FRANKLIN PUD

THE POWER IS YOURS

2019
COMPREHENSIVE ANNUAL FINANCIAL REPORT

Customer-owned utilities in the public power family like Franklin PUD are owned and governed by the people and communities we serve. We are united behind one goal – to provide affordable, reliable non-profit electricity to our customers.

PUBLIC UTILITY DISTRICT #1 OF FRANKLIN COUNTY
1411 W. Clark St., Pasco, WA 99301
509-547-5591 or 800-638-7701
www.franklinpud.com

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

Public Utility District No.1 of Franklin County
PO Box 2407
Pasco, WA 99302-2407

For the fiscal years ended December 31, 2019 and 2018

PREPARED BY DEPARTMENT OF ACCOUNTING AND TREASURY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal years ended December 31, 2019 and 2018

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INTRODUCTORY SECTION

Comprehensive Annual Financial Report for years ended December 31, 2019 and 2018

FRANKLIN PUD

THE POWER IS YOURS

July 21, 2020

To the Board of Commissioners and Customers

Public Utility District No. 1 of Franklin County, Washington

FORMAL TRANSMITTAL OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The Comprehensive Annual Financial Report (CAFR) of Franklin County Public Utility District (District) for the years ended December 31, 2019 and 2018 is hereby submitted. The report is designed to assess the District's financial condition, educate readers about District services, and examine current challenges facing the District. Additionally, this report is used to fulfill reporting requirements required by Washington State law and the Securities and Exchange Commission. The management of the District is responsible for preparing the information in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles (GAAP) applied on a consistent basis and include amounts that are based on management's best estimates and judgments. To provide a reasonable basis for making these representations, management has established and maintains a comprehensive internal control framework that includes organization, administrative and accounting processes. The internal control system provides reasonable assurance as to the integrity and reliability of the financial statements, the safeguarding of assets from unauthorized use or disposition, and that business transactions are conducted in compliance with State laws and regulations. However, because the cost of internal controls should not outweigh their benefits, the District's system of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Washington State Auditor's office has issued an unmodified ("clean") opinion on the District's financial statements for years ended December 31, 2019 and 2018. The independent auditor's report is presented at the beginning of the financial section of this report.

The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal years ended December 31, 2019 and 2018 are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The District has included Management's Discussion and Analysis (MD&A) to accompany the basic financial statements. The MD&A is an opportunity for the District's management provide information regarding the District's financial condition and past performance. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE DISTRICT

The District is a municipal corporation of the State of Washington established in 1938 for the purpose of engaging in the purchase, transmission, distribution and sale of electric energy. Additionally, the District is authorized under state law to provide wholesale telecommunication services. The District is governed by an elected three-member board and maintains its administrative offices in the city of Pasco.

The District is a statutory preference customer of the Bonneville Power Administration (Bonneville) and purchases most of its power from Bonneville. The District's remaining power supply requirements are supplied by various contracted resources (see Note 8).

The District is located in southeastern Washington, encompassing approximately 435 square miles of Franklin County and including the incorporated cities of Pasco (the Franklin County seat), Connell, Kahlotus, and Mesa. The District's largest city, Pasco, as well as the Cities of Kennewick and Richland in adjacent Benton County make up what is known as the Tri-Cities.

The District operates 21 substations as well as 1,111 miles of transmission and distribution lines to serve its customers.

Annual Budget

The District records financial transactions within a single proprietary fund. The District has no governmental funds with legally adopted budgets that carry the force of law. Accordingly, the District's budget is not contained within this report.

The District adopts an annual budget for purposes of planning and management control. The budget process involves preparation of a proposed operating and capital budget by District staff for the ensuing year that is presented to the Board of Commissioners. The preliminary budgets are reviewed and revised during public hearings held at regular meetings of the Board of Commissioners. The budget is approved by the Board and becomes the basis for operations for the next calendar year.

Local Economy

Franklin County's economy is based mainly on the agriculture and food processing industries. Farmland comprises the majority of Franklin County's land area. Crops grown in Franklin County are shipped to both domestic and export markets. With the strength of farm production throughout the county, food processing has become a major factor in the Franklin County economy.

The economic base of agriculture and food manufacturing, along with industrial diversity has consistently placed Franklin County in the top 10 of fastest growing counties in the State of Washington for the past two decades. The county's population growth continues to drive demand for more educational opportunities and healthcare services.

Long-Term Financial Planning

The District's five-year forecast is continually updated to follow projections and changes affecting the utility. The forecast includes both operating and capital activity with a focus on reserve levels, debt service coverage levels, and potential rate action.

The District has adopted a financial policies and procedures for purposes of managing the District's finances. The policies cover such issues as debt service coverage, debt financing, retail rates, power supply risk, credit risk, investment policies and practices, insurance, procurement controls, and financial reporting. The financial policies and procedures call for developing financial plans to maintain a "target" amount of cash reserves sufficient to provide funding for 25 percent of non-power expenses and 10 percent of anticipated gross power costs for the planned year's budget and 25 percent of planned capital expenditures. The financial policies also define the District's goals for debt to asset ratio, debt service coverage, and establishment of a Rate Stabilization account.

Major Initiatives

In 2019 the District continued its efforts on promoting hydroelectric power generated by the Columbia and Snake River dams. The District's customers receive approximately 80 percent of their electricity from these dams. Hydroelectricity is the Pacific Northwest's premier clean, renewable and reliable resource, and the District was an active participant in events to showcase this resource throughout the year. Most notably, the District was engaged in the legislative process resulting in Washington's Clean Energy Transformation Act. The Act guides the state toward a 100% carbon free electricity grid, and the District partnered with public utility districts throughout the state to ensure that the Act would recognize hydroelectric power for the clean, renewable resource that it is. In addition to work performed on the legislative front, the District worked with its regional partners to host Riverfest – a community event aimed at promoting the benefits of the dams including navigation, irrigation, recreation, and hydroelectric power. The District will continue to support these efforts for the benefit of its customers into 2020 and beyond.

