financial factors with an emphasis on changes between 2021 and 2020:

Cash and investments – The District had cash and investments totaling \$50,481,144 and \$56,826,574, as of December 31, 2021, and 2020, respectively. The decrease in cash and investments of \$6,345,430 during 2021 was due to spending down the 2020 Bond Construction Fund. As noted in Note 1 to the financial statements, investments in the amount of \$29,261,596 are considered restricted as of December 31, 2021. The funds are restricted as follows: \$357,222 for debt service payments, \$1,571,540 for bond reserve requirements, \$2,700,000 for customer deposits and compensated absences, \$1,000,000 for vehicle replacement reserve, \$4,574,259 is restricted in a rate stabilization fund, and \$19,058,575 for the 2020 bond construction fund. A total of \$13,267,371 was drawn from 2020 Bond Construction Fund for large ongoing capital projects which include the construction of the new penstock at Enloe Dam, the Okanogan to Brewster transmission line rebuild, and substation power transformer replacements and other capital improvements. In December 2020, the District approved a January 2021 withdrawal of \$803,286 from the Rate Stabilization Fund to make the principal and interest payments on the District's 2016 Key Bank Notes.

Utility plant – Net utility plant increased \$14,042,648, or 12.2%, during 2021, compared with an increase of \$2,373,863, or 2.1%, during 2020. A summary of utility plant in service is included in Note 3 to the financial statements.

Public Utility District No. 1 of Okanogan County, Washington Management's Discussion and Analysis (continued)

Financial Highlights (continued)

Long-term debt – As of December 31, 2021, the District had \$56,735,327 in revenue bonds outstanding, compared with \$59,015,128 as of December 31, 2020. During 2021, the District did not issue additional revenue bonds. The decrease in revenue bonds outstanding was a result of scheduled debt payments made during 2021. During 2020, the District issued additional \$40 million revenue bonds to fund projected capital outlays and to pay off the 2010 RUS Note as well as repay the line of credit.

Net operating revenues – The District recorded revenues from operations of \$59,651,040, which was \$11,395,670 more than operating expenses of \$48,255,370 during 2021, in comparison with 2020, when operating revenues exceeded operating expenses by \$5,740,626. In 2019, operating revenues exceeded operating expenses by \$1,564,197.

Operating revenue – Revenues from the retail sale of electricity increased by 6.7%, from \$46,271,092 in 2020 to \$49,357,210 during 2021, compared with an increase in retail sales in 2020 of 1.0%. The increase during 2021 was due to the effect of the 3.25% rate increase that went into effect April 1, 2021, as well as a 3% load increase.

During 2021, revenue from wholesale sales of electricity increased by 9.2%, from \$3,542,929 in 2020 to \$3,867,948. The increase in revenue from wholesale sales of electricity was due to an increase in the average price per kilowatt-hour. In 2020, wholesale electricity decreased 8.7% from \$3,880,384 in 2019 to \$3,542,929.

In 2021, wholesale telecommunications revenue increased 7.1% to \$3,409,958 compared with \$3,182,638 in 2020 and \$2,831,472 in 2019. The increase in revenue during 2021 was due to an increased customer base and customers requesting higher levels of service that come with a higher cost.

Operating expenses – Operating expenses decreased by \$749,396, or 1.5%, from \$49,004,766 in 2020 to \$48,255,370 in 2021 in comparison to a decrease in operating expenses during 2020 of 7.1%. The 2021 decrease in operating expenses is due in large part to lower administrative and general expenses.

Rates – During 2021, the District implemented rate adjustments for all service classes representing a 3.25% revenue increase effective April 1, 2021. The District passes through increases in contracted power costs to its customers using a cost of power adjustment (COPA). The COPA was recalculated resulting in a cost of power adjustment of 0.73% which was also effective April 1, 2021.

Significant Capital Assets and Long-Term Debt

The District continues to invest in wholesale telecommunications infrastructure. As of December 31, 2021, the District has invested a total of \$16,102,643 in wholesale telecommunications plant in service, which is an increase of \$340,185 over year-end 2020. 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 3,800 end-user customers.

Public Utility District No. 1 of Okanogan County, Washington Management's Discussion and Analysis (continued)

Significant Capital Assets and Long-Term Debt (continued)

The District is the current owner of the Enloe Hydroelectric Dam, a small nonoperating 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. During 2018, the District selected a design/build partner and signed an agreement for Phase 1 of the project. Phase 1 of the project was completed during the fall of 2018 and a 30% design, construction schedule and not to exceed construction costs was developed. On November 1, 2018, the District was informed by its design/build partner that the guaranteed maximum price would be \$70.4 million (plus tax and District costs during construction), more than twice initial estimates. At the District's board meeting on November 19, 2018, the Board directed staff not to pursue electrification Enloe Dam and granted staff 120 days to assess all option for owning and managing Enloe Dam. As a result of this action the District recorded project costs to date in the amount of \$18,793,376 as an extraordinary item for the year ended December 31, 2018, and transferred the licensing and engineering costs off of its books.

During 2019, the District focused on dam safety, including a dewatering and inspection plan. The primary 2020 Enloe Dam safety work included completing the geotechnical site investigation, to advance engineering design to 60%. In addition, the majority of the necessary environmental permits were obtained. In 2021, the District accepted a Phase 2 Amendment, to the Design-Build Contract, from the Max J. Kuney Company for the Enloe Dam Safety Repair and Maintenance project, with a Guaranteed Maximum Price of \$6,996,688, plus sales tax. The Phase 2 Amendment included 90% engineering designs, securing all project permits, and construction. The construction work began in April 2021 and is set to conclude in June 2022. The comprehensive dam safety inspection is scheduled to occur in fall of 2022.

In 2020, the District experienced the Cold Springs Fire. This fire started September 6, 2020, near Omak, Washington, and spread quickly due to strong winds and low relative humidity. Total acres burned in Okanogan County were approximately 190,000. Okanogan County Public Utility District damage included 27 miles of distribution line and 89 poles, 18 miles of transmission line and 175 poles, and 20,000 feet of fiber optic line. Federal disaster declaration for the Cold Springs Fire was issued February 4, 2021. The District's estimated eligible costs are about \$5.4 million with 75% federally reimbursable and 12.5% state reimbursable. The District has reflected a loss in the 2020 financial statements amounting to \$1,593,944 due to forced premature retirement of plant property units destroyed by the 2020 Cold Springs Fire. No FEMA funds were received in 2021.

