Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Douglas County

For the period January 1, 2021 through December 31, 2021

Published September 29, 2022

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Office of the Washington State Auditor
Pat McCarthy

September 29, 2022

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Douglas County's financial statements.

We are issuing this report in order to provide information on the District's financial activities and condition.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report 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*

Public Utility District No. 1 of Douglas County
January 1, 2021 through December 31, 2021

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund of Public Utility District No. 1 of Douglas County, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 20, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy, State Auditor

Olympia, WA

September 20, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Public Utility District No. 1 of Douglas County
January 1, 2021 through December 31, 2021

Board of Commissioners
Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of each major fund of Public Utility District No. 1 of Douglas County, as of year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Public Utility District No. 1 of Douglas County, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2020, from which such partial information was derived. We have previously audited the District's 2020 financial statements and we expressed unmodified opinions on the respective financial statements of each major fund in our report dated September 22, 2021. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents 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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy, State Auditor

Olympia, WA

September 20, 2022

FINANCIAL SECTION

Public Utility District No. 1 of Douglas County
January 1, 2021 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2021
Statement of Revenues, Expenses, and Changes in Net Position – 2021
Statement of Cash Flows – 2021
Notes to Financial Statements – 2021

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 – 2021
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) presents an overview and analysis of the financial activities of Public Utility District No. 1 of Douglas County (the District) during the calendar years ended December 31, 2021 and 2020. This supplementary information should be read in conjunction with the accompanying audited financial statements and related notes.

OVERVIEW OF FINANCIAL STATEMENTS AND OPERATIONS

The District, a municipal corporation of the state, is organized in two primary operating systems: the Electric Distribution System (Distribution System) and the Wells Hydroelectric Project (Wells Project). The Distribution System provides retail electric and wholesale broadband service to customers in Douglas County, Washington. The Wells Project is a hydroelectric facility, owned and operated by the District and located on the Columbia River in the state of Washington. Generation from the Wells Project is sold at cost to the District's Distribution System and to the Colville Confederated Tribes under the terms of a settlement agreement. The Distribution System sells its share of the Wells output to three Pacific Northwest investor owned utilities pursuant to long term power sales contracts.

The financial report includes this MD&A, the financial statements and the notes to the financial statements. The financial statements of the District report information using enterprise accounting methods similar to those used by private utility companies. These statements offer short and long-term financial information about District activities.

- **Statement of Net Position**: The Statement of Net Position presents information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) of the District. The net position section is separated into three categories: net investment in capital assets, net position – restricted, and net position – unrestricted.

- **Statement of Revenues, Expenses, and Changes in Net Position**: This statement reflects the transactions and events that increase and decrease the economic resources of the District (operations). Revenues and expenses are summarized by major source and use. Revenues and expenses are further summarized as operating and non-operating based on the nature of the transaction.

- **Statement of Cash Flows**: The Statement of Cash Flows reflects the District's sources and uses of cash separated into operating, investing, and capital activities.

- **Notes to the financial statements**: The financial statement notes provide information that is essential for a full understanding of the information provided in the financial statements described above.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District produced a positive change in net position of $80.8 million during 2021, with an end of year net positon of $528.2 million. Of this amount, $108.2 million represents unrestricted net position, which may be used to meet the District's ongoing obligations. Net investment in capital assets was $406.4 million and accounted for 77 percent of the District's net position.

The following analysis provides a three-year comparison of key financial information for the Distribution System and for the Wells Project.

DISTRIBUTION SYSTEM

The service area of the Distribution System includes Douglas County, with an area of 1,820 square miles. The assets of the Distribution System include 40 miles of 115-kV transmission lines, 27 miles of 34.5-kV transmission line and 13 miles 230-kV transmission line, 18 substations, 1,390 miles of overhead and underground distribution lines, 893 miles of fiber optic lines, and other buildings, equipment, inventories and related facilities.

Condensed Comparative Financial Information

Distribution System Balance Sheet
(Dollars in Thousands)

			Increase (Decrease) 2021-2020		
	12/31/2021	12/31/2020	$	%	12/31/2019
Current & Other Assets	$ 258,444	174,421	$ 84,023	48.2%	$ 131,482
Capital Assets	177,354	160,000	17,354	10.8%	157,245
Deferred Outflows	1,176	1,376	(200)	-14.5%	1,131
Total Assets/Deferred Outflows	436,974	335,797	101,177	30.1%	289,858
Current Liabilities	19,524	16,205	3,319	20.5%	15,283
Noncurrent Liabilities	42,613	31,711	10,902	34.4%	33,308
Deferred Inflows	8,837	1,203	7,634	634.6%	2,165
Total Liabilities/Deferred Inflows	70,974	49,119	21,855	44.5%	50,756
Net Investment in Capital Assets	140,841	135,962	4,879	3.6%	127,680
Restricted	4,814	2,645	2,169	82.0%	2,645
Unrestricted	220,345	148,071	72,274	48.8%	108,777
Total Net Position	$ 366,000	$ 286,678	$ 79,322	27.7%	$ 239,102

Distribution System Statement of Revenue, Expenses and Changes in Net Position
(Dollars in Thousands)

	12/31/2021	12/31/2020	Increase (Decrease) 2021-2020 $	%	12/31/2019
Operating Revenues					
Retail Electric Sales	$ 38,958	$ 32,777	$ 6,181	18.9%	$ 33,855
Electric Sales For Resale	111,083	90,502	20,581	22.7%	76,966
Broadband	4,904	4,553	351	7.7%	4,063
Other	372	371	1	0.3%	431
Nonoperating Revenues	4,663	5,031	(368)	-7.3%	4,946
Total Revenues	159,980	133,234	26,746	20.1%	120,261
Operating Expenses					
Purchased Power	64,140	57,865	6,275	10.8%	50,198
Other	21,878	29,361	(7,483)	-25.5%	24,437
Nonoperating Expenses	1,126	1,188	(62)	-5.2%	1,247
Total Expenses	87,144	88,414	(1,270)	-1.4%	75,882
Capital Contributions	6,486	2,756	3,730	135.3%	2,577
Net Earnings	79,322	47,576	31,746	66.7%	46,956
Beginning Net Position	286,678	239,102	47,576	19.9%	192,146
Ending Net Position	$ 366,000	$ 286,678	$ 79,322	27.7%	$ 239,102

Financial Analysis

The Distribution System's overall financial condition improved during 2021 compared to 2020. Total revenues increased by $26.7 million, and total expenses decreased by $1.2 million. The ending net position was $366 million, a $79 million increase from 2020. The reasons for this increases and decreases are discussed in the following sections.

Revenues

2020 to 2021:
Retail Electric Sales increased $6.1 million in 2021, up 19% from 2020 levels. The increase in 2021 was largely the result of a full year of scheduled rate adjustments that went into effect January 1, 2021 and July 1, 2021.

In 2021, wholesale energy sales (Electric Sales for Resale) increased by $20.5 million or 22.7% compared to 2020. Year to year wholesale revenue variations are based on hydroelectric generation, weather patterns, market prices and future macro-economic climate. The bulk of the District's overall energy surplus is sold to power purchasers according to the terms of the Wells Project power sales contract.

Revenues from broadband services increased by $351,000 in 2021 to $4.9 million. The District continues to build the Douglas County Community Network (DCCN) infrastructure throughout the rural parts of Douglas County. The number of customer connections to the District's DCCN has steadily increased over the past two years with 768 new connenction in 2021 and 820 new connections in 2020.

2019 to 2020:
Retail Electric Sales decreased slightly by $1.1 million in 2020 compared to 2019. The lower retail sales in 2020 were due to lower usage resulting from weather and a single blockchain customer scaling back operations for a period of eight months. Overall energy demand declined around 3.7% in 2020.

In 2020, wholesale energy sales (Electric Sales for Resale) increased $13.5 million or 17.6% compared to 2019. The power sales contracts for Wells Project output accounted for roughly 70% of the total wholesale energy revenue in 2020. Under the power sales contract, the District sells output at a monthly fixed rate and energy prices that escalate each year.

Revenues from broadband services increased $490,000 in 2020, as the District continues to build the Douglas County Community Network (DCCN) infrastructure throughout Douglas County. The number of customer connections to the District's DCCN has steadily increased over the past two years with 825 new connections in 2020 and 632 in 2019.