The District's continued growth in the residential, commercial, and industrial sectors bring additional demand to the existing electrical infrastructure system. Several projects aimed at improving or replacing older infrastructure with more safe and reliable technology were completed in 2019. Additionally, the District began a major deployment of Automated Metering Infrastructure at the end of 2019, a project that will continue on in subsequent years.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a certificate of Achievement for Excellence in Financial Reporting to the District for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2018. This was the fifteenth consecutive year that the District achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the District's Accounting department. We wish to express our appreciation to these staff members for their contributions to the development of this report. Further appreciation is extended to the Board of Commissioners for their leadership and support in planning and conducting the financial operations of the District in a responsible and enterprising manner.

Respectfully Submitted,

Scott Rhees

General Manager

Holly Dohrman

Assistant General Manager

ORGANIZATIONAL CHART

ROGER WRIGHT
DISTRICT 1

BILL GORDON
DISTRICT 2

STU NELSON
DISTRICT 3

SCOTT RHEES
GENERAL MANAGER

Brian Johnson
Auditor/Director of Risk Mitigation

Holly Dohrman
Assistant General Manager

Katrina Fulton
Treasurer/Accounting Manager

Travis Scott
Director of Operations

Duane Sams
Director of Engineering

Carrie Locke
Senior Manager of Human Resources

Mike Gonzalez
Senior Manager of Public Relations

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public Utility District No. 1

of Franklin County, Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

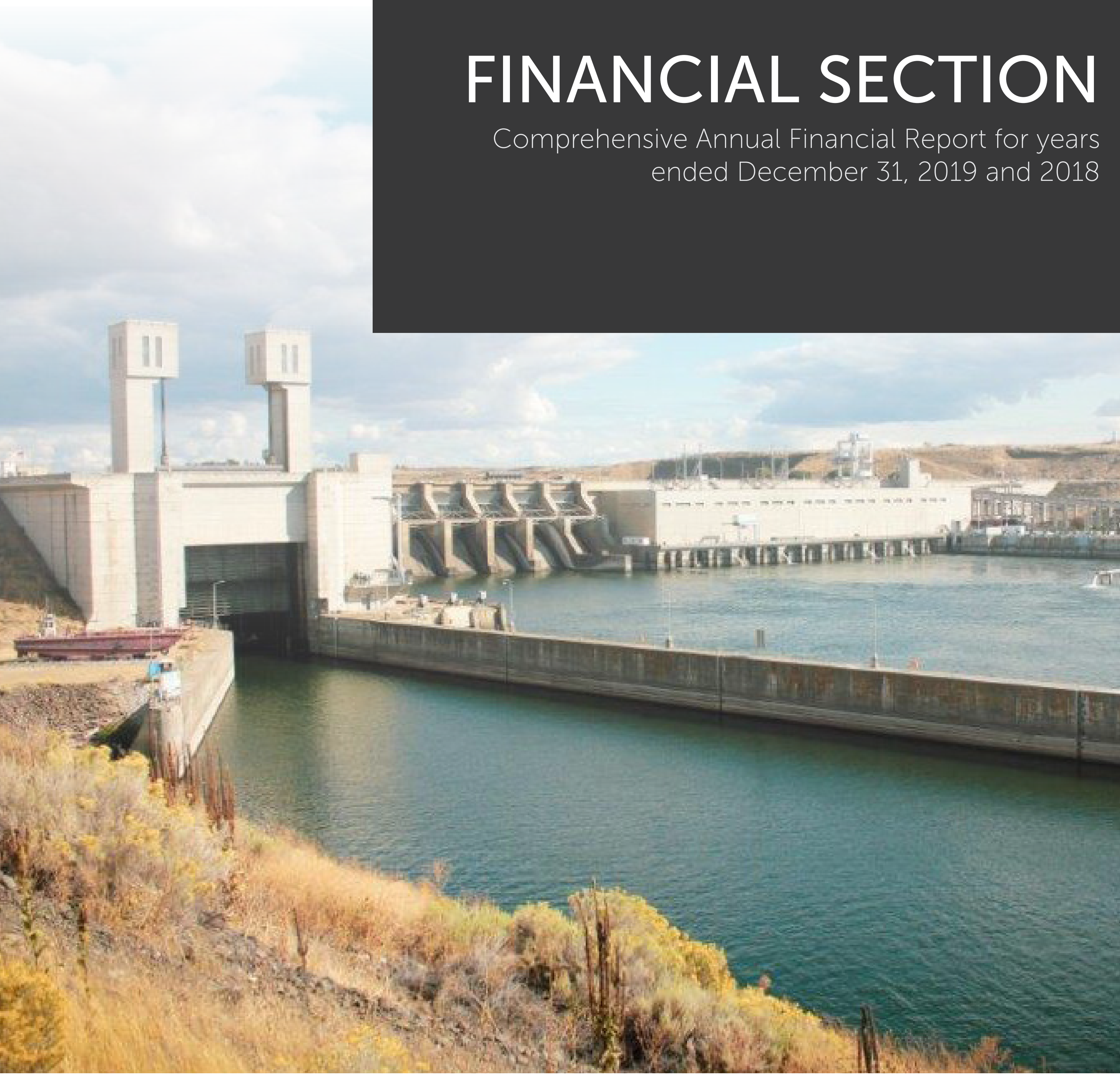
December 31, 2018

Christopher P. Morrill

Executive Director/CEO

FINANCIAL SECTION

Comprehensive Annual Financial Report for years ended December 31, 2019 and 2018



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Office of the Washington State Auditor
Pat McCarthy

July 21, 2020

Board of Commissioners
Public Utility District No. 1 of Franklin County
Pasco, Washington

Report on Financial Statements

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

We are issuing this report for inclusion in the District's comprehensive annual financial report package, which will be issued by the District under the District's own cover.

This report is in addition to our regular financial statement audit report, which will be available on our website and includes the District's basic financial statements.

Sincerely,

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (564) 999-0950 • Pat.McCarthy@sao.wa.gov

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

July 21, 2020

Board of Commissioners
Public Utility District No. 1 of Franklin County
Pasco, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Franklin County, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Franklin County, as of December 31, 2019 and 2018, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 13 to the financial statements, in March 2020, a state of emergency was declared that could have a negative financial effect on the District. Our opinion is not modified with respect to this matter.