During 2020 and 2021, the District updated its equity management plan and performed a cost of service study. As part of the process four projects were identified which the District plans to fund with the 2020 debt issuance. The debt issuance of approximately \$40,000,000 will fund the Enloe Dam safety project, rebuild the Tonasket Substation, rebuild a 26-mile transmission line between Brewster and Okanogan, and fund the purchase of substation power transformers. The District also used bond proceeds to retire the 2010 RUS Note and repay the 2018 line of credit which had been drawn to purchase the Chicken Creek Substation. The equity management plan further identifies a 10-year capital plan and a strategy including a combination of reserves, rate adjustments, and additional borrowing to fund the projects.

Public Utility District No. 1 of Okanogan County, Washington Management's Discussion and Analysis (continued)

Significant Capital Assets and Long-Term Debt (continued)

Design of the Tonasket substation and transmission line is complete. The construction for re-routing of the existing transmission line is completed as well, removal of old transmission structures is in process. Major materials have been ordered for the substation with some already received. Fencing and site civil work is anticipated to begin in June 2022 with the substation equipment installation not long after. It is anticipated the construction of the new substation will be completed in the fall of 2023.

Currently the Okanogan to Brewster transmission line has been rebuilt between the Okanogan substation and Ophir substation, approximately 17 miles. This section of line is completed and energized. The remaining construction between the Ophir substation and Brewster substation is ongoing. There are approximately three miles of new poles erected with conductor installed. Removal of all old structures is almost complete to the Brewster substation. It is anticipated that all construction will be completed in June of 2022.

In 2021 the District replaced two power transformers in the Oroville substation and two power transformers in the Omak substations. The final shipment of power transformers was received in the first quarter of 2022 with installation in the Okanogan substation anticipated in the third quarter of 2022.

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.

Janet Crossland
Director of Finance/Auditor

Public Utility District No. 1 of Okanogan County, Washington
Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and temporary investments		
Cash and cash equivalents	\$ 19,890,195	\$ 12,179,724
Temporary investments	1,329,353	1,255,035
Accounts receivable, less allowance for doubtful accounts of \$25,000 for 2021 and 2020	4,103,180	4,205,703
Unbilled revenue	3,690,117	2,971,025
Materials and supplies	3,194,282	3,369,089
Prepayments and other	698,886	438,705
	<u>32,906,013</u>	<u>24,419,281</u>
RESTRICTED ASSETS		
Cash and investments		
Bond reserve and debt service	1,928,762	2,363,356
Board-designated reserve and other	8,274,259	8,702,513
Bond construction funds	19,058,575	32,325,946
	<u>29,261,596</u>	<u>43,391,815</u>
UTILITY PLANT, at cost		
Plant in service	212,192,668	205,357,072
Construction work in progress	16,964,274	5,998,737
	229,156,942	211,355,809
Less accumulated depreciation and amortization	<u>100,177,158</u>	<u>96,418,673</u>
	<u>128,979,784</u>	<u>114,937,136</u>
OTHER ASSETS		
Conservation loans and notes receivable	41,084	101,626
Net pension asset	<u>7,720,048</u>	<u>-</u>
	7,761,132	101,626
	<u>198,908,525</u>	<u>182,849,858</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	929,850	1,081,739
Loss on refunding of debt	<u>24,919</u>	<u>95,696</u>
	<u>954,769</u>	<u>1,177,435</u>
	<u>\$ 199,863,294</u>	<u>\$ 184,027,293</u>

Public Utility District No. 1 of Okanogan County, Washington
Statements of Net Position

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31,	
	2021	2020
CURRENT LIABILITIES		
Accounts payable	\$ 6,306,788	\$ 4,075,433
Accrued compensated absences	2,005,202	2,165,734
Accrued taxes	1,286,340	1,275,731
Customer deposits	582,746	623,005
Customer prepayments	624,422	614,352
Accrued bond interest	214,695	228,872
Current portion of long-term debt	1,710,327	2,279,801
Total current liabilities	12,730,520	11,262,928
LONG-TERM DEBT		
Revenue bonds	55,025,000	56,735,327
Bond issue premium	4,705,598	4,873,714
Bond issue discount	(18,909)	(25,229)
Total long-term debt	59,711,689	61,583,812
LONG-TERM LIABILITIES		
Net pension liability	736,001	2,903,355
Total liabilities	73,178,210	75,750,095
DEFERRED INFLOWS OF RESOURCES		
Pension deferred inflows	8,095,488	1,059,008
NET POSITION		
Net investment in capital assets	67,582,685	51,169,220
Restricted	27,662,973	40,374,205
Unrestricted	23,343,938	15,674,765
Total net position	118,589,596	107,218,190
Total liabilities, deferred inflows of resources, and net position	\$ 199,863,294	\$ 184,027,293

Public Utility District No. 1 of Okanogan County, Washington
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2021	2020
OPERATING REVENUES		
Electric - retail	\$ 49,357,210	\$ 46,271,092
Electric - wholesale	3,867,948	3,542,929
Telecommunications	3,409,958	3,182,638
Other operating revenues	3,015,924	1,748,733
Total operating revenues	<u>59,651,040</u>	<u>54,745,392</u>
OPERATING EXPENSES		
Cost of power	26,735,325	25,358,054
Transmission	63,191	82,037
Distribution	7,207,980	7,928,387
Telecommunications	1,418,291	1,373,914
Customer accounts	1,500,621	1,513,978
Customer service and information	700,036	393,315
Administration and general	1,602,109	3,412,951
Depreciation and amortization	5,963,154	6,035,441
Taxes	3,064,663	2,906,689
Total operating expenses	<u>48,255,370</u>	<u>49,004,766</u>
Net operating revenues	<u>11,395,670</u>	<u>5,740,626</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	84,457	212,312
Grant revenue	9,422	624,265
Interest on long-term debt	(2,573,659)	(1,995,985)
Loss on disposition of property	(21,504)	(1,593,132)
Other revenue	410,501	410,066
Net nonoperating revenues (expenses)	<u>(2,090,783)</u>	<u>(2,342,474)</u>
CONTRIBUTED CAPITAL	<u>2,066,519</u>	<u>1,214,361</u>
CHANGE IN NET POSITION	11,371,406	4,612,513
ACCUMULATED NET POSITION		
Beginning of year	<u>107,218,190</u>	<u>102,605,677</u>
End of year	<u>\$ 118,589,596</u>	<u>\$ 107,218,190</u>