Expenses

2020 to 2021:
All of the Wells Project generation output is purchased by the Distribution Sytem according to terms of the Wells Project power sales contract and is accounted under purchased power. In 2021, operating expenses of the Wells Project increased primarily due to on-going tasks of the Wells Project's Dam Safety Program. Other power resources include a 5.54% share of output from Chelan County PUD's Rocky Reach project, a 10.23% share of output from Energy Northwest's Nine Canyon Wind Project and a firm energy exchange with Avista.

Other operating expenses include operations and maintenance, administrative and general, taxes and depreciation which decreased $7.4 million in 2021. The decrease is largely the result of labor costs, material, contract labor and other expenses incurred to restore power and rebuild and replace infrastructure lost as a result of the Pearl Hill fire in September 2020. The District is pursing reimbursement through the Washington State Department of the Military's coordination with the Federal Emergency Management Agency (FEMA).

2019 to 2020:
Purchased power, which accounted for nearly 66% of the total operating expenses, increased $7.6 million in 2020. The Distribution System purchases the vast majority of its power from the Wells Project, which experienced roughly an 8% increase in total operating costs during 2020. Other power resources include Chelan County PUD's Rocky Reach hydroelectric project, Energy Northwest's Nine Canyon Wind Project and an energy exchange with Avista.

Other operating expenses include operations and maintenance, administrative and general, taxes and depreciation which increased $4.9 million in 2020. In September 2020, the Pearl Hill Fire started near Bridgeport, Washington and quickly consumed more than 220,000 acres due to extreme winds in the northern part of Douglas County. The District's loss of infrastructure due to the fire was significant, amounting to over $4.5 million in repair costs. The District expects to receive future reimbursements from the Federal Emergency Management Agency for 75% of the repair costs.

Capital Assets and Long-Term Debt Activity
As of December 31, 2021, the Distribution System had approximately $177.3 million invested in capital assets, net of accumulated depreciation. The total increase in the Distribution System's investment in capital assets for 2021 was $17 million. Capital additions are associated with a growing customer base, normal replacements of long-term electrical distribution facilities and rebuilding District facilities to accommodate road expansion projects.

As of December 31, 2021, the Distribution System had long-term liabilities of $42 million. This includes $24 million of revenues bonds outstanding, net of the current portion of $1.4 million. Debt service payments for 2021 totaled $2.3 million. Debt service coverage ratios for 2021 and 2020 were 34.8 and 22.5, respectively.

In May of 2022, S&P Global performed a review of the Distribution System credit profile and affirmed the AA+/stable rating. In May of 2022, Moody's Investor Service performed a review of the Distribution System credit profile and affirmed the Aa2/stable rating previously assigned.

Please see the notes to the financial statements for further information regarding capital assets and long-term debt activity of the Distribution System.

Capital Contributions
District customers pay capital contributions that help fund new construction projects. In 2021, the District received $6.4 million in capital contributions.

WELLS PROJECT

The Wells Project is located 516 river miles from the mouth of the Columbia River and 50 miles upstream from East Wenatchee. In November 2012, The Federal Energy Regulatory Commission (FERC) issued the District a 40-year license for the Wells Hydroelectric Project. Commercial operation began on September 16, 1967. The Wells Project is constructed in a hydrocombine design, which includes ten generating units, a switchyard, spillways, and fish passage facilities in a single integrated concrete structure.

Condensed Comparative Financial Information

Wells Project Balance Sheet
(Dollars in Thousands)

	12/31/2021	12/31/2020	Increase (Decrease) 2021-2020 $	%	12/31/2019
Current and Other Assets	$ 22,114	$ 23,451	$ (1,337)	-5.7%	$ 22,263
Capital Assets	378,149	362,166	15,983	4.4%	336,218
Deferred Outflows and Regulatory Assets	11,937	3,549	8,388	236.3%	3,404
Total Assets/Deferred Outflows	412,200	389,166	23,034	5.9%	361,885
Current Liabilities	17,183	15,423	1,760	11.4%	17,051
Long-Term Liabilities	223,585	211,430	12,155	5.7%	183,230
Deferred Inflows	9,137	1,525	7,612	499.1%	2,510
Total Liabilities/Deferred Inflows	249,905	228,378	21,527	9.4%	202,791
Net Investment in Capital Assets	265,573	156,488	109,085	69.7%	159,702
Restricted - Debt Service/Pension	8,769	769	8,000	1040.3%	1,727
Unrestricted	(112,047)	3,530	(115,577)	-3274.1%	(2,335)
Total Net Position	$ 162,295	$ 160,787	$ 1,508	0.9%	$ 159,094

Wells Project Statements of Revenue, Expenses, and Changes in Net Position
(Dollars in Thousands)

	12/31/2021	12/31/2020	Increase (Decrease) 2021-2020 $	%	12/31/2019
Operating Revenues	$ 48,191	$ 44,572	$ 3,619	8.1%	$ 40,278
Nonoperating Revenues	747	779	(32)	-4.1%	1,232
Total Revenues	48,938	45,351	3,587	7.9%	41,510
Operating Expenses	38,590	35,146	3,444	9.8%	32,887
Nonoperating Expenses	8,840	8,510	330	3.9%	7,688
Total Expenses	47,430	43,656	3,774	8.6%	40,575
Capital Contributions	0	0	0	0.0%	324
Net Earnings	1,508	1,693	(185)	-10.9%	1,259
Beginning Net Position	160,787	159,094	1,693	1.1%	157,835
Ending Net Position	$ 162,295	$ 160,787	$ 1,508	0.9%	$ 159,094

Financial Analysis

Fluctuations in the Wells Project balance sheets as of December 31, 2021 compared to 2020 continues to be primarily due to construction additions (rebuilding of our generators), normal amortization of deferred outflows and regulatory assets, and construction related loan financing. Other significant items are discussed in further detail below and in the notes to the financial statements.

Revenues

Because the electricity generated by the Wells Project is sold at cost, which the terms of the power sales contract define as all operation, maintenance, taxes and debt service (principal, interest, reserves), revenues directly follow any fluctuations in these items. Income results primarily from the difference between billed principal and reserves (revenue definition) and depreciation expense. Non-operating revenues consist mainly of investment income and a federal interest rebate for a portion of the interest expense on the 2010 Build America Bonds (BABs). See further information below regarding the BABs.

Expenses

2020 to 2021:
Total operating expenses increased $3.4 million to $38.5 million. During 2021, the Project incurred higher operating expenses related to dam safety costs, which, during 2020 were much lower.

Non-operating expenses increased mostly due to the Project adding $20 million of construction financing (inter-system loans). Investment income decreased due to lower market rates and minimal funds available to invest.

2019 to 2020:
Total operating expenses increased $2.3 million to $35 million. During 2020, the Project incurred higher operating expenses related to exploratory and diagnostic dam safety costs, which, during 2019 were much lower.

Non-operating expenses increased mostly due to the Project adding $35.4 million of construction financing (inter-system loans). Investment income decreased due to lower market rates and minimal funds available to invest.

Capital Assets and Long-Term Debt Activity

As of December 31, 2021 the Wells Project had approximately $378 million invested in capital assets, net of accumulated depreciation, including its hydraulic generation and transmission plant, fish rearing facilities, and related land, office buildings and equipment.

As of December 31, 2021 the Wells Project had long-term liabilities of $223.5 million. This included $118 million of revenue bonds outstanding, net of the current portion of approximately $5 million. In August 2010 the District issued $113 million of Wells Project revenue bonds (2010 Bonds) in order to finance the continuation of the rebuild of the generating units and other capital projects, and to refinance the remaining 1999 and 2000 Wells Project bonds. The 2010 Bonds included $46 million of taxable Build America Bonds (BABs). The District receives a semi-annual interest rebate from the federal government equal to 35% of the corresponding semi-annual interest payment on

the BABs. In August 2012 the District issued $43 million of Wells Project revenue and refunding bonds (2012 Bonds) in order to refinance most of the outstanding 2003 Wells Project bonds. This resulted in a total debt service savings of $3 million over the succeeding seven years. In June 2015 the District issued $58 million of Wells Project revenue bonds (2015 Bonds) in order to refinance and legally defease $67 million of the outstanding 2005 Wells Project bonds. The net present value savings of the 2005 refunding transaction were $5,968,000. See the notes to the financial statements for further information regarding the Wells Project bonds.