Other Matters

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, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The Introductory and Statistical Sections are presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated July 21, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides an overview and analysis of key data presented in the basic financial statements for the years ended December 31, 2019 and 2018, with additional comparative data for 2017. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

Overview of the Financial Statements

Public Utility District No. 1 of Franklin County (District) accounts for its financial activities within a single proprietary fund. The District's financial activities are comprised of the purchase, generation, transmission, distribution and sale of electric energy, as well as the sale of wholesale telecommunication services.

In accordance with requirements set forth by the Governmental Accounting Standards Board (GASB), the District's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues when earned and expenses when incurred during the year, regardless of when cash is received or paid.

The basic financial statements for the years ended December 31, 2019 and 2018 are comprised of:

Statement of Net Position:
The District presents its Statement of Net Position using the balance sheet format. The Statement reflects the assets, deferred outflows, liabilities, deferred inflows and net position (equity) of the District at year-end. The net position section of the Statement is separated into three categories: net investment in capital assets, restricted for debt service, and unrestricted net position.

Statement of Revenues, Expenses, and Changes in Net Position:
This statement reflects the transactions and events that have increased or decreased the District's total economic resources during the period. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.

Statement of Cash Flows:
The Statement of Cash Flows reflects the sources and uses of cash separated into three categories of activities: operating, capital and related financing, and investing. The District does not include cash equivalents within its definition of cash.

The notes to the financial statements presented at the end of the basic financial statements are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flows.

Statement of Net Position (in thousands)

	2019	2018	2018 to 2019 Change	2017
Current and Other Assets	$55,462	$56,042	-1.03%	$53,231
Capital Assets and Work in Progress	252,439	244,990	3.04%	237,110
Accumulated Depreciation	(109,203)	(102,856)	6.17%	(96,968)
Total Assets	**198,698**	**198,176**	**0.26%**	**193,373**
Deferred Outflows of Resources	3,006	3,933	-23.57%	1,938
Total Assets and Deferred Outflows	**201,704**	**202,109**	**-0.20%**	**195,311**
Current and Other Liabilities	18,279	19,338	-5.48%	16,977
Long-Term Liabilities	55,647	60,659	-8.26%	66,385
Total Liabilities	**73,926**	**79,997**	**-7.59%**	**83,362**
Deferred Inflows of Resources	4,333	3,919	10.56%	1,978
Total Liabilities and Deferred Inflows	**78,259**	**83,916**	**-6.74%**	**85,340**
Net Investment in Capital Assets	93,577	88,940	5.21%	80,975
Restricted for Debt Service	3,915	3,915	0.00%	3,915
Unrestricted	25,953	25,338	2.43%	25,080
Total Net Position	**$123,445**	**$118,193**	**4.44%**	**$109,970**

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

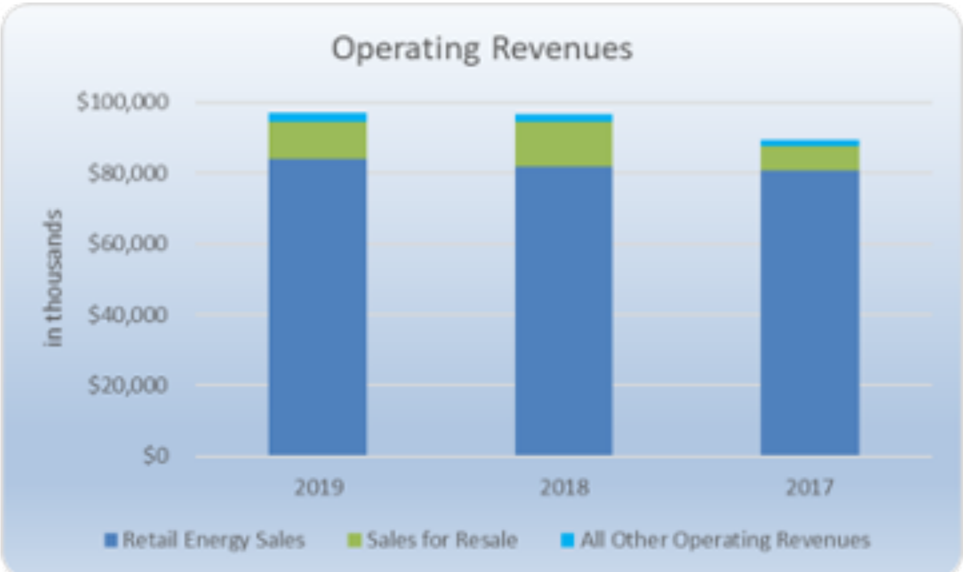
	2019	2018	2018 to 2019 Change	2017
Operating Revenues:				
Retail Energy Sales	$84,249	$81,797	3.00%	$80,670
Sales for Resale	10,342	12,756	-18.92%	6,856
Other	2,524	2,313	9.14%	2,007
Total Operating Revenues	97,115	96,865	0.26%	89,534
Nonoperating Revenues	609	466	30.81%	362
Total Revenues	**97,724**	**97,331**	**0.40%**	**89,896**
Operating Expenses:				
Power Supply	66,964	63,035	6.23%	57,805
Operations, Maintenance & Administrative	14,041	14,106	-0.46%	13,412
Taxes & Depreciation	12,197	12,114	0.69%	11,840
Total Operating Expenses	93,202	89,255	4.42%	83,056
Nonoperating Expenses	2,050	2,396	-14.43%	2,133
Total Expenses	**95,252**	**91,651**	**3.93%**	**85,189**
Income (Loss) Before Capital Contributions	2,472	5,680	-56.48%	4,707
Capital Contributions	3,780	2,544	48.60%	2,220
Special Items	(1,000)	0		(3,000)
Change in Net Position	**5,252**	**8,223**	**-36.13%**	**3,927**
Beginning Net Position	118,193	109,970	7.48%	106,043
Ending Net Position	**$123,445**	**$118,193**	**4.44%**	**$109,970**

Financial Analysis

The District's strong financial position continued in 2019, with an increase to total Net Position of 4.4% over 2018. The following narrative is an analysis of the change in net position by major components of income and expense, with a primary focus on changes between 2019 and 2018.