Public Utility District No. 1 of Okanogan County, Washington

Statements of Cash Flows

	Years Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 59,054,752	\$ 54,594,803
Payments to suppliers and employees	(42,985,120)	(43,943,154)
Net change in cash from operating activities	16,069,632	10,651,649
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net	(20,027,305)	(10,002,435)
Proceeds from line of credit	-	2,300,000
Proceeds from issuance of bonds	-	39,829,080
Cash contributions in aid of construction	2,066,519	1,214,361
Proceeds from grants	9,422	624,265
Payment on line of credit	-	(2,300,000)
Scheduled payments on debt	(2,279,801)	(4,704,530)
Interest paid on debt	(2,678,855)	(1,670,006)
Cash received as refund on interest on Build America Bonds	410,501	410,066
Net change in cash from capital and related financing activities	(22,499,519)	25,700,801
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(18,295,855)	(47,535,419)
Sales and maturities of investments	32,351,756	14,739,501
Interest on investments	84,457	212,312
Net change in cash from investing activities	14,140,358	(32,583,606)
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,710,471	3,768,844
CASH AND CASH EQUIVALENTS		
Beginning of year	12,179,724	8,410,880
End of year	\$ 19,890,195	\$ 12,179,724
RECONCILIATION OF NET OPERATING REVENUES		
TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating revenues	\$ 11,395,670	\$ 5,740,626
Adjustments to reconcile net operating revenues to net cash from operating activities		
Depreciation and amortization	5,963,154	6,035,441
Pension outflows / inflows	(2,699,033)	(1,155,301)
Cash from changes in operating assets and liabilities		
Receivables	102,523	17,990
Unbilled revenue	(719,092)	(144,889)
Materials and supplies	174,807	(363,541)
Prepayments and other	(250,112)	(18,731)
Conservation loans and notes receivable	60,542	54,490
Accounts payable	2,231,355	282,109
Accrued compensation, benefits, customer deposits, and taxes	(190,182)	203,455
NET CHANGE IN CASH FROM OPERATING ACTIVITIES	\$ 16,069,632	\$ 10,651,649
SUPPLEMENTAL DISCLOSURES		
Loss on disposition of property	\$ (21,504)	\$ (1,593,132)

See accompanying notes.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

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 June 2017, the GASB issued Statement No. 87, *Leases*, which establishes revised standards on lease accounting and financial reporting. The statement is effective for financial statements for fiscal years beginning after June 15, 2021. The District is evaluating the impact of this statement on its financial statements.

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. For information on fair market value at year-end 2021, see Note 2.

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:

	2021	2020
Rate stabilization fund	\$ 4,574,259	\$ 5,377,545
Employee compensated absences fund	2,000,000	2,000,000
Customer deposit fund	700,000	700,000
Sinking funds - 2010 bonds	161,505	216,009
Vehicle replacement fund	1,000,000	624,968
Sinking funds - 2016 bonds	67,060	66,941
Sinking funds - 2020 bonds	128,657	135,906
Bond reserve fund	1,571,540	1,944,500
2020 Construction fund	19,058,575	32,325,946
	\$ 29,261,596	\$ 43,391,815

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

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 collectability 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 – 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, and related indirect costs. The District capitalizes assets with cost in excess of \$5,000. 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.

Unamortized loss on refunding of debt – The difference between the cost to refund outstanding debt and the carrying value of bonds decreased 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.

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.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

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 regulations 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, the debt service reserve fund and the net pension asset net of related deferred outflows and deferred inflows.

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 accordance 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.

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

Pensions – For purposes of measuring the net pension liability, net pension asset, 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 by the plan.

Public Utility District No. 1 of Okanogan County, Washington
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

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 10); and, market risks inherent in buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

Note 2 – Deposits and Investments

The District held the following cash and investments at December 31:

	2021	2020
Cash and temporary investments		
Cash deposits	\$ 19,890,195	\$ 12,179,724
Money market accounts	500,000	500,000
Local government investment pool	829,353	755,035
Total cash and temporary investments	\$ 21,219,548	\$ 13,434,759
Restricted cash and investments		
Restricted cash & cash equivalents		
Money market accounts	\$ 3,889,259	\$ 4,317,513
Local government investment pool	20,987,337	34,689,302
Bank certificates of deposit	3,985,000	3,885,000
Total restricted cash	28,861,596	42,891,815
Restricted investments		
U.S. Treasuries	400,000	500,000
Total restricted investments	400,000	500,000
Total restricted cash and investments	\$ 29,261,596	\$ 43,391,815

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 to 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

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. 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, 2021 and 2020:

	Total as of December 31, 2021	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	400,000	-	400,000	-
Total	<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ 400,000</u>	<u>\$ -</u>
Investments by fair value level				
U.S. agency securities				
Federal Home Loan Bank	\$ 400,000	\$ -	\$ 400,000	\$ -
Federal Farm Credit Bank	100,000	-	100,000	-
Total	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ -</u>

Note 3 – Utility Plant

During 2021, Utility Plant Additions were \$29.5 million in 2021 and \$18.4 million in 2020 reflecting improvements in the District's distribution, transmission, telecommunications systems, general plant and facility improvements. A majority of the plant additions is attributed to large ongoing projects which include the Okanogan to Brewster transmission line rebuild, the Enloe Dam penstock reconstruction, and the purchase and installation of new substation transformers. The increase is offset by \$11.7 million and \$10.5 million of routine retirements and completed construction projects in 2021 and 2020. Accumulated depreciation increased \$3.8 million related to routine plant and asset activity resulting in a net utility plant increase of \$14 million.

Public Utility District No. 1 of Okanogan County, Washington
Notes to Financial Statements

Note 3 – Utility Plant (continued)

During 2020, the District experienced significant infrastructure damage due to wildfire. The District has completed the replacement of the damaged electrical distribution and fiber optic systems. The most significant damage was to the District's Okanogan to Brewster transmission line, which was already scheduled to be replaced in 2023. The scheduled project will now be accelerated with completion expected by the end of 2022. The District expects partial reimbursement from the State of Washington and the Federal Emergency Management Agency (FEMA).