In May of 2022, Moody's Investor Service provided a bond rating for new Wells Hydo Debt and affirmed our Aa2/stable rating. In May of 2022, S&P Global also affirmed the Hydro's rating of AA/stable.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the finances of the District. If you have questions about this report or need additional financial information, please contact Public Utility District No. 1 of Douglas County, 1151 Valley Mall Parkway, East Wenatchee, WA 98802.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2021

ASSETS	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2021	TOTAL 2020
Current Assets					
Restricted:					
Debt Repayment Funds-Cash	$ 11,612,520	$ 3,210,234	$ -	$ 14,822,754	12,896,581
Reserve & Contingency Fund-Cash	5,430,974	-	-	5,430,974	6,299,545
Wells Hydroelectric Project Licensing Fund-Cash	-	4,204,502	-	4,204,502	3,717,003
Wells Hydroelectric Project - Plan Species Cash	2,555,970	-	-	2,555,970	2,394,275
Wells Hydroelectric Project - Plan Species Investment	-	-	-	-	-
Capital Project Revolving Loan Fund - Cash	-	15,916,369	-	15,916,369	3,371,946
Total Restricted	19,599,464	23,331,105	-	42,930,569	28,679,350
Unrestricted:					
Cash	368,851	62,200,136	-	62,568,987	30,320,653
Investments	-	-	-	-	-
Rate Stabilization Fund-Cash	-	1,115,374	-	1,115,374	23,118,158
Rate Stabilization Fund-Investments	-	22,884,626	-	22,884,626	881,842
Receivables - Net	94,372	16,950,332	(833,596)	16,211,108	12,018,599
Receivables - Intercompany	607,682	6,555	(326,772)	287,465	115,664
Current Portion of Intradistrict Note Recievable	-	2,560,000	(2,560,000)	-	-
Materials and Supplies	-	8,235,715	-	8,235,715	6,592,856
Other Current & Accrued Assets	1,444,154	4,747,711	-	6,191,865	2,823,139
Total Unrestricted	2,515,059	118,700,449	(3,720,368)	117,495,140	75,870,911
Total Current Assets	22,114,523	142,031,554	(3,720,368)	160,425,709	104,550,261
Non-Current Assets					
Electric Plant:					
Plant In Service	508,103,199	292,280,162	-	800,383,361	764,409,027
Construction Work in Progress	23,480,995	38,029,774	-	61,510,769	46,620,969
Electric Plant - Gross	531,584,194	330,309,936	-	861,894,130	811,029,996
Less: Accumulated Depreciation & Amortization	153,435,289	152,955,745	-	306,391,034	288,863,326
Net Electric Plant	378,148,905	177,354,191	-	555,503,096	522,166,670
Net Pension Asset	8,657,585	8,657,585		17,315,170	-
Regulatory Assets	2,106,345	4,655,370	-	6,761,715	6,567,162
Intradistrict Note Receivable, excluding current portion	-	103,100,000	(103,100,000)	-	-
Total Non-Current Assets	388,912,835	293,767,146	(103,100,000)	579,579,981	528,733,832
Total Assets	411,027,358	435,798,700	(106,820,368)	740,005,690	633,284,093
Deferred Outflows					
Pension related outflows	1,064,487	1,064,488	-	2,128,975	2,444,829
Unamortized Loss on Reacquired Debt	108,322	111,632	-	219,954	276,406
Total Deferred Outflows	1,172,809	1,176,120	-	2,348,929	2,721,235
TOTAL ASSETS & DEFERRED OUTFLOWS	$ 412,200,167	$ 436,974,820	$ (106,820,368)	$ 742,354,619	$ 636,005,328

The notes to financial statements are an integral part of these statements.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

BALANCE SHEET
As of December 31, 2021

LIABILITIES & NET POSITION	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2021	TOTAL 2020
Current Liabilities					
Accounts Payable	$ 5,828,065	$ 7,482,121	$ -	$ 13,310,186	$ 9,839,951
Accounts Payable-Intercompany	-	326,772	(326,772)	-	212,715
Other Accrued Liabilities	764,242	10,156,539	-	10,920,781	9,731,657
Payable from Restricted Assets:					
Accrued Interest Payable	3,005,688	89,038	(833,596)	2,261,130	2,295,540
Current Portion Long-Term Debt	7,585,000	1,470,000	(2,560,000)	6,495,000	6,250,000
Total Current Liabilities	17,182,995	19,524,470	(3,720,368)	32,987,097	28,329,863
Non-current Liabilities					
Bonds Payable, excluding current portion	112,865,000	21,700,000	-	134,565,000	141,060,000
Unamortized Bond Premiums (Discounts)	2,964,645	2,206,993	-	5,171,638	6,248,834
Bonds Payable, Net	115,829,645	23,906,993	-	139,736,638	147,308,834
Deposits and Contract Retainage	2,954,903	17,006,395	-	19,961,298	1,836,726
Intradistrict Note Payable, excluding current portion	103,100,000	-	(103,100,000)	-	-
Net Pension Liability	826,104	826,104	-	1,652,208	6,581,117
Compensated Absences, excluding current portion	873,994	873,994	-	1,747,988	1,754,698
Total Non-current Liabilities	223,584,646	42,613,486	(103,100,000)	163,098,132	157,481,375
Total Liabilities	240,767,641	62,137,956	(106,820,368)	196,085,229	185,811,238
Deferred Inflows					
Pension related inflows	8,836,689	8,836,689	-	17,673,378	2,406,214
Unamortized Gain on Redeemed Debt	300,284	-	-	300,284	322,256
Total Deferred Inflows	9,136,973	8,836,689	-	17,973,662	2,728,470
Total Liabilities and Deferred Inflows	249,904,614	70,974,645	(106,820,368)	214,058,891	188,539,708
Net Position					
Net Investment in Capital Assets	265,573,147	140,841,594	-	406,414,741	292,450,743
Restricted For;					
Debt Service	7,165,943	3,210,234	-	10,376,177	3,414,656
Pension	1,603,347	1,603,347	-	3,206,694	-
Unrestricted	(112,046,884)	220,345,000	-	108,298,116	151,600,221
Total Net Position	162,295,553	366,000,175	-	528,295,728	447,465,620
TOTAL LIABILITIES, DEFFERRED INFLOWS AND NET POSITION	$ 412,200,167	$ 436,974,820	$ (106,820,368)	$ 742,354,619	$ 636,005,328

The notes to financial statements are an integral part of these statements.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For The Fiscal Year Ended December 31, 2021

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2021	TOTAL 2020
Operating Revenues					
Retail Sales of Electric Energy	$ -	$ 38,958,482	$ -	$ 38,958,482	$ 32,776,551
Energy Sales for Resale	48,191,323	111,083,256	(48,191,323)	111,083,256	90,502,307
Broadband	-	4,904,185	-	4,904,185	4,553,024
Other	-	372,346	-	372,346	371,147
Total Operating Revenues	48,191,323	155,318,269	(48,191,323)	155,318,269	128,203,029
Operating Expenses					
Operations	19,375,152	68,949,969	(48,191,323)	40,133,798	40,095,592
Maintenance	10,131,009	5,189,885	-	15,320,894	17,450,570
Depreciation	8,324,909	9,098,763	-	17,423,672	16,956,288
Taxes	759,419	2,780,234	-	3,539,653	3,297,912
Total Operating Expenses	38,590,489	86,018,851	(48,191,323)	76,418,017	77,800,362
Operating Income	9,600,834	69,299,418	-	78,900,252	50,402,667
Non-operating Revenues (Expenses)					
Interest Income	14,720	2,442,333	(2,139,091)	317,962	551,499
Interest Expense	(8,839,558)	(1,126,819)	2,139,091	(7,827,286)	(7,736,230)
Amortization of Other Charges, Debt Discounts, Premiums and Costs	151,056	793,948	-	945,004	299,861
Other	581,000	1,426,980	-	2,007,980	2,995,850
Total Non-operating Revenues (Expenses)	(8,092,782)	3,536,442	-	(4,556,340)	(3,889,020)
Income Before Contributions	1,508,052	72,835,860	-	74,343,912	46,513,647
Capital Contributions	-	6,486,196	-	6,486,196	2,755,546
Change In Net Position	1,508,052	79,322,056	-	80,830,108	49,269,193
Net Position, Beginning of Year	160,787,501	286,678,119	-	447,465,620	398,196,427
Net Position, End of Year	$ 162,295,553	$ 366,000,175	$ -	$ 528,295,728	$ 447,465,620