Operating Revenues

The following chart is graphical representation of the District's previous three years Operating Revenues:



2018 to 2019:

Overall revenue in 2019 was consistent with 2018, increasing less than one percent. Although total Operating Revenues stayed relatively flat, the distribution among revenue classifications changed. The District's largest revenue classification, Retail Energy Sales, saw an increase of 3% as the year began with above average kilowatt hour usage by the District's customers due to extremely cold winter conditions. In addition, 953 new accounts were added within the District's service territory, further demonstrating the sustained long term growth experienced by the District over the last 3 decades.

Sales for Resale decreased 19% from 2018 as a larger percentage of excess power resources served the District's own retail load, leaving fewer megawatt hours available to sell on the open market. In addition, the cold winter weather caused extreme price volatility due to the expectation of large demand with a limited power supply. Power supply was limited due to a reduced number of natural gas plants being able to run because of a natural gas pipeline explosion in October 2018.

2017 to 2018:

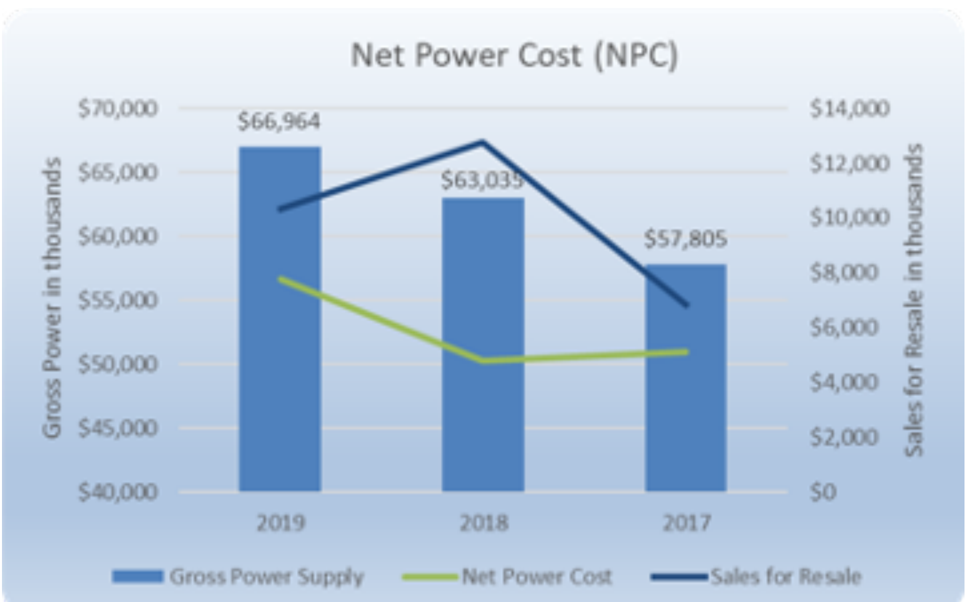
The District experienced a 1.40% overall increase in Retail Energy Sales during 2018. Although the District added 602 new accounts to the Residential sector, revenues decreased by (1.62%) due to lower retail energy consumption from 2017 for that Rate Class. Regional weather returned to more normal patterns than were experienced in 2017. The Commercial sector realized increased sales of 2.71% over 2017, due to the addition of several new accounts including one new food processing plant.

Revenues from wholesale energy (Sales for Resale) increased in 2018 by 86.06%, largely as a result of higher than normal pricing experienced in the summer months as well an extreme pricing event occurring in the fall. A natural gas pipeline rupture in October of 2018 forced several west coast gas plants offline, creating a demand for wholesale power. This drove up per megawatt hour prices. The District had entered into hedge agreements which protected against this pricing event and left the District in a net receivable position.

Operating Expenses

The following chart is graphical representation of the District's previous three years Operating Expenses:

Power Supply Costs represent the cost of providing electricity to the District's customer base. Gross Power Supply Costs comprised approximately 72% of the District's total operating expenses in 2019. The following graph illustrates the components of the District's Power Supply Costs on both a gross and net basis.



2018 to 2019:

The District experienced a 6.23% increase in Power Supply costs in 2019. The most significant increases were related to energy purchased on the open market, as well as costs associated with the District's Frederickson plant resource. Both resources were subject to the effects of an extreme wholesale power pricing event occurring early in the year. Cold winter weather created an expectation of large demand and limited power supply. The limitation on power supply was due to the reduction of available natural gas resources resulting from a pipeline rupture occurring in the fall of 2018.

2017 to 2018:
Power Supply Costs increased 9.05% in 2018, with the majority of the increase coming from energy purchased on the open market to serve the District's load. In addition, the District purchased gas to run the Frederickson plant, as well as gas hedges purchased as part of the District's risk management strategy. Many of these transactions were subject to the extreme wholesale pricing event discussed in the Operating Revenues section, and their settlement resulted in higher than average expenses.

Capital Contributions
The District recognized an increase of 48.6% in revenue from Capital Contributions in 2019. Several large projects were completed, most of which were related to new residential growth in the District's service territory. In addition, line extension projects were completed for the regional airport and a new banking institution building, as well as various school district projects.

In 2018, recognized revenue from Capital Contributions in the amount of $2.5 million, an increase from 2017. This is due to the completion of several capital projects still in progress at the end of 2017, including a substantial new commercial addition in the food processing industry.

Summary of Financial Position
The District's overall financial position improved in 2019, with an increase in net position of approximately $5 million.