Capital asset activity for the years ended December 31, 2021 and 2020, was as follows:

	Balance January 1, 2021	Additions	Retirements and Transfers	Balance December 31, 2021
Intangible plant	\$ 92,297	\$ -	\$ -	\$ 92,297
Generation plant	588,394	-	-	588,394
Transmission plant	25,041,485	911,901	(267,641)	25,685,745
Distribution plant	129,435,876	7,078,553	(1,219,130)	135,295,299
General plant	33,804,018	433,882	(442,154)	33,795,746
Telecommunications plant	15,762,458	855,024	(514,839)	16,102,643
Acquisition adjustment	632,544	-	-	632,544
	<u>205,357,072</u>	<u>9,279,360</u>	<u>(2,443,764)</u>	<u>212,192,668</u>
Construction work in progress	5,998,737	20,182,585	(9,217,048)	16,964,274
Total utility plant	211,355,809	29,461,945	(11,660,812)	229,156,942
Accumulated depreciation	(96,418,673)	(6,467,200)	2,708,715	(100,177,158)
Net utility plant	<u>\$ 114,937,136</u>	<u>\$ 22,994,745</u>	<u>\$ (8,952,097)</u>	<u>\$ 128,979,784</u>
	Balance January 1, 2020	Additions	Retirements and Transfers	Balance December 31, 2020
Intangible plant	\$ 92,297	\$ -	\$ -	\$ 92,297
Generation plant	588,394	-	-	588,394
Transmission plant	25,047,406	19,761	(25,682)	25,041,485
Distribution plant	123,416,939	6,742,295	(723,358)	129,435,876
General plant	33,351,387	630,860	(178,229)	33,804,018
Telecommunications plant	16,029,309	893,395	(1,160,246)	15,762,458
Acquisition adjustment	632,544	-	-	632,544
	<u>199,158,276</u>	<u>8,286,311</u>	<u>(2,087,515)</u>	<u>205,357,072</u>
Construction work in progress	4,282,872	10,111,809	(8,395,944)	5,998,737
Total utility plant	203,441,148	18,398,120	(10,483,459)	211,355,809
Accumulated depreciation	(90,877,875)	(6,412,985)	872,187	(96,418,673)
Net utility plant	<u>\$ 112,563,273</u>	<u>\$ 11,985,135</u>	<u>\$ (9,611,272)</u>	<u>\$ 114,937,136</u>

Plant-in-service balances presented above include non-depreciable land of \$1,299,690 and \$1,274,090 as of December 31, 2021 and 2020, respectively.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 4 – Long-Term Debt

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%. The Build America Bond interest is payable when due, but is subject to federal subsidy rebates of 35%. Subsequent to the time of bond issuance, the Build America Bond interest rebates have become subject to federal financial sequestration policies that have eroded their benefit by an initial high of 8.7% to the current low of 5.9%. 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 is complete. This debt is subject to certain covenants.

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 to be made in 2022. Although this is a direct-placement bond, it contains no disparate termination, call, or acceleration provisions that would differentiate it from the District's other outstanding revenue bonds excepting its junior lien status. The bond carries 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.

During 2020, the District issued \$32,815,000 in tax exempt Series A Bonds with a 4% coupon rate and \$2,585,000 in Series B (Taxable) Refunding Bonds with interest rates ranging from .875% to 2.6%. A portion of the Series A Bonds was used to repay a \$2,300,000 outstanding Line of Credit amount that was used to purchase the Chicken Creek Substation and the 2020 Series B Bond proceeds were used to repay the USDA RUS Note, outstanding in the amount of \$2,538,162. Capital projects to be funded by the 2020 Series A Bond issuance include the penstock construction at Enloe Dam, Tonasket Substation rebuilds, the rebuild a 26-mile transmission line between Brewster, Washington, and Okanogan, Washington, substation power transformer replacements and other capital renewals, replacements and extensions. The bond carries 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, 2021, is \$56,735,327, 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, 2021 and 2020:

	Balance January 1, 2021	Additions	Payments/ Amortization	Balance December 31, 2021	Current Portion
2010 revenue bonds	\$ 22,050,000	\$ -	\$ (1,320,000)	\$ 20,730,000	\$ 730,000
2016 refunding bond - direct placement	1,565,128	-	(774,801)	790,327	790,327
2020 Revenue Bonds	35,400,000	-	(185,000)	35,215,000	190,000
Unamortized bond premium	4,873,714	-	(168,116)	4,705,598	-
Unamortized bond discount	(25,229)	-	6,320	(18,909)	-
Total long-term debt	\$ 63,863,613	\$ -	\$ (2,441,597)	\$ 61,422,016	\$ 1,710,327

	Balance January 1, 2020	Additions	Payments/ Amortization	Balance December 31, 2020	Current Portion
2010 revenue bonds	\$ 23,320,000	\$ -	\$ (1,270,000)	\$ 22,050,000	\$ 1,320,000
2016 refunding bond - direct placement	2,327,405	-	(762,277)	1,565,128	774,801
2011 ARRA loan	2,672,253	-	(2,672,253)	-	-
2020 Revenue Bonds	-	35,400,000	-	35,400,000	185,000
Unamortized bond premium	298,943	4,614,700	(39,929)	4,873,714	-
Unamortized bond discount	(15,472)	(15,108)	5,351	(25,229)	-
Total long-term debt	\$ 28,603,129	\$ 39,999,592	\$ (4,739,108)	\$ 63,863,613	\$ 2,279,801

The annual debt service payment requirements (principal and interest) on debt outstanding as of December 31, 2021, are as follows:

	2020(A) Bonds		2020(B) Bonds		2016 Bond - Direct Placement		2010 Bonds		Total
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	
2022	\$ 1,306,275	\$ -	\$ 47,610	\$ 190,000	\$ 14,384	\$ 790,327	\$ 1,208,069	\$ 730,000	\$ 4,286,665
2023	1,306,275	630,000	45,710	190,000	-	-	1,170,313	765,000	4,107,298
2024	1,281,075	660,000	43,525	195,000	-	-	1,130,747	805,000	4,115,347
2025	1,254,675	685,000	40,990	195,000	-	-	1,089,113	845,000	4,109,778
2026	1,227,275	710,000	38,163	200,000	-	-	1,045,409	890,000	4,110,847
2027-2031	5,566,375	4,130,000	126,925	1,050,000	-	-	4,412,708	4,980,000	20,266,008
2032-2036	4,579,075	5,110,000	13,910	380,000	-	-	2,831,131	6,005,000	18,919,116
2037-2041	3,471,675	6,220,000	-	-	-	-	879,695	5,710,000	16,281,370
2042-2046	2,124,475	7,565,000	-	-	-	-	-	-	9,689,475
2047-2050	642,263	7,105,000	-	-	-	-	-	-	7,747,263
	\$ 22,759,438	\$ 32,815,000	\$ 356,833	\$ 2,400,000	\$ 14,384	\$ 790,327	\$ 13,767,185	\$ 20,730,000	\$ 93,633,167

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 following 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.