The notes to financial statements are an integral part of these statements.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2021

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2021	TOTAL 2020
Cash Flow from Operating Activities					
Receipts from Customers	$ 52,479,422	$ 154,498,486	$ (48,191,324)	$ 158,786,584	$ 129,811,185
Receipts for Other Agencies	-	6,983,518		6,983,518	7,372,080
Payments to Employees & Payroll Related	(15,261,692)	(12,964,966)	-	(28,226,658)	(29,840,329)
Payments to Suppliers & Other Agencies	(16,420,237)	(69,623,140)	48,191,324	(37,852,053)	(43,904,316)
Net Cash Provided by Operating Activities	20,797,494	78,893,898	-	99,691,392	63,438,620
Cash Flows from Investing Activities					
Purchase of Investments	-	(22,884,626)	-	(22,884,626)	-
Proceeds from Sales and Maturities of Investments	-	881,842	-	881,842	6,020,276
Interest on Investments	14,797	2,850,828	(2,525,574)	340,051	667,910
Net Cash Provided by Investing Activities	14,797	(19,151,956)	(2,525,574)	(21,662,733)	6,688,186
Cash Flows from Capital and Related Financing Activities					
Additions to Electric Plant in Service	(392,185)	(696,132)	-	(1,088,317)	(7,343,247)
Net Additions to Construction Work in Progress	(25,271,593)	(20,675,396)	-	(45,946,989)	(33,553,846)
Intradistrict Note Payable-Principal Payments	(2,150,000)	2,150,000	-	-	-
Proceeds from (Refunds of) Capital Contributions	-	6,486,196	-	6,486,196	2,755,546
Intradistrict Note - CPRLF	20,000,000	(20,000,000)	-	-	-
Principal Payments on Long-Term Debt: Scheduled Maturities	(4,835,000)	(1,415,000)	-	(6,250,000)	(11,020,000)
Interest Payments on Long-term Debt	(8,750,876)	(1,132,125)	2,525,574	(7,357,427)	(7,845,411)
Build America Bonds Interest Rebates	624,647	-	-	624,647	639,993
Net Cash Used in Capital and Related Financing Activities	(20,775,007)	(35,282,457)	2,525,574	(53,531,890)	(56,366,965)
Net Increase (Decrease) in Cash and Cash Equivalents	37,284	24,459,485	-	24,496,769	13,759,841
Cash & Cash Equivalents, Beginning of Year	19,931,031	62,187,130	-	82,118,161	68,358,320
Cash & Cash Equivalents, End of Year	$ 19,968,315	$ 86,646,615	$ -	$ 106,614,930	$ 82,118,161

The notes to financial statements are an integral part of these statements.

PUBLIC UTILITY DISTRICT NO. 1 OF DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For The Fiscal Year Ended December 31, 2021

	Wells Hydroelectric Project	Distribution System	Intersystem Eliminations	TOTAL 2021	TOTAL 2020
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities					
Operating Income	$ 9,600,834	$ 69,299,418	$ -	$ 78,900,252	$ 50,402,667
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	8,324,909	9,098,763	-	17,423,672	16,956,288
Cash Provided by changes in Operating Assets and Liabilities:					
Accounts Receivable - Excluding Construction	1,576,353	(819,783)	-	756,570	85,831
Prepaid Expenses - Other Current and Accrued Assets	(199,803)	(418,068)	-	(617,871)	(596,349)
Materials and Supplies	-	(1,722,590)	-	(1,722,590)	143,280
Other Accrued Liabilities	50,115	1,850,744	-	1,900,859	(1,765,491)
Accounts Payable	1,445,086	2,030,088	-	3,475,174	(2,504,977)
Other Miscellaneous Assets	-	(367,576)	-	(367,576)	874,446
Retainage - Operating Only	-	(57,098)	-	(57,098)	(157,075)
Net Cash Provided by Operating Activities	$ 20,797,494	$ 78,893,898	$ -	$ 99,691,392	$ 63,438,620

The notes to financial statements are an integral part of these statements.

Public Utility District No. 1 of Douglas County
Notes to Financial Statements
December 31, 2021 and 2020

These notes are an integral part of the accompanying financial statements:

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Douglas County, Washington (the District) is a municipal corporation of the State of Washington established in 1936. The District is administered by a three person Board of Commissioners, elected by the voters of Douglas County. The District is organized in two primary operating systems: the Electric Distribution System and the Wells Hydroelectric Project. The Electric Distribution System provides retail electricity and broadband communication to customers in Douglas County, Washington. The Wells Hydroelectric Project generates electricity from a hydroelectric dam located on the Columbia River.

Accounting Policies:

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) applicable to municipal utilities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accounting records are maintained in accordance with the Uniform System of Accounts of the Federal Power Act, prescribed by the Federal Energy Regulatory Commission (FERC). The District's accounting records are further maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 RCW. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses. Revenues and expenses related to financing and investing activities, and any other revenues and expenses not related to the District's principal operations, are considered to be non-operating revenues and expenses.

Revenue Recognition:

The Distribution System recognizes revenue as billed on a monthly basis. Unbilled delivered electrical services at fiscal period end are considered to be the revenue of the following month and are not accrued, which is a departure from GAAP. Service rates are established by the District's publicly elected Board of Commissioners. Under the terms of the District's 10-year Power Sales contract, Wells Project generation is sold to the Distribution System under similar terms to the legacy contract (revenues are derived from cost: operation, maintenance, taxes, and debt service). Sale of power to three major Pacific Northwest electric utilities (Puget Sound Energy, Avista Utilities, Portland General Electric), Okanogan PUD and the Colville Confederated Tribes, are recorded in the District's Electric Distribution System.

Utility Plant and Depreciation:

Distribution System plant assets are stated at cost. New construction, betterments and major renewals are capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of the asset, ranging from 12.5 to 35 years and on the double-declining balance method which is applied for 5 years on vehicles. Composite rates are used for depreciation of asset groups and accordingly, no gain or loss is recorded on the disposition of an asset. When operating plant assets are retired, their original cost together with removal costs, less salvage, are charged to accumulated depreciation.

Wells Project plant, including land and all related facilities, is recorded at cost. Cost is comprised of the following: (a) all direct construction and acquisition costs; (b) all indirect costs up to the commencement of initial power generated on September 7, 1967, and only those indirect costs related to the construction and acquisition since that date; and (c) interest costs capitalized up to certain dates, which were subsequent to the date generating units were placed in service. Under FERC accounting, interest costs would cease to be capitalized after units are placed in service. Management of the District elected to capitalize interest costs through January 1, 1969, as to the 1963 series bonds, and to September 1, 1972, as to the 1965 series bonds, because it believed this was the accounting treatment specifically prescribed in the bond resolutions and power sales contracts. Depreciation of generation and transmission plant is provided over estimated useful lives ranging from 15 to 95 years, using the sinking fund method (6% rate). The sinking fund method is a method selected by the Board at the inception of the Wells Project and continues to be applied as its use corresponds more closely to the Project's related revenue stream (determined from debt service), than would an alternative cost allocation method. Depreciation of general plant assets are recorded using the straight-line method. As noted above and prescribed by FERC accounting rules, gains and losses on disposition of depreciable assets are an adjustment to accumulated depreciation, which has a self-correcting effect on the depreciation base. Land and other non-depreciable assets are excluded from this treatment (gains and losses are recognized).

Deferred Improvements to Recreational Facilities – Wells Project:

Deferred improvements to recreational facilities represent costs incurred to complete certain recreational projects and improvements on city owned land surrounding the reservoir. These costs are amortized using the sinking fund method (6% rate). The treatment of these costs is a method selected under the provisions of ASC 980.

Restricted Assets:

In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. These accounts are restricted for specific uses including debt service, bond reserves and capital additions.

The restricted assets of the enterprise funds are composed of the following:

Cash and Investments - Debt Service	$	9,781,866
Cash and Investments - Construction	$	33,148,703

Receivables:

Distribution System uncollectible accounts are estimated based on an experience percentage of sales to electric residential consumers. The District's Commissioners approve all write-offs.