District management monitors the effectiveness of its financial operations by measuring results against the financial policy adopted by the District's governing body. This policy directs District management to develop financial plans that position the District for current and future years while being fiscally responsible to the District's ratepayers. The financial policy consists of three key financial performance metrics – minimum cash/investment reserve balance (sufficient to fund 10% of gross power supply costs, 25% of other operating costs, and 25% of planned capital spending); minimum debt service coverage ratio of 1.6; maximum debt/asset ratio of 40%; and funding of a Rate Stabilization Fund at a level sufficient to meet the fiscal needs of the District. The District's performance over the past three years achieved these goals:

	2019 Financial Policy Targets	2019	2018	2017
Unrestricted Cash & Investments (in millions)	$13.9	$28.1	$26.2	$26.3
Minimum Debt Service Coverage	1.6	2.82	3.17	2.85
Maximum Debt/Asset Ratio	40%	27%	29%	30%
Rate Stabilization Fund	$5.9*	$5.9	$5.9	$5.9

*Funding level currently established, to be reviewed periodically by the District's governing body.

Capital Asset and Long-Term Debt Activity

Capital Assets (in thousands)

	2019	2018	Increase (Decrease)	% Change	2017
Land	$893	$893	$0	0.0%	$893
Electric Plant in Service	250,994	241,880	9,112	3.8%	230,193
Construction Work in Progress	552	2,217	(1,665)	-75.1%	6,024
Accumulated Depreciation	(109,203)	(102,856)	(6,347)	6.2%	(96,968)
Total Net Capital Assets	$143,236	$142,134	$1,100	0.8%	$140,142

In 2019, the District experienced a modest net increase to Capital Assets, with the largest areas of increase within the Distribution system assets classification. In addition to continued build out of the Distribution system to serve new customers, the District completed several improvements to the electric system. Installation of a mainline feeder increased reliability for several commercial and residential customers, and additional underground cable replacements were completed throughout the District's service territory. The District also added a Broadband Colocation facility.

The District's investment in Capital Assets saw continual growth in 2018, with Electric Plant in Service increasing by 5.1% over 2017. The largest area of growth was in the Distribution system assets as new residential housing developments continued to build in the District's service territory. Distribution assets to serve new commercial loads were also added to Capital Assets, as well as completion of a new bay at the Foster Wells substation.

More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Long Term Debt (in thousands)

	2019	2018	Increase (Decrease)	% Change	2017
Revenue Bonds	$53,585	$57,190	($3,605)	-6.3%	$60,738

Debt service payments totaled $5.5 million annually in 2019, 2018, and 2017.

More detailed information regarding the District's long term debt is presented in Note 4 to the financial statements.

Bond Ratings

In 2019, the District affirmed its credit rating with Moody's Global Ratings Scale (A1), and was upgraded by Standard & Poor's from A to A+.

Other Significant Matters

During 2019, the District adjusted the value of the Pasco Combustion Turbine plant to approximate market value based on Management's estimate of the plant's potential sales price. The plant is reported as an Asset Held for Sale on the Statement of Net Position. The impact of this revaluation is shown as a Special Item on the District's Statement of Changes in Revenues, Expenses and Net Position. Further information regarding the revaluation of the Pasco Combustion Turbine plant is presented in Note 12 of the financial statements – Special Item.

In 2020, the District was subject to the economic impacts resulting from the rapid spread of the novel coronavirus (COVID-19) felt worldwide. For further discussion, refer to Note 13 to the financial statements – Subsequent Events.

STATEMENT OF NET POSITION

As of December 31, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2019	2018
ASSETS		
Current Assets		
Cash (Note 2)	$2,354,893	$6,911,248
Investments - Unrestricted (Note 2)	20,729,255	19,302,857
Customer Accounts Receivable	10,130,075	10,344,612
Wholesale Power Receivable	1,073,157	1,107,787
BPA Prepay Receivable, Current Portion	600,000	600,000
Notes Receivable, Current Portion	8,526	-
Inventories	2,966,626	4,112,721
Prepayments	364,094	195,193
Derivative Asset (Note 1)	2,093,529	1,853,497
Asset Held for Sale (Note 12)	1,447,004	2,447,004
Other Current Assets	3,217	2,568
Total Current Assets	***41,770,376***	***46,877,487***
Noncurrent Assets		
Investments - Unrestricted (Note 2)	5,050,526	-
Investments - Restricted Debt Service Reserve Fund	3,914,649	3,914,649
BPA Prepay Receivable (Note 8)	4,650,000	5,250,000
Notes Receivable	76,731	-
Utility Plant (Note 3)		
Land	893,104	893,104
Electric Plant in Service	250,993,912	241,880,449
Construction Work in Progress	551,757	2,216,822
Accumulated Depreciation	(109,203,169)	(102,856,022)
Net Utility Plant	143,235,604	142,134,353
Total Noncurrent Assets	***156,927,510***	***151,299,002***
TOTAL ASSETS	***198,697,886***	***198,176,489***
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	1,959,377	2,859,807
Deferred loss on Refunding	213,584	301,444
Deferred Pension Outflows (Note 6)	833,405	771,498
TOTAL DEFERRED OUTFLOWS OF RESOURCES	***3,006,366***	***3,932,749***
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	***$201,704,252***	***$202,109,238***

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2019	2018
LIABILITIES		
Current Liabilities		
Accounts Payable	$7,622,305	$7,825,736
Customer Deposits	1,651,681	1,580,926
Accrued Taxes Payable	1,806,181	1,746,551
Accrued Interest Payable	731,604	751,527
Other Credits and Liabilities (Note 5)	1,142,876	1,253,894
Revenue Bonds, Current Portion	3,365,000	3,320,000
Derivative Liability (Note 1)	1,959,377	2,859,807
Total Current Liabilities	***18,279,024***	***19,338,441***
Noncurrent Liabilities		
Outstanding Revenue Bonds (Note 4)	50,220,147	53,870,050
Net Pension Liability (Note 6)	3,360,682	4,620,744
Other Credits and Liabilities (Note 5)	2,065,957	2,168,077
Total Noncurrent Liabilities	***55,646,786***	***60,658,871***
TOTAL LIABILITIES	***73,925,810***	***79,997,312***
DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging derivatives	2,093,529	1,853,497
Deferred Pension Inflow (Note 6)	2,037,836	1,844,829
Deferred Gain on Refunding (Note 4)	201,660	220,419
TOTAL DEFERRED INFLOWS OF RESOURCES	***4,333,025***	***3,918,745***
NET POSITION		
Net Investment in Capital Assets	93,577,030	88,939,977
Restricted for Debt Service	3,914,649	3,914,649
Unrestricted	25,953,738	25,338,555
TOTAL NET POSITION	***123,445,417***	***118,193,181***
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	***$201,704,252***	***$202,109,238***