Public Utility District No. 1 of Okanogan County, Washington
Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

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

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

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

The following table represents the aggregate pension amounts for all plans for the years ended December 31:

Aggregate Pension Amounts - All Plans		
	2021	2020
Net pension liability	\$ 736,001	\$ 2,903,355
Net pension asset	(7,720,048)	-
Deferred outflows of resources	929,850	1,081,739
Deferred inflows of resources	8,095,488	1,059,008
Pension expense (benefit)	(1,691,014)	22,974

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.

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.

Public Utility District No. 1 of Okanogan County, Washington
Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

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 2021 were as follows:

PERS Plan 1 Actual Contribution Rates	Employer	Employee
January through June 2021	12.97%	6.00%
July through December 2021	10.25%	6.00%

The District’s actual contributions to the plan were \$0 for both years ended December 31, 2021 and 2020.

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.

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.

Public Utility District No. 1 of Okanogan County, Washington
Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

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 (UAAL) 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 2021 were as follows:

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
January through June 2021	12.97%	7.90%	Varies
July through December 2021	10.25%	6.36%	Varies

The District’s actual contributions to the plan were \$1,023,930 and \$1,194,948 for the years ended December 31, 2021 and 2020, respectively.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) 2013-2018 Demographic Experience Study and the 2019 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.50% salary inflation
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity
- Investment rate of return: 7.4%

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. 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 no changes in assumptions since the last valuation. There were changes in methods since the last valuation:

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4%.

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various future times.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

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, 2021, 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%	2.20%
Tangible assets	7%	5.10%
Real estate	18%	5.80%
Global equity	32%	6.30%
Private equity	23%	9.30%
	<u>100%</u>	

Sensitivity of Net Pension Liability (Asset)

The table below presents the District's proportionate share of the Net Pension Liability (Asset) (PL/PA) calculated using the discount rate of 7.4%, as well as what the District's proportionate share of the PL/PA would be if it were calculated using a discount rate that is 1 percentage point lower (6.4%) or 1 percentage point higher (8.4%) than the current rate.

	<u>1% Decrease (6.4%)</u>	<u>Current Discount Rate (7.4%)</u>	<u>1% Increase (8.4%)</u>
PERS 1	\$ 1,253,819	\$ 736,001	\$ 284,410
PERS 2/3	(2,199,292)	(7,720,048)	(12,266,393)

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

Note 5 – Retirement and Deferred Compensation Plans (continued)

Net Pension Liability (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2021, the District reported a net pension asset of \$7,720,048 and net pension liability of \$736,001. At December 31, 2020, the District reported a net pension liability of \$2,903,355. The District's proportionate share of the pension (asset) and liabilities as follows:

	Liability (Asset)	
	2021	2020
PERS 1	\$ 736,001	\$ 1,975,584
PERS 2/3	(7,720,048)	927,771

At December 31, 2021, the District's proportionate share of the collective pension liabilities (assets) was as follows:

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.055957%	0.060267%	0.004310%
PERS 2/3	0.072542%	0.077498%	0.004956%

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*.

Pension Expense (Benefit)

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

	Pension Expense (Benefit)	
	2021	2020
PERS 1	\$ 51,530	\$ 7,771
PERS 2/3	(1,742,544)	15,203

Public Utility District No. 1 of Okanogan County, Washington
Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021, 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	-	(816,715)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	167,106	-
	<u>\$ 167,106</u>	<u>\$ (816,715)</u>
<u>PERS 2/3</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 374,952	\$ (94,640)
Net difference between projected and actual investment earnings on pension plan investments	-	(6,452,149)
Changes of assumptions	11,281	(548,251)
Changes in proportion and differences between contributions and proportionate share of contributions	90,045	(183,733)
Contributions subsequent to the measurement date	286,466	-
	<u>\$ 762,744</u>	<u>\$ (7,278,773)</u>

Public Utility District No. 1 of Okanogan County, Washington
Notes to Financial Statements

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	\$ 374,952	\$ (94,640)
Net difference between projected and actual investment earnings on pension plan investments	-	(7,268,864)
Changes of assumptions	11,281	(548,251)
Changes in proportion and differences between contributions and proportionate share of contributions	90,045	(183,733)
Contributions subsequent to the measurement date	453,572	-
	<u>\$ 929,850</u>	<u>\$ (8,095,488)</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 or an addition to the net pension asset in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PERS 1	PERS 2/3	Combined
2022	\$ (216,348)	\$ (1,815,602)	\$ (2,031,950)
2023	(198,253)	(1,699,678)	(1,897,931)
2024	(187,457)	(1,589,103)	(1,776,560)
2025	(214,657)	(1,695,945)	(1,910,602)
2026	-	(16,270)	(16,270)
Thereafter	-	14,103	14,103
	<u>\$ (816,715)</u>	<u>\$ (6,802,495)</u>	<u>\$ (7,619,210)</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.

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 4% of gross wages for nonexempt employees and 6% of gross wages for exempt employees. During 2021 and 2020, the District contributed \$233,259 and \$255,721, respectively, to the 401(a) Plan.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 5 – Retirement and Deferred Compensation Plans (continued)

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. And an additional monthly contribution of \$50 per month, which is not subject to the wellness program 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 2021 and 2020, the District contributed \$219,600 and \$209,700, respectively, to the VEBA plan.

Note 6 – 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.

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 2021 and 2020, the District contributed \$35,102 and \$148,499, respectively, to the Liability Pool and \$29,491 and \$25,699, 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.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 6 – Self Insurance (continued)

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 business decision-making and conducting the daily business affairs of the Fund.