The Wells Project does not have an allowance for uncollectable accounts.

Inventories:

Inventories are valued at average cost, which approximates the market value.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the District considers all short-term investments with an initial maturity of three months or less when purchased to be cash equivalents. This definition of cash equivalents excludes investments with a maturity of less than three months which are pooled with investments with longer maturity periods.

Compensated Absences:

Employees accrue personal leave to be used for vacation, sick, and family leave purposes. Personal leave granted each employee varies in accordance with years of service and may be carried forward from year-to-year, capped at a maximum bank of 1,200 hours for employees hired before April 1, 2011 and 700 hours for employees hired on or after April 1, 2011. The District records personal leave as an expense and liability when earned.

Accounting Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount 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.

Insurance:

The District holds insurance policies for general liability, employee benefits liability, directors' and officers' liability, excess liability, and property insurance. Among other things, the property insurance policies cover flood, earth movement, terrorism and mobile equipment. Other types of insurance carried by the District include business automobile liability and physical damage, aircraft non-ownership liability, comprehensive crime coverage, information security and privacy liability coverage, and blackout/brownout coverage.

For purposes of certain employee benefits insurance the District is a member of the Central Washington Public Utilities Unified Insurance Program Trust (Trust). The Trust was organized pursuant to the provisions of RCW Title 54 and interlocal governmental agreements. Its general objectives include provision for the central collection and disbursement of employee benefit premiums and claims involving medical, dental, life and long-term disability coverage. The Trust is administered by a Board of Trustees comprised of an appointed Trustee from each of the seven member public utility districts. The Trustees are authorized to negotiate, obtain, and maintain insurance policies, and authorize disbursements made from the Trust to third party administrators or other entities. Effective August 1, 2002 and January 1, 2009 the Trust established a self-insured medical plan and self-insured dental plan, respectively, approved by the Washington State Office of Risk Management. The audit report for the Trust is available on the Washington State Auditor's Office website; www.sao.wa.gov. Claims settlements have not exceeded insurance coverage during any of the past three years.

Intersystem Note:

In 2004 the Board authorized an intersystem loan, in the form of a revolving note (Note) for the purpose of funding the cost of relicensing the Wells Project. Under the terms of the Note the Wells Project was allowed to take semi-annual draws from the Electric Distribution System's Wells Relicensing Fund. The interest rate for each draw was established at the time of the draw and was equal to the yield on US Treasury bonds maturing in May, 2018, plus 100 basis points. Amounts borrowed under the Note were to be due upon the expiration of the current Wells Project license and any subsequent annual FERC licenses issued to the District. On May 31, 2012, the original Wells Project license expired and FERC issued an annual license that allowed the District to continue operating the Wells Project until a new long-term license could be issued. Under the terms of the Note the District had the option, by election prior to maturity, to extend the maturity date such that principal would be amortized over the life of the new FERC license, with interest payable semi-annually. In May 2012, the District Commission, in anticipation of receiving a new long-term license, chose to utilize this option. On November 9, 2012, FERC issued to the District a new 40 year license to operate and maintain the Wells Project. Repayment of the Note is amortized over the new license period at an interest rate equal to the 30 year US Treasury bond yield at November 1, 2012, the effective date of the new license, plus 100 basis points. In 2013, the note was reclassified to a long-term loan, see Note 4.

Pensions:

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

For purposes of calculating the restricted net position related to the net pension asset, the district includes the calculated net pension asset, pension outflows and pension inflows.

NOTE 2 – DEPOSITS AND INVESTMENTS

The District's deposits are entirely covered by the Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

As of December 31, 2021, the District's cash and cash equivalents are as follows:

Cash and cash equivalents:	
Bank depository and checking accounts	$ 951,870
Petty Cash	4,726
Local Government Investment Pool	105,658,334
Rate Stabilization Fund - Investment	22,884,626
Total cash and cash equivalents	$ 129,499,556

The District's deposits are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission. Cash held in the Local Government Investment Pool (LGIP) is managed by the Washington State Treasurer's Office. The LGIP is a 2a7-like pool and represents an interest in a group of securities with no specific securities subject to custodial risk.

The District's investments consist of direct obligations of the U.S. Government, municipal bonds of state and local governments, and U.S. government sponsored enterprises (agencies), which are all eligible investments for public funds in the state of Washington (RCW 43.84.080). To minimize custodial risk, the District's investments are held by a 3rd party safekeeping account which uses deliver vs. payment protocol. The District's practice is to, generally, hold investments to maturity.

Fair Value: The District categorizes its fair value measurement within the hierarchy established by GAAP. The hierarchy is based on the valuation inputs to measure the fair value of the asset. Level 1 inputs are quoted prices in the active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The difference of $583,096 between the Distribution investment balance in this note and the financial statements is the fair market adjustment entry made at calendar year end. The valuation method for fair value measurements as of December 31, 2021 and 2020 are as followed:

Distribution Investments	Balance as of December 31, 2021			2021	2020
	Level 1	Level 2	Level 3	Total	Level 2
Federal Agency Securities	$ —	$ —	$ —	$ —	—
Municipal Bond Securities	—	22,301,530	—	22,301,530	794,166
Total	$ —	$ 22,301,530	$ —	$ 22,301,530	794,166

Wells Project Investments	Balance as of December 31, 2021			2021	2020
	Level 1	Level 2	Level 3	Total	Level 2
Federal Agency Securities	$ —	$ —	$ —	$ —	—
Municipal Bond Securities	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	—

Interest Rate Risk: The risk the value of investments will decrease as a result of a rise in interest rates.

As of December 31, 2021 the average maturity of the investments are as follows:

Distribution Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	$ —	$ —	$ —
Municipal Bond Securities	22,301,530	—	22,301,530
Total	$ 22,301,530	$ —	$ 22,301,530

Wells Project Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	$ —	$ —	$ —
Municipal Bond Securities	—	—	—
Total	$ —	$ —	$ —

As of December 31, 2020 the average maturity of the investments are as follows:

Distribution Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	$ —	$ —	$ —
Municipal Bond Securities	794,166	794,166	—
Total	$ 794,166	$ 794,166	$ —

Wells Project Investments	Fair Value	Less than 1 year	1-5 years
Federal Agency Securities	—	$ —	—
Municipal Bond Securities	—	—	—
Total	$ —	$ —	$ —

Credit Risk: State law limits investment authority to local governments. The District's investments are made in investment types authorized by state law.

As of December 31, 2021 the credit quality ratings of debt securities are as follows:

Distribution Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ —	AAA	S&P
Municipal Bond Securities	22,301,530	A1/Aa/AAA	S&P

Wells Project Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ —	AAA	S&P
Municipal Bond Securities	—	A1/Aa/AAA	S&P

As of December 31, 2020 the credit quality ratings of debt securities are as follows:

Distribution Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ —	AAA	S&P
Municipal Bond Securities	794,166	A1/Aa/AAA	S&P

Wells Project Investments	Fair Value	Rating	Rating Organization
Federal Agency Securities	$ —	AAA	S&P
Municipal Bond Securities	—	A1/Aa/AAA	S&P

Concentration of Credit Risk: As of December 31, 2021, the Distribution System had municipal bond investments in the amount of $22,301,530 (100%) of the investment portfolio. As of December 31, 2020, the Distribution System had municipal bond investments in the amount of $794,166 (approximately 100%) of the investment portfolio. As of December 31, 2021, the Wells Project had municipal bond zero investments in its portfolio. As of December 31, 2020, the Wells Project had municipal bond zero investments in its portfolio. These municipal bonds are not guaranteed by the U.S. Government.