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended December 31, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Retail Energy Sales (Note 1)	$84,248,908	$81,797,071
Broadband Revenue	1,880,779	1,671,791
Sales for Resale	10,342,134	12,755,537
Other Electric revenue	98,000	100,800
Other Operating revenue	545,339	539,940
TOTAL OPERATING REVENUES	***97,115,160***	***96,865,139***
OPERATING EXPENSES		
Power Supply (Note 8)	66,963,594	63,035,372
System Operations & Maintenance	5,204,505	5,667,060
Broadband Operations & Maintenance	546,217	485,574
Customer Accounting & Information	2,483,621	2,464,239
Administrative & General Expense	5,806,805	5,489,306
Taxes	4,760,344	4,749,889
Depreciation & Amortization of Intangible Assets	7,437,092	7,363,965
TOTAL OPERATING EXPENSES	***93,202,178***	***89,255,405***
OPERATING INCOME	3,912,982	7,609,734
NONOPERATING REVENUES & EXPENSES		
Interest Income	609,441	465,544
Bond Interest, Debt Premium/Discount Amortization and Issuance Costs	(2,018,856)	(2,070,025)
Other Nonoperating Revenue (Expense)	(31,436)	(325,715)
TOTAL NONOPERATING REVENUES & EXPENSES	***(1,440,851)***	***(1,930,196)***
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEMS	2,472,131	5,679,538
CAPITAL CONTRIBUTIONS	3,780,105	2,543,773
SPECIAL ITEMS (Note 12)	(1,000,000)	
CHANGE IN NET POSITION	**5,252,236**	**8,223,311**
NET POSITION, BEGINNING OF YEAR	**118,193,181**	**109,969,870**
NET POSITION, END OF YEAR	**$123,445,417**	**$118,193,181**

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

CASH FLOWS FROM OPERATING ACTIVITIES	2019	2018
Cash received from customers	$100,952,577	$97,971,386
Cash paid to suppliers and counterparties	(75,298,506)	(72,799,512)
Cash paid to employees	(8,859,568)	(8,416,069)
Taxes Paid	(4,700,714)	(4,719,051)
Other receipts	32,790	43,931
NET CASH PROVIDED BY OPERATING ACTIVITIES	***12,126,579***	***12,080,685***
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(8,495,971)	(9,345,052)
Interest paid on long-term debt	(2,254,581)	(2,306,275)
Principal paid on long-term debt	(3,320,000)	(3,260,000)
Contributions in aid of construction	2,629,753	2,280,441
Proceeds from disposal of plant	18,424	6,878
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	***(11,422,375)***	***(12,624,008)***
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment purchases	(25,250,000)	(9,465,544)
Investment sales and maturities	19,380,000	10,413,137
Interest Income	609,441	465,544
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	***(5,260,559)***	***1,413,137***
NET INCREASE IN CASH	***(4,556,355)***	***869,814***
CASH BALANCE, BEGINNING OF YEAR	***6,911,248***	***6,041,434***
CASH BALANCE, END OF YEAR	***$2,354,893***	***$6,911,248***
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$3,912,982	$7,609,734
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	7,437,092	7,363,965
Miscellaneous other revenue and receipts	883,123	589,115
Miscellaneous other disbursements and expenses	(15,380)	(428,188)
Pension Expense (Credit)	(945,509)	(837,780)
(Increase) decrease in accounts receivable (Net)	163,022	(1,253,246)
(Increase) decrease in plant supplies	1,146,094	(942,092)
(Increase) decrease in prepaid expenses	(168,902)	(54,108)
(Increase) decrease in other assets	238	(2,568)
(Decrease) increase in payables	(12,863)	828,078
(Decrease) increase in other credits	(273,318)	(792,225)
NET CASH PROVIDED BY OPERATING ACTIVITIES	***$12,126,579***	***$12,080,685***

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

During 2019 and 2018, the District received $455,291 and $263,332, respectively, in non-cash capital contributions.

Accumulated increases and decreases in the fair value of hedging derivatives had no effect on cash flows for 2019 or 2018. For accumulated increases in fair value, the District records an offsetting asset. For accumulated decreases in fair value, the District records an offsetting liability.

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Franklin County (the District) was established in 1938 and purchases, generates, transmits, distributes and sells electric energy. In addition, the District is authorized under state law to provide wholesale telecommunications services. The District's service area is approximately 435 square miles in Franklin County, and includes approximately 80 percent of the County's population. The District's properties include 21 substations, 1,111 miles of transmission and distribution lines, and other buildings, equipment, and related facilities. The District has 99 employees and serves 31,546 active accounts. The District has revenues in excess of $97 million and total assets of over $201 million. An elected three-member Board of Commissioners administers the District.

As required by generally accepted accounting principles (GAAP), management has considered all potential component units in defining the reporting entity and has identified no component units.

A. Basis of Accounting and Presentation

The accounting and reporting policies of the District are regulated by the Washington State Auditor's Office under chapter 43.09 RCW and are based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC). The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing, and investing activities are considered to be non-operating revenues and expenses.

The District's accounting policies conform to GAAP as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following are a summary of the significant accounting policies used in the preparation of the financial statements.

B. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes both restricted and unrestricted cash balances. Short-term highly liquid investments are not considered to be cash equivalents (see Note 2). The Rate Stabilization Fund was established in 2009 with a transfer of $5.9 million. No transfers were made to or from the Rate Stabilization Fund in 2019 or 2018.

C. Restricted Funds

In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. The assets held in these funds are restricted for specific uses including debt service, and are classified non-current assets.

D. Investments

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost.