Note 7 – Conservation Programs

The District has historically offered a variety of energy conservation programs. These have included both residential and commercial weatherization loan programs, energy-use efficiency programs, and residential and commercial energy audits. Loan programs provided five-year loans of up to \$10,000 to residential customers and up to \$25,000 to commercial enterprises for qualifying conservation measures. Due to the satisfactory achievement of the loan program's intended purposes and declining utilization, as of October 31, 2019, the District made the decision to terminate the issuance of new loans and let the outstanding ones run their normal repayment course. The District carried loan balances receivable of \$41,084 and \$101,626 at December 31, 2021 and 2020, respectively, and incurred net general conservation program costs of \$(167,031) and \$(56,580), respectively, in those fiscal years, which were charged to operations.

Note 8 – 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.

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.

Public Utility District No. 1 of Okanogan County, Washington
Notes to Financial Statements

Note 8 – Telecommunications (continued)

Condensed telecom revenue/expenditure, assets/liabilities, and net position information follows:

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 3,451,184	\$ 3,192,354
Operating expenses	(2,349,632)	(2,376,019)
Nonoperating revenues	129,426	45,115
Nonoperating expenses	<u>(51,623)</u>	<u>(179,383)</u>
Change in net position	<u>\$ 1,179,355</u>	<u>\$ 682,067</u>
Total assets	\$ 9,114,796	\$ 8,125,522
Total liabilities	<u>(2,397,570)</u>	<u>(2,587,913)</u>
Total net position	<u>\$ 6,717,226</u>	<u>\$ 5,537,609</u>

During 2010, the District applied for and 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. In 2020, the District issued \$2,538,370 in Series B (Taxable) refunding bonds to repay the loan (see Note 4 for detail of debt service on this loan).

Note 9 – 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.

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.

Public Utility District No. 1 of Okanogan County, Washington
Notes to Financial Statements

Note 9 – Energy Northwest (continued)

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

The District's net billing obligations in 2021 (2022 ENW Budget Year) and 2020 (2021 ENW Budget Year) were as follows:

ENW Fiscal 2022 Budget Year	No. 1	No. 2	No. 3	Total
Annual budget	\$ 23,333,000	\$ 399,216,000	\$ 25,589,000	\$ 448,138,000
District's share	0.00255	0.01042	0.00143	
District's net billing obligation	59,499	4,159,831	36,592	4,255,922
ENW Fiscal 2021 Budget Year				
Annual budget	\$ 22,335,000	\$ 458,270,000	\$ 26,420,000	\$ 507,025,000
District's share	0.00255	0.01042	0.00143	
District's net billing obligation	56,954	4,775,173	37,781	4,869,908

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 0.424% 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

Note 9 – 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, which were consistently \$220,021 throughout both 2021 and 2020.

Financial and operating information regarding Energy Northwest may be obtained from Energy Northwest at PO Box 968, Richland, WA 99352.

Note 10 – 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 8.88%, which represents 40.45% and 44.25% of the District's total power purchases in 2021 and 2020, 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 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 annual contractual purchases are to be priced at its respective output percentage multiplied by the actual annual Wells Project cost of production and operation. The District expended \$5,345,936 and \$4,511,153 on Wells power purchases in 2021 and 2020, respectively.

Enloe Hydroelectric Project – For several decades 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, and again on September 13, 1996, the District obtained FERC licenses for renovation and resumed operation of the Enloe project. In both cases, the licenses were later rescinded due to appeals of the licensing provisions, open-ended opportunities for federal agencies to modify the terms, the potential of requiring fish passage after the fact, and the listing of new endangered species.

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 proposed configuration would approximately double the project output to 47,300 MWh of energy per year and 9,000 KW of capacity.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 10 – Other Power Supply Agreements (continued)

After spending the better part of a decade on environmental assessments, resource studies, permitting issues, and litigation the District received a new 50-year operating license on July 9, 2013, and began preparing for final design, financing, bidding, and construction of the project. While continuing its compliance with all license terms, in early 2015 it was determined that the District was encountering significant 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 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 powerhouse and reenergize Enloe Dam. Utilizing the Design-Build contract methodology, a Phase 1 agreement was executed April 16, 2018, that was to complete 30% of the project design and deliver a firm not-to-exceed estimate of cost. Upon receipt of the Phase 1 Report, noting the complexity, controversy, risk, and considerable escalation in anticipated cost, the District Board of Commissioners made the decision on November 19, 2018, to forego further pursuit of reenergizing the facility and to focus strictly on site preservation and safety concerns while exploring alternative uses or dispossession of the asset.

Enloe related activities pursued during 2019 included updating the Dam Safety Plan and the analysis of proposed options to dewater and closely inspect the face and toe of the dam. The currently preferred alternative to accomplish this goal is to refurbish/rebuild the original dam gates and penstocks to divert the entire river flow around the spillway. This option allows for recurrent future inspections as changing regulations may dictate. In 2021, the District accepted a Phase 2 Amendment, to the Design-Build Contract, from the Max J. Kuney Company for the Enloe Dam Safety Repair and Maintenance project, with a Guaranteed Maximum Price of \$6,996,688, plus sales tax. The Phase 2 Amendment included 90% engineering designs and all project permits obtained. The District began heavy construction work in April 2021 and continued through January 2022. There will be intermittent construction from February 2022 through June 2022 to complete the construction activities.

Note 11 – 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.

As of December 31, 2016, NoaNet had a \$13 million line of credit with Wells Fargo Bank with an outstanding balance of \$9,350,638. In early 2017, they established a new banking relationship with Washington Trust Bank creating new accounts through which they retired all outstanding Wells Fargo debt. The balances owed on those accounts at December 31, 2019, were \$13,378,841 respectively. In April 2020, NoaNet issued \$24,775,000 of Revenue Bonds to retire the previous loans and lines of credit and to fund future capital expenditures. The principal outstanding balance of the bonds at December 31, 2021, is \$22,530,000.

Public Utility District No. 1 of Okanogan County, Washington

Notes to Financial Statements

Note 11 – Northwest Open Access Network (continued)

The District's ownership interest in NoaNet was 8.04% as of December 31, 2021 and 2020. During 2021, NoaNet incurred a net loss from operations of \$844,330. This operating loss partially offset by interest revenue but increased by interest expense, reduced net position of \$45,981,917 in 2020 to \$44,828,963 in 2021. NoaNet financial results for 2021 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 12 – Pending Litigation

Claims – The District is involved in various minimal 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.