NOTE 3 – UTILITY PLANT

As stated in Note 1, utility plant is recorded at cost. Cost includes both direct costs of construction or acquisition and indirect costs. The District's capitalization threshold is $5,000 and an expected useful life of three years or more. The cost of maintenance and repairs is charged to expense as incurred, while the cost of additions, replacements and improvements is capitalized. Construction Work in Progress may contain amounts that will be transferred to a deferred charge account. As prescribed by FERC, the book cost of operating property retired or otherwise disposed of, less salvage, is charged to accumulated depreciation. The following changes occurred in the District's utility plant:

Electric Plant Assets **Distribution System**	**December 31, 2020**	**Increase**	**Decrease**	**December 31, 2021**
Utility plant not being depreciated:				
Land and land rights	$ 6,331,576	$ 180,111	$ (5)	$ 6,511,682
Construction w ork in progress	15,880,573	31,755,499	(9,606,298)	38,029,774
Subtotal	22,212,149	31,935,610	(9,606,303)	44,541,456
Utility plant being depreciated:				
Transmission	26,957,211	7,779	-	26,964,990
Distribution	189,530,043	2,989,071	(136,973)	192,382,141
General	63,769,687	1,642,985	(372,840)	65,039,832
Intangible	519,332	-	-	519,332
Miscellaneous	862,185	-	-	862,185
Subtotal	281,638,458	4,639,835	(509,813)	285,768,480
Accumulated depreciation	(143,849,968)	(10,536,681)	1,430,904	(152,955,745)
Net plant being depreciated	137,788,490	(5,896,846)	921,091	132,812,735
Net Utility Plant - Distribution	$ 160,000,639	$ 26,038,764	$ (8,685,212)	$ 177,354,191

Subtotal	82,918,299	60,684,864	(67,931,645)	75,671,518
Utility plant being depreciated:				
Hydraulic generation	380,687,087	31,941,755	(328,015)	412,300,827
Transmisssion	18,953,002	49,968	(24,984)	18,977,986
General	13,431,852	299,139	(286,278)	13,444,713
Intangible plant	11,189,149		-	11,189,149
Subtotal	424,261,090	32,290,862	(639,277)	455,912,675
Accumulated depreciation	(145,013,358)	(8,764,746)	342,815	(153,435,289)
Net plant being depreciated	279,247,732	23,526,116	(296,462)	302,477,386
Net utility plant - Wells Project	$ 362,166,031	$ 84,210,979	$ (68,228,106)	$ 378,148,904

NOTE 4 – LONG-TERM DEBT

Wells Hydroelectric Project

	Purpose	Balance 12/31/2020	Additions	Reductions	Balance 12/31/2021	Due Within One Year
Revenue Bonds:						
Series of 2010A, serial bonds maturing annually to September 1, 2022 and term bonds maturing September 1, 2030 and 2040, interest at 1.484% - 5.450%	Capital Improvements	43,205,000	-	1,280,000	41,925,000	1,335,000
Series of 2010B, serial bonds maturing annually to September 1, 2020 and term bonds maturing September 1, 2030 and 2040, interest at 1.484% - 5.495%	Capital Improvements	35,105,000	-	1,250,000	33,855,000	1,290,000
Series of 2015A, serial bonds maturing annually to September 1, 2025, and term bonds maturing September 1, 2030 and 2035, interest at 3.70% - 5.00%	Refunding	25,855,000	-	1,230,000	24,625,000	1,290,000
Series of 2015B, serial bonds maturing annually to September 1, 2026, and term bonds maturing September 1, 2022, 2030, and 2035, interest at 3.60% - 5.25%	Refunding	18,560,000	-	1,075,000	17,485,000	1,110,000
Revenue bonds payable		122,725,000	-	4,835,000	117,890,000	5,025,000

Following is a summary of future debt service requirements for Wells Project revenue bonds outstanding at December 31, 2021:

	Principal	Interest	Total
2022	$ 5,025,000	6,010,635	$ 11,035,635
2023	5,225,000	5,792,438	11,017,438
2024	5,435,000	5,548,755	10,983,755
2025	5,665,000	5,291,870	10,956,870
2026	5,915,000	5,020,798	10,935,798
2027-2031	32,915,000	20,513,209	53,428,209
2032-2036	36,025,000	11,448,582	47,473,582
2037-2040	21,685,000	3,031,877	24,716,877
Total	$ 117,890,000	$ 62,658,164	$ 180,548,164

Interest on all bonds for the Wells Hydroelectric Project is payable on March 1 and September 1. All bond covenants were complied with for calendar years 2021 and 2020.

Following is a summary of the debt service requirements for the intra-district loan payable at December 31, 2021:

	Principal	Interest	Total
2022	$ 150,000	332,736	$ 482,736
2023	155,000	326,913	481,913
2024	160,000	320,897	480,897
2025	170,000	314,641	484,641
2026	175,000	308,048	483,048
2027-2031	980,000	1,432,970	2,412,970
2032-2036	1,185,000	1,226,947	2,411,947
2037-2041	1,430,000	978,574	2,408,574
2042-2046	1,725,000	678,514	2,403,514
2047-2051	2,080,000	316,855	2,396,855
2052	470,000	13,571	483,571
Total	$ 8,680,000	$ 6,250,666	$ 14,930,666

Following is a summary of the debt service requirements for the intra-district Capital Projects Revolving Loan Fund payable at December 31, 2021:

	Principal	Interest	Total
2022	$ 2,410,000	2,738,861	$ 5,148,861
2023	2,500,000	2,767,606	5,267,606
2024	2,570,000	2,696,043	5,266,043
2025	2,660,000	2,622,480	5,282,480
2026	2,735,000	2,546,217	5,281,217
2027-2031	13,890,000	11,513,653	25,403,653
2032-2036	14,575,000	9,476,035	24,051,035
2037-2041	17,330,000	7,136,134	24,466,134
2042-2046	20,665,000	4,338,185	25,003,185
2047-2051	17,645,000	1,124,707	18,769,707
Total	$ 96,980,000	$ 46,959,921	$ 143,939,921

Advance Debt Refunding

In June 2015, the Wells Project issued its Wells Hydroelectric Revenue and Refunding Bonds, Series 2015A, 2015B, and 2015C (the 2015 Bonds), in the total combined par amount of $58,249,581. The 2015 Bonds were issued at par. A portion of the 2015 Bonds refinanced and legally defeased $67,075,000 of the outstanding 2005 Series Bonds. The refinancing resulted in a reduction of $1,058,000 in total Wells Project debt service over the succeeding 24 years and an economic gain (difference between the present values of the old and new debt service requirements) of $43,469.

Debt service on all outstanding Wells Project bonds, which have been refinanced and legally defeased is met by cash and investments held in irrevocable trust with escrow agents. As of December 31, 2020, all outstanding Wells Project legally defeased bonds were fully funded. Trust accounts assets and the liabilities for legally defeased bond issues are not included in the District's financial statements.

Distribution System

Long-term liability activity for the year ended December 31, 2021 was as follows:

	Balance 12/31/2020	Decrease	Increase	Balance 12/31/2021	Due Within One Year
Revenue bonds payable	$ 24,585,000	$ 1,415,000	$ -	$ 23,170,000	$ 1,470,000
Unamortized bond premiums (discounts)	3,043,029	836,036	-	2,206,993	
Total bonds payable	27,628,029	2,251,036	-	25,376,993	1,470,000
Deposits and Contract Retainage	1,330,353	3,507,007	19,183,049	17,006,395	
Net Pension Liability	3,290,559	3,290,559	826,104	826,104	
Compensated absences	1,720,797	1,175,265	1,209,478	1,755,010	881,015
Non-current liabilities	$ 33,969,738	$ 10,223,867	$ 21,218,631	$ 44,964,502	$ 2,351,015

In August 2012, the Distribution System issued its Electric Distribution System Revenue and Refunding Bonds, Series 2012, in the total amount of $32,650,000. A portion of the 2012 Bonds refinanced $7,075,000 of the outstanding 2004 Bonds. The remaining portion of the 2012 Bonds were issued for construction of a new transmission line and capital improvements to electrical facilities. The following is a summary of future debt service requirements for Distribution System revenue bonds outstanding at December 31, 2021:

	Principal	Interest	Total
2022	1,470,000	1,068,450	2,538,450
2023	1,535,000	1,024,350	2,559,350
2024	715,000	947,600	1,662,600
2025	750,000	911,850	1,661,850
2026	790,000	874,350	1,664,350
2027-2031	4,585,000	3,738,250	8,323,250
2032-2036	5,895,000	2,467,750	8,362,750
2037-2041	7,430,000	929,050	8,359,050
Total	$ 23,170,000	$ 11,961,650	$ 35,131,650

The 2012 Distribution bonds are serial bonds through 2023 and term bonds maturing in 2041. Interest rates range from 2.0% to 5.0% and interest is payable on June 1 and December 1. The bondholders' resolution requires the District to maintain at least 125% coverage for debt service. The required coverage was maintained in 2021 and 2020.