The District holds a non-negotiable Certificate of Deposit which has been recorded using a cost-based measure as prescribed by GASB Statement No. 31. Refer to Note 2 – Deposits and Investments.

E. Accounts Receivable

The District uses the percentage-of-sales method to record amounts estimated to be uncollectible based on the prior year's write offs. Uncollected accounts over 60 days, except those with special arrangements, are approved monthly for write off by the Board of Commissioners.

F. Inventories

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

G. Derivative Instruments

The District has adopted GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*. Subject to certain exceptions, GASB 53 requires that every derivative instrument be recorded on the statement of net position as an asset or liability, measured at its fair value and that changes in the derivatives fair value be recognized currently in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred. It is the District's policy to document and apply as appropriate the normal purchase and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity, natural gas and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales". These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options, and financial swaps for electricity and natural gas, are considered to be derivatives under GASB Statement No. 53, but do not generally meet the "normal purchases and normal sales" criteria.

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

	Changes in Fair Value		Fair Value at December 31, 2019			
	Classification	Amount	Classification	Amount	Notional	
Cash Flow Hedges:						
Financial Swap Forward	Deferred Inflow	$ 1,071,602	Derivative Asset	$ 1,071,602	4,108,838	MWh
Financial Swap Forward	Deferred Inflow	$ 1,021,927	Derivative Asset	$ 1,021,927	3,409,459	mmbtu
Financial Swap Forward	Deferred Outflow	$ (1,660,968)	Derivative Liability	$ (1,660,968)	5,011,765	MWh
Financial Swap Forward	Deferred Outflow	$ (298,409)	Derivative Liability	$ (298,409)	1,783,273	mmbtu

These derivative instruments were entered into between January 2018 and December 2019 with maturities between January 2020 and March 2022.

As of December 31, 2018, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2018			
	Classification	Amount	Classification	Amount	Notional	
Cash Flow Hedges:						
Financial Swap Forward	Deferred Inflow	$ 822,656	Derivative Asset	$ 822,656	850,216	MWh
Financial Swap Forward	Deferred Inflow	$ 1,030,841	Derivative Asset	$ 1,030,841	2,710,048	mmbtu
Financial Swap Forward	Deferred Outflow	$ (2,745,105)	Derivative Liability	$ (2,745,105)	5,435,071	MWh
Financial Swap Forward	Deferred Outflow	$ (114,702)	Derivative Liability	$ (114,702)	24,192	mmbtu

These derivative instruments were entered into between July 2017 and December 2018 with maturities between January 2019 and September 2020.

The fair values of the commodity swap contracts are based on the futures price curve for the Mid-Columbia Intercontinental Exchange for electricity. There are instances when the variance between prices at the Sumas gas trading hub and the Henry gas trading hub are wide, creating an illiquid market. The District has approved using Henry Hub to hedge Frederickson (refer to Note 8) when this occurs, but requires the position to be converted to Sumas by six months to delivery. This reduction of basis risk is achieved through the use of financial basis swaps. The fair value of the options was calculated using the Black-76 options pricing model. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the District's fair value measurements are classified as Level 2.

Objective & Strategies:

The District enters into derivative energy transactions to hedge its known or expected positions within its approved risk management policy. Decisions are made to enter into forward transactions to protect its financial position, specifically to deal with expected long and short positions as determined by projected load and resource balance positions. Generally, several strategies are employed to hedge the District's resource portfolio, including:

> **Combustion Turbines** – The District purchases gas for future periods to generate electricity when the plant is economically viable on a marginal basis for that period based on parameters set by the Risk Management Committee. If load projections indicate that the District does not require the electricity to serve its customers, an equivalent quantity of power will concurrently be sold or otherwise hedged for the same period.
>
> **Surplus Purchased Power Resources** – The District hedges projected surpluses in future periods by selling power or by purchasing put options. Surplus power is generally sold forward at a fixed-price, either physically or financially, when the probability of surplus is very high; surplus power is hedged through the purchase of physical or financial put options when the projected surplus is less certain, but nevertheless expected to be available under expected scenarios.
>
> **Deficit Power Resources** – The District hedges projected power resource deficits in future periods by purchasing power or by purchasing power call options (or if the Frederickson Project (see Note 8) is economically viable for the period, by buying gas or gas call options). Power is generally purchased to cover projected deficits at a fixed price, either physically or financially, when the probability of the deficit position is very high; such deficit positions are hedged through the purchase of physical or financial call options when the projected deficits are less certain, but nevertheless expected under the approved planning conditions.

Derivatives authorized under the Risk Management Policy and employed by the District include:

- Physical power and natural gas forward purchases and sales
- Monthly and daily power and gas physical calls and puts
- Power and natural gas fixed for floating swaps
- Currency swaps relating to managing US/Canadian exchange rate risk resulting from transactions denominated in Canadian dollars
- Quarterly and monthly financial power and gas put and call options
- Financial daily power and gas put and call options
- Quarterly and monthly financial power and natural gas swaptions
- Financial natural gas swing and basis swaps

There is no associated debt for these instruments at December 31, 2019 or 2018.

Credit Risk

The District's Risk Management Committee (RMC) partners with The Energy Authority (TEA) to develop credit policies and credit limits for the counterparties with whom the District conducts physical and financial commodity transactions. Services performed by TEA include monitoring of credit exposure on a real time basis on behalf of the District, as well as providing recommendations regarding counterparty credit quality based on various credit evaluation factors.

All physical electricity transactions (for hourly and/or daily) for the District are traded by TEA as principal (on behalf of the District) and rely on TEA's credit limits. All forward physical/financial commodity transactions are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness; credit limits based on market conditions and available qualified counterparties are established and reviewed annually by the Risk Management Committee. As of December 31, 2019, the District had 41 counterparties. The maximum credit extended to any single counterparty is $3 million. As of December 31, 2018, the District had 47 counterparties. The maximum credit extended to any single counterparty is $3 million. The District entered into master enabling agreements with various counterparties, which enable hedging transactions. Such agreements include the Western Systems Power Pool (WSPP) form of agreement for physical power transactions, various forms of enabling agreements for physical gas transactions and International Swap Dealers Association Agreements (ISDA) for financial transactions. All of the enabling agreements have provisions addressing credit exposure and provide for various remedies to assure financial performance, including the ability to call on additional collateral as conditions warrant, generally as determined by the exposed party. The District also uses netting provisions in the agreement to diffuse a portion of the risk.