Required Supplementary Information

Public Utility District No. 1 of Okanogan County, Washington
Schedule of Proportionate Share of the Net Pension Liability (Asset)
As of June 30

	2021		2020		2019		2018	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Employer's proportion of the net pension liability	0.060267%	0.077498%	0.055957%	0.072542%	0.058123%	0.075089%	0.058358%	0.074584%
Employer's proportionate share of the net pension liability (asset)	\$ 736,001	\$ (7,720,048)	\$ 1,975,584	\$ 927,771	\$ 2,235,036	\$ 729,369	\$ 2,606,288	\$ 1,273,455
Employer's covered payroll	\$ -	\$ 9,264,319	\$ -	\$ 8,470,172	\$ -	\$ 8,163,393	\$ -	\$ 7,786,739
Employer's proportionate share of the net pension liability as a percentage of covered payroll	0.00%	-83.33%	0.00%	10.95%	0.00%	8.93%	0.00%	16.35%
Plan fiduciary net position as a percentage of the total pension liability (asset)	88.74%	120.29%	68.64%	97.22%	67.12%	97.77%	63.22%	95.77%
	2017		2016		2015		2014	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Employer's proportion of the net pension liability	0.058231%	0.074901%	0.066079%	0.084448%	0.070364%	0.089705%	0.064331%	0.081669%
Employer's proportionate share of the net pension liability (asset)	\$ 2,763,106	\$ 2,602,452	\$ 3,548,754	\$ 4,251,890	\$ 3,680,691	\$ 3,205,211	\$ 3,240,704	\$ 1,650,825
Employer's covered payroll	\$ -	\$ 7,343,270	\$ 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 payroll	0.00%	35.44%	62041.15%	53.52%	8208.13%	40.26%	7225.01%	23.41%
Plan fiduciary net position as a percentage of the total pension liability (asset)	61.24%	90.97%	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 eight years.

Public Utility District No. 1 of Okanogan County, Washington
Schedule of Employer Contributions as of December 31

	2021		2020		2019		2018	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Statutorily or contractually required contributions	\$ -	\$ 1,023,930	\$ -	\$ 1,194,948	\$ -	\$ 1,075,451	\$ -	\$ 1,023,302
Contributions in relation to the statutorily or contractually required contributions	-	(1,023,930)	-	(1,194,948)	-	(1,075,451)	-	(1,023,302)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ -	\$ 8,839,175	\$ -	\$ 9,262,672	\$ -	\$ 8,372,377	\$ -	\$ 8,030,219
Contributions as a percentage of covered payroll	0.00%	11.58%	0.00%	12.90%	0.00%	12.85%	0.00%	12.74%
	2017		2016		2015		2014	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Statutorily or contractually required contributions	\$ -	\$ 892,670	\$ -	\$ 816,064	\$ 2,282	\$ 810,707	\$ 4,125	\$ 729,692
Contributions in relation to the statutorily or contractually required contributions	-	(892,670)	-	(816,064)	(2,282)	(810,707)	(4,125)	(729,692)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ -	\$ 7,464,551	\$ -	\$ 7,299,320	\$ 24,388	\$ 7,873,743	\$ 44,789	\$ 7,922,822
Contributions as a percentage of covered payroll	0.00%	11.96%	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 eight years.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Utility District No.1 of Okanogan County, Washington (the "District") as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Public Utility District No.1 of Okanogan County, Washington's basic financial statements, and have issued our report thereon dated May 27, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Public Utility District No.1 of Okanogan County, Washington's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Public Utility District No.1 of Okanogan County, Washington's internal control. Accordingly, we do not express an opinion on the effectiveness of Public Utility District No.1 of Okanogan County, Washington's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Public Utility District No.1 of Okanogan County, Washington's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Everett, Washington

May 27, 2022

Supplemental Information (unaudited)

Public Utility District No. 1 of Okanogan County, Washington
Comparative Results of Operations and Debt Service Coverage (unaudited)

	Years Ended December 31,				
	2021	2020	2019	2018	2017
OPERATING REVENUES					
Electric - retail	\$ 49,357,210	\$ 46,271,092	\$ 45,810,067	\$ 44,579,946	\$ 46,625,103
Electric - wholesale	3,867,948	3,542,929	3,880,384	3,983,254	2,145,929
Telecommunications	3,409,958	3,182,638	2,831,472	2,978,557	2,928,695
Other operating revenue	3,015,924	1,748,733	1,773,699	1,753,999	1,829,683
Total operating revenues	59,651,040	54,745,392	54,295,622	53,295,756	53,529,410
OPERATING EXPENSES					
Cost of power	26,735,325	25,358,054	28,755,100	25,801,958	24,903,435
Electric operations and maintenance	7,271,171	8,010,424	7,624,606	7,756,304	6,336,050
Telecommunications operations and maintenance	1,418,291	1,373,914	1,098,606	1,020,591	939,635
Customer accounting and information	2,200,657	1,907,293	2,036,620	2,222,937	2,419,000
Administration and general	1,602,109	3,412,951	3,667,110	3,334,670	3,947,482
Depreciation and amortization	5,963,154	6,035,441	6,678,205	6,245,405	5,982,909
Taxes	3,064,663	2,906,689	2,871,178	2,848,487	2,927,535
Total operating expenses	48,255,370	49,004,766	52,731,425	49,230,352	47,456,046
Net operating revenue (expense)	11,395,670	5,740,626	1,564,197	4,065,404	6,073,364
NONOPERATING REVENUES (EXPENSES)					
Interest income	84,457	212,312	310,680	223,663	89,019
Grant revenue	9,422	624,265	883,862	-	141,453
Contributed capital	2,066,519	1,214,361	891,735	1,097,953	1,264,550
Interest on long-term debt	(2,573,659)	(1,995,985)	(1,571,559)	(1,155,089)	(399,741)
Other revenue	410,501	410,066	408,978	407,454	406,831
Other expenses	(21,504)	(1,593,132)	7,824	(334,482)	(37,251)
Net nonoperating revenues (expenses)	(24,264)	(1,128,113)	931,520	239,499	1,464,861
CHANGE IN NET ASSETS	\$ 11,371,406	\$ 4,612,513	\$ 2,495,717	\$ 4,304,903	\$ 7,538,225
DEBT SERVICE COVERAGE ADJUSTMENTS					
Interest charges	\$ 2,573,659	\$ 1,995,985	\$ 1,571,559	\$ 1,155,089	\$ 399,741
Depreciation and amortization	5,963,154	6,035,441	6,678,205	6,245,405	5,982,909
Capital grant	(9,422)	(624,265)	(883,862)	-	(141,453)
Total debt service coverage adjustments	8,527,391	7,407,161	7,365,902	7,400,494	6,241,197
AVAILABLE FOR DEBT SERVICE	\$ 19,898,797	\$ 12,019,674	\$ 9,861,619	\$ 11,705,397	\$ 13,779,422
TOTAL DEBT SERVICE	\$ 4,981,078	\$ 3,397,541	\$ 3,633,836	\$ 3,633,836	\$ 3,651,285
DEBT SERVICE COVERAGE	3.99	3.54	2.71	3.22	3.77