NOTE 5 – OTHER COMMITMENTS AND CONTINGENCIES

a) Power Sales Contracts

The District has 10-year contracts with Puget Sound Energy, Portland General Electric, and Avista Corporation for the sale of Wells Project output. Under the agreements, the Wells' output is sold at cost to the District's Distribution System; however, previous obligations (share of output) to the Colville Tribes (5.5%) and Okanogan County PUD (currently 9.4%) remain in place. Okanogan County PUD is able to ramp up their percentage, over time, based upon load growth (up to 30%, conditionally in 2028).

b) Endangered Species

Several species of fish in the vicinity of the Wells Project are listed as threatened or endangered under the Endangered Species Act (ESA). Upper Columbia River (UCR) Steelhead and UCR spring Chinook were listed as endangered species on August 18, 1997 and March 24, 1999, respectively. Subsequently the endangered status of UCR spring Chinook was reaffirmed and the status of UCR steelhead was upgraded to threatened.

The District has negotiated with state and federal fisheries resource agencies and Indian tribes, a multispecies Anadromous Fish Agreement and Habitat Conservation Plan (HCP). The Plan Species are spring Chinook, summer/fall Chinook, steelhead, sockeye, and Coho salmon. The purpose of the HCP is to have legally enforceable measures in place to either avoid a listing under the ESA or, in the event of a listing, allow continued operation of the Wells Project under an incidental take permit. The HCP satisfies all FERC relicensing and ESA requirements for the Plan Species. FERC approved the HCP in June of 2004 and amended the Wells Project license accordingly. At the District's request, FERC also issued an Order on Rehearing in November 2004, clarifying several technical items.

Bull trout were listed as a threatened species on June 10, 1998. On September 30, 2010 the United States Fish and Wildlife Service (FWS) designated critical habitat for ESA listed Columbia River bull trout. This designation included most of the waters found within the Wells Project. ESA listed bull trout have been observed at the Wells Project but are not covered in the HCP. In May 2004 FWS issued a biological opinion and incidental take permit that covered the operations of the Wells Project and the implementation of the HCP.

There is extensive litigation in the federal court system under the ESA, challenging actions taken by the responsible federal agencies in regard to anadromous fish. Future legal actions to protect fish may have a significant impact on the amount and/or cost of power generated at the Wells Project. As the ultimate outcome of this matter is not determinable, no accruals have been made to the financial statements.

c) Plan Species Account

In accordance with the Tributary Conservation Plan, formed under the HCP, a Plan Species Account was established to fund projects for the protection and restoration of Plan Species habitat. The HCP requires a Tributary Committee, composed of one representative of each party to the HCP, to select the projects and approve the project budgets from the Plan Species Account for purposes of implementing the Tributary Conservation Plan. All budget and spending decisions must be made by unanimous vote of the Tributary Committee members. The HCP requires the District to make monetary contributions to the Plan Species Account. In 2004 a required initial contribution of $2,272,740 was made to the Plan Species Account. In January 2010 the District began making required annual payments to the Plan Species Account. The amounts transferred in 2021 and 2020 were $296,984 and $292,037, respectively. Outflows for Plan Species projects from the account are expensed to the Wells Project as incurred.

d) Energy Northwest – Nine Canyon Wind Project

The Nine Canyon Wind Project is a wind energy generation project located eight miles southwest of Kennewick, Washington, in the Horse Heaven Hills. The project was developed in three phases. Energy Northwest issued bonds to finance each phase of the Wind Project System, some of which have been refunded, and currently has $15,745,000 of Phase I bonds outstanding, $4,845,000 of Phase II bonds outstanding and $39,335,000 of Phase III bonds outstanding. The District is obligated to pay 6.251% , 43.59% and 0% of the debt service for Phase I, II, and III bonds, respectively, and is entitled to 10.23% of the aggregate output of the project (9.8 MW of generating capacity) until July 1, 2030.

e) Douglas PUD – Chelan PUD Power Sales Contract

The District has a long term power sales contract with Chelan PUD to purchase 5.54% of the output of Chelan PUD's Rocky Reach Project. The contract is a take-or-pay contract requiring the District to pay costs associated with operation, maintenance, renewals and replacements to Rocky Reach, whether or not the project is operable or operating. The current term of the power sales contract expires on October 31, 2031. The District has the option to extend the term of the contract for up to three successive 10-year periods thereafter.

f) Avista Corporation Energy Exchange

The District entered into a purchase and sale agreement with Avista Corporation in which the District will sell a 9.45% slice of the total Wells Output to Avista in exchange for a flat block of firm power from Avista. The energy received in return from Avista exceeds expected generation by approximately 18%. The five-year agreement expires on December 31, 2023.

g) Portland General Electric Power Sales Contract

In 2020, the District entered into a five-year slice agreement with PGE for the remainder of its Wells Project allocation net of the Avista slice as well as its share of Chelan Public Utility District's Rocky Reach Hydroelectric Project, extending through December. 31, 2026. Under the power sale agreement, PGE is responsible for managing the District's load and will perform related marketing, power resource and supply functions for any surplus output.

h) Relicensing

On November 9, 2012, FERC issued to the District a new long-term license for the Wells Project. The new license was issued for a period of 40 years, effective November 1, 2012. Accumulated costs of $9.8 million were capitalized to intangible plant and are being amortized over a corresponding 40 year period.

i) Generator and Turbine Refurbishment

A generator and turbine refurbishment project is in progress at Wells and will continue for several years until all 10 units are refurbished. Costs are financed by the issuance of revenue bonds and inter-system loans. Toshiba America Energy Systems has completed several units and is nearing the mid-point of the project. The recent purchase of a spare turbine runner should shorten down-time significantly on the remaining units. The generator rebuild and refurbishment project is expected to extend service lives approximately 35 years.

NOTE 6 – PENSION PLANS, DEFERRED COMPENSATION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68 for the year 2021:

Aggregate Pension Amounts – PERS Plans 1/2/3	
Net pension liabilities*	$ (1,652,207)
Pension assets	17,315,169
Deferred outflows of resources	2,128,975
Deferred inflows of resources	(17,673,378)
Pension expense	(3,611,320)

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

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

Or it may be downloaded from the DRS Web site at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description
The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable

option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 percent to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2021 and 2020, are as follows:

2021:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	10.25%	10.25%	10.25%
Employee	6.00	6.36	*

2020:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer	12.97%	12.97%	12.97%
Employee	6.00	7.90	*

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 19.16% for Plan 1 and 12.86% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 7.41% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

The District and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2021	$ -	2,058,982	240,348
2020	$ -	2,450,944	263,868
2019	-	2,189,714	241,135

Deferred Compensation Plans

The District also offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(a) permitting employees to defer a portion of their salary until future years. The District provides a 50% match of employee contributions capped at 3% for Union employees and 5% for Non-union employees of regular straight-time wages. The deferred compensation is not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

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%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 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 of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their 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. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.

- 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 percent.

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 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

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 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset class	Target allocation	Percentage long-term expected real rate of return arithmetic
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
	100%	

Sensitivity of NPL

The table below presents the District's proportionate share* of the net pension liability as of June 30, 2021 calculated using the discount rate of 7.4%, as well as what the District's proportionate share of the net pension liability 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.