Public Utility District No. 1 of Okanogan County, Washington

Customer Statistical Data (unaudited)

	Years Ended December 31,				
	2021	2020	2019	2018	2017
ACTIVE CUSTOMER ACCOUNTS					
Residential	17,871	17,579	17,407	17,302	17,198
General service	2,623	2,580	2,554	2,534	2,502
Industrial	2	2	2	2	3
Irrigation and frost control	1,325	1,328	1,339	1,342	1,339
Street lighting	20	20	20	20	20
Sales for resale	1	1	6	4	4
Telecommunications	18	17	18	17	18
Total active customer accounts	21,860	21,527	21,346	21,221	21,084
REVENUES BILLED					
Residential	\$ 26,182,514	\$ 24,444,809	\$ 24,493,870	\$ 23,036,243	\$ 24,492,421
General service	16,989,497	16,144,059	16,235,571	16,186,787	16,602,440
Industrial	920,067	917,284	843,628	930,751	1,204,820
Irrigation and frost control	5,113,202	4,620,876	4,093,531	4,281,503	4,164,197
Street lighting	151,930	144,064	143,467	144,662	161,225
Sales for resale	3,867,948	3,542,929	3,880,384	3,983,254	2,145,929
Telecommunications	3,409,958	3,182,638	2,831,472	2,978,557	2,928,695
Other operating revenue	3,015,924	1,748,733	1,773,699	1,753,999	1,829,683
Total revenues billed	\$ 59,651,040	\$ 54,745,392	\$ 54,295,622	\$ 53,295,756	\$ 53,529,410
ENERGY CONSUMED (kWh)					
Residential	298,243,687	292,912,046	300,094,519	290,653,707	312,590,840
General service	227,371,838	221,477,264	225,008,623	228,247,611	233,037,448
Industrial	14,598,650	14,431,000	13,442,950	14,993,620	20,041,870
Irrigation and frost control	75,923,751	69,795,516	61,495,725	65,125,700	64,924,877
Street lighting	372,499	371,596	373,131	373,799	1,171,906
Sales for resale	107,696,000	208,353,000	175,730,742	220,928,000	188,232,000
Total energy consumed (kWh)	724,206,425	807,340,422	776,145,690	820,322,437	819,998,941
AVERAGE ANNUAL REVENUE PER CUSTOMER					
Residential	\$ 1,465	\$ 1,391	\$ 1,407	\$ 1,331	\$ 1,424
General service	6,477	6,257	6,357	6,388	6,636
Industrial	460,034	458,642	421,814	465,376	401,607
Irrigation and frost control	3,859	3,480	3,057	3,190	3,110
Street lighting	7,597	7,203	7,173	7,233	8,061
Sales for resale	3,867,948	3,542,929	646,731	995,814	536,482
Telecommunications	189,442	187,214	157,304	175,209	162,705
Total annual average revenue per customer	\$ 2,729	\$ 2,462	\$ 2,544	\$ 2,511	\$ 2,539
AVERAGE ANNUAL kWh PER CUSTOMER					
Residential	16,689	16,663	17,240	16,799	18,176
General service	86,684	85,844	88,100	90,074	93,140
Industrial	7,299,325	7,215,500	6,721,475	7,496,810	6,680,623
Irrigation and frost control	57,301	52,557	45,927	48,529	48,488
Street lighting	18,625	18,580	18,657	18,690	58,595
Total annual average kWh per customer	28,227	27,848	28,159	28,273	29,996

Public Utility District No. 1 of Okanogan County, Washington
Other Financial Data (unaudited)

	Years Ended December 31,				
	2021	2020	2019	2018	2017
COST OF POWER					
Bonneville Power Administration	\$ 15,903,631	\$ 16,236,105	\$ 16,719,466	\$ 16,709,206	\$ 16,296,694
Douglas County PUD - Wells Hydroelectric Project	5,345,936	4,511,153	3,831,803	3,985,033	3,580,751
Energy NW - Nine Canyon Wind Project	2,984,799	2,979,572	2,971,731	2,969,117	2,968,704
Other cost of power, including market purchases	2,500,959	1,631,224	5,232,100	2,138,602	2,057,286
Total cost of purchased power	\$ 26,735,325	\$ 25,358,054	\$ 28,755,100	\$ 25,801,958	\$ 24,903,435
ENERGY RESOURCES MWh					
Bonneville Power Administration	395,868	400,885	427,782	466,664	475,851
Douglas County PUD - Wells Hydroelectric Project	309,452	372,609	295,759	318,123	306,058
Energy NW - Nine Canyon Wind Project	39,804	41,567	32,195	38,805	33,573
Other cost of power, including market purchases	19,946	26,922	51,865	22,475	36,721
Total energy resources MWh	765,070	841,983	807,601	846,067	852,203
AVERAGE COST PER MWh					
Bonneville Power Administration	\$ 40.17	\$ 40.50	\$ 39.08	\$ 35.81	\$ 34.25
Douglas County PUD - Wells Hydroelectric Project	17.28	12.11	12.96	12.53	11.70
Energy NW - Nine Canyon Wind Project	74.99	71.68	92.30	76.51	88.43
Other cost of power, including market purchases	125.39	60.59	100.88	95.15	56.02
Average cost per MWh (all resources)	\$ 34.94	\$ 30.12	\$ 35.61	\$ 30.50	\$ 29.22
PEAK DEMAND MW	180	170	161	156	178
NET UTILITY PLANT	\$ 128,979,784	\$ 114,937,136	\$ 112,563,273	\$ 110,383,214	\$ 126,302,912
EMPLOYEE DATA					
Full-time employees	86	91	93	93	95
Total employees	86	91	93	93	95



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