	1% Decrease (6.4%)	Current discount rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 2,814,629	1,652,207	638,456
PERS 2/3	(4,932,755)	(17,315,169)	(27,512,092)

Pension Plan Fiduciary Net Position

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

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

At December 31, 2021, the *District* reported a total pension asset of $15,662,962 for its proportionate share of the net pension asset as follows:

	Net pension asset
PERS 1	$ (1,652,207)
PERS 2/3	17,315,169

The net pension liability was measured as of June 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. At June 30, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate share June 30, 2020	Proportionate share June 30, 2021	Change in proportion
PERS 1	0.126656%	0.135290%	(0.008634)%
PERS 2/3	0.164939	0.173819	(0.008880)

Employer contribution transmittals received and processed by 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 DRS in the Schedules of Employer and Non-employer Allocations for all plans.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended December 31, 2021, the District's recognized deferred inflows/outflows are as follows:

PERS Plan 1		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	—	—
Net difference between projected and actual investment earnings on pension plan investments		—	(1,833,397)
Changes of assumptions		—	—
Changes in proportion and differences between contributions and proportionate share of contributions		—	—
Contributions subsequent to the measurement date		397,470	—
Total	$	397,470	(1,833,397)

PERS Plan 2/3		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	840,973	(212,267)
Net difference between projected and actual investment earnings on pension plan investments			(14,471,420)
Changes of assumptions		25,303	(1,229,664)
Changes in proportion and differences between contributions and proportionate share of contributions		168,875	73,370
Contributions subsequent to the measurement date		696,354	—
Total	$	1,731,505	(15,839,981)

For the year ended December 31, 2020, the District's recognized deferred inflows/outflows are as follows:

PERS Plan 1		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	—	—
Net difference between projected and actual investment earnings on pension plan investments		—	(24,896)
Changes of assumptions		—	—
Changes in proportion and differences between contributions and proportionate share of contributions		—	—
Contributions subsequent to the measurement date		555,119	—
Total	$	555,119	(24,896)

PERS Plan 2/3		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	755,162	(264,368)
Net difference between projected and actual investment earnings on pension plan investments			(107,131)
Changes of assumptions		30,045	(1,440,955)
Changes in proportion and differences between contributions and proportionate share of contributions		—	(458,384)
Contributions subsequent to the measurement date		931,087	—
Total	$	1,716,294	(2,270,838)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PERS Plan 1
Year ended December 31:	
2022	(485,667)
2023	(445,048)
2024	(420,811)
2025	(481,871)
Thereafter	—
Total	$ (1,833,397)

	PERS Plan 2
Year ended December 31:	
2022	$ (3,933,134)
2023	(3,673,130)
2024	(3,512,691)
2025	(3,793,122)
2026	(21,861)
Thereafter	30,904
Total	$ (14,903,034)

NOTE 7 – DEFERRED OUTFLOW OF RESOURCES AND REGULATORY ASSETS

Distribution System

The Distribution System had deferred outflows of $1,176,120 and $1,376,135 respectively at December 31, 2021 and 2020. The deferred outflows consist of pension related outflows and unamortized losses on reacquired debt.

The Distribution System had regulatory assets of $4,655,370 and $4,363,104 respectively, at December 31, 2021 and 2020. Regulatory assets consist of preliminary survey and investigation, such as wind development costs, undistributed balances in clearing accounts and miscellaneous work in progress.

Wells Hydroelectric Project

The Wells Hydroelectric Project had deferred outflows of $1,172,809 and $1,345,100 respectively at December 31, 2021 and 2020. Deferred outflows consist of unamortized losses on reacquired debt.

The Wells Project had regulatory assets of $2,106,345 and $2,204,058 respectively, at December 31, 2021 and 2020. Regulatory assets amortized by the Wells Project are primarily recreation facilities improvements (on land not owned by the District) and miscellaneous fish improvements (Coho Mitigation under the HCP). Regulatory assets are amortized using the sinking fund method.

NOTE 8 – BROADBAND SERVICES

Douglas County Community Network (DCCN):

Since the 1960's the District has owned and operated data communication facilities that provide communication for District electrical equipment, employees and office equipment. The communication system has grown to become an integral part of the District's electrical system, providing remote monitoring, switching, metering, internal communication, and security to District assets. In 2000 the Washington State Legislature gave Public Utility Districts the authority to offer wholesale telecommunication services. The District named its broadband network the Douglas County Community Network (DCCN). DCCN provides wholesale broadband data communication services to customers of the District. As of December 31, 2021, the District has capitalized $39.4 million dollars of DCCN equipment.

Douglas County Community Network	2021
Operating Revenue:	
Wholesale Broadband Residential & Business	$ 3,844,468
Broadband Governmental	650,648
Colocation & Bandwidth	204,071
Television	204,998
	$ 4,904,185
Operating Expenses:	
Operation & Maintenance	$ 1,716,346
Administration & General	295,369
	$ 2,011,715

NOTE 9 – CONTINGENT LIABILITIES

Pole Attachment Lawsuit

Two telecom companies that have attachments to District owned poles are paying the annual pole attachment fee under protest until the Court of Appeals makes it final ruling on a lawsuit filed by Pacific County PUD regarding pole attachment rates.

The District does not believe that the ultimate outcome of this matter will have a material impact on its financial position, results of operations or cash flow.

Note 10 – COVID 19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

These collective actions did not impact financial results for the District in 2021.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the district is unknown at this time.

Note 11 – SUBSEQUENT EVENT

On June 29th, 2022, the Wells Project issued $112.54 million in revenue bonds to finance capital improvements of the Wells Hydroelectric Project. The bonds bear interest rates from 3.00 to 5.00 percent and will be redeemed over the next 30 years.

REQUIRED SUPPLEMENTARY INFORMATION

Public Utility District No. 1 of Douglas County
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 1
As of June 30, 2021
Last 10 Fiscal Years

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	%	0.162184%	0.154055%	0.138455%	0.134405%	0.131726%	0.126656%	0.135290%			
Employer's proportionate share of the net pension liability	$	8,483,732	8,058,509	6,569,798	6,002,573	5,065,332	4,471,641	1,652,207			
TOTAL	$	8,483,732	8,058,509	6,569,798	6,002,573	5,065,332	4,471,641	1,652,207			
Employer's covered employee payroll	$	17,173,115	17,359,459	17,355,869	18,646,736	17,437,527	18,451,267	20,005,724			
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	49.40%	46.42%	37.85%	32.19%	29.05%	24.23%	8.26%			
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%	61.24%	63.30%	67.12%	70.55%	88.74%			

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Seventh year reporting.

REQUIRED SUPPLEMENTARY INFORMATION

Public Utility District No. 1 of Douglas County
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 2 & 3
As of June 30, 2021
Last 10 Fiscal Years

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	%	0.191162%	0.185707%	0.178088%	0.172521%	0.170090%	0.164939%	0.173819%			
Employer's proportionate share of the net pension liability (asset)	$	6,830,329	9,350,201	6,187,707	2,945,643	1,652,152	2,109,476	(17,315,169)			
TOTAL	$	6,830,329	9,350,201	6,187,707	2,945,643	1,652,152	2,109,476	(17,315,169)			
Employer's covered employee payroll	$	17,173,115	17,359,459	17,355,869	18,646,736	17,437,527	18,451,267	20,005,724			
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	39.77%	53.86%	35.65%	15.80%	9.47%	11.43%	-86.55%			
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	85.82%	90.97%	95.63%	97.77%	91.72%	120.29%			

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Seventh year reporting.

REQUIRED SUPPLEMENTARY INFORMATION

Public Utility District No. 1 of Douglas County
Schedule of Employer Contributions
PERS Plan 1
As of December 31, 2021
Last 10 Fiscal Years

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contractually required contributions	$	745,396	856,049	864,162	926,932	896,828	970,279	850,105			
Contributions in relation to the contractually required contributions	$	(745,396)	(856,049)	(864,162)	(926,932)	(896,828)	(970,279)	(850,105)			
Contribution deficiency (excess)	$	-	-	-	-	-	-	-			
Covered Employer Payroll	$	17,173,115	17,359,459	16,714,899	19,047,535	18,123,747	20,216,744	19,731,232			
Contributions as a percentage of covered employee payroll	%	4.34%	4.93%	5.17%	4.87%	4.95%	4.80%	4.31%			

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Seventh year reporting.

REQUIRED SUPPLEMENTARY INFORMATION

Public Utility District No. 1 of Douglas County
Schedule of Employer Contributions
PERS Plan 2 & 3
As of December 31, 2021
Last 10 Fiscal Years

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contractually required contributions	$	851,534	1,072,067	1,086,126	1,373,696	1,398,495	1,601,166	1,413,709			
Contributions in relation to the contractually required contributions	$	(851,534)	(1,072,067)	(1,086,126)	(1,373,696)	(1,398,495)	(1,601,166)	(1,413,709)			
Contribution deficiency (excess)	$	-	-	-	-	-	-	-			
Covered Employer Payroll	$	17,173,115	17,359,459	16,714,899	19,047,535	18,123,747	20,216,744	19,731,232			
Contributions as a percentage of covered employee payroll	%	4.96%	6.18%	6.50%	7.21%	7.72%	7.92%	7.16%			

Notes to Schedule:
There are no factors that significantly affect trends in the amounts reported above. Seventh year reporting.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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