Transactions under the physical enabling agreements are used to deal with long and short physical positions under the direction of the Risk Management Committee and pursuant to the risk management policy. Transactions under the ISDA agreements are used to financially hedge long or short positions so that the agreements also permit the District to hedge the risk of an underlying physical position by using call options, or put options.

The aggregate fair value of hedging derivative instruments in asset positions was $2,093,529 and $1,853,497 as of December 31, 2019 and 2018, respectively. The District transacts with various counterparties throughout the year, and as of December 31, 2019 five counterparties comprised 100% of the net exposure to credit risk, with credit ratings ranging from Not Rated/Baa2 to A. December 31, 2018 four counterparties comprised 100% of the net exposure to credit risk, with credit ratings ranging from Not Rated/Baa2 to A.

Basis Risk

The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. At December 31, 2019 and 2018, there are no derivative transactions outstanding that carry basis risk. As applicable, all power related transactions are to be settled on the relevant Mid-Columbia index and all gas transactions are to be settled on the relevant Sumas/Huntingdon index or be converted to the Sumas/Huntingdon index within six months of delivery. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

Termination Risk

As of December 31, 2019 and 2018, no termination events have occurred and there are no outstanding transactions with material termination risk. None of the outstanding transactions have early termination provisions except in the event of default by either counterparty. Events of default are generally related to (i) failure to make payments when due, (ii) failure to provide and maintain suitable credit assurances as required, (iii) bankruptcy or other evidence of insolvency, or (iv) failure to perform under any material provision of the agreement. Failure to provide or receive energy or natural gas under physical commodity transactions does generally not fall under the events of default provisions, unless the non-performing party fails to pay the resulting liquidated damages as they come due.

There is no rollover, interest rate, foreign currency, or market access risk for these derivative products as of December 31, 2019 and 2018.

H. Other Receivables

In 2013, a long term receivable was established as a result of participation in the BPA prepay program. The outstanding balance of this receivable was $5,250,000 as of December 31, 2019. Of this amount $600,000 will be collected within one year and is accordingly classified within current accounts receivable, the remaining $4,650,000 is shown under noncurrent assets. For more information regarding the BPA prepay program, refer to Note 8.

In 2019, a long term receivable was established as a result of participation in a bridge financing agreement with Noanet (see Note 10). The outstanding balance of this receivable was $82,257 as of December 31, 2019. Of this amount $8,526 will be collected within one year and is accordingly classified within current accounts receivable; the remaining balance is shown under noncurrent assets.

I. Utility Plant and Depreciation

Major expenses for utility plant and major repairs that increase useful lives are capitalized. The District's capitalization threshold is $5,000 for non-infrastructure capital. All costs related to infrastructure are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

Utility plant in service and other capital assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated cost. Contributions by developers and customers are recorded at contract price or cost as contributions in aid of construction. The District records depreciation on assets acquired by contributions.

Capital assets are depreciated using the straight-line method over the following estimated useful lives for major asset classes:

Broadband	5-20 years
Transmission	33-50 years
Distribution	15-50 years
General Plant	5-40 years
Production	20 years

Intangible assets are amortized over their estimated useful life at the time of purchase, if the asset meets the criteria for amortization. Initial depreciation on utility plant is generally recorded in the month subsequent to purchase or project completion.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant. Charges that relate to abandoned projects are expensed.

The estimated original cost of operating property retired (or otherwise disposed of) and the cost of removal, less salvage, is charged to accumulated depreciation. For distribution and certain Broadband assets, the retirement original cost is calculated using the average cost of the asset and is charged to accumulated depreciation, while the cost of removal remains in a separate retirement costs subaccount. In the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income. There were no sales of significant units or systems in 2019. Refer to Note 3.

J. Other Credits and Liabilities:

The District records unpaid leave for compensated absences as an expense and liability when incurred. Personal leave may accumulate to a maximum of 1,200 hours, and is payable upon separation of service, retirement, or death. Employees hired after April 1, 2011 may accumulate a maximum of 700 hours. The District estimates a minimum of $670,774 in compensated absences will be paid within one year. As of December 31, 2019 and 2018, $670,774 and $710,089 respectively, were included in the current portion of other Credits and Liabilities on the statement of net position. An additional amount of $654,950 and $595,812 is included in long term compensated absences as of December 31, 2019 and 2018.

Extended sick leave is sick leave accrued by employees (at 30%) prior to April 1, 1993, adjusted to actual as of December 31, 2019 and 2018. This total is no longer current sick leave; it is used at the employee's option to supplement the District sponsored short-term disability plan. The amount also represents the portion of leave that may be used upon retirement towards health insurance.

The District records revenues collected from Contributions in Aid of Construction at the beginning of a capital project as unearned revenue (Customer Advances for Construction) until the capital project is completed, at which point the revenue is recognized as revenue from Capital Contributions on the Statement of Changes in Revenues, Expenses and Net Position. The unearned amount for the unrecognized portion (Customer Advances for Construction) of Capital Contributions is presented under Current Liabilities as Other Credits and Liabilities on the Statement of Net Position. As of December 31, 2019 and 2018, an amount of $375,040 and $487,302 respectively was included in Other Credits and Liabilities under Current Liabilities on the Statement of Net Position. Refer to Note 5.

K. Debt Premium & Discount

Original issue and reacquired bond premiums and discounts relating to revenue bonds are amortized over the lives of the related bonds using the straight-line method. Unamortized premium and discount is included in the amount shown as Outstanding Revenue Bonds within the financial statements. Debt issuance costs are expensed in the period incurred in accordance with GASB Statement No. 65.

L. Revenue Recognition

Revenues from retail sales of electricity include an estimate for energy delivered to customers between the last billing date and the end of the year. This amount is included within Retail Energy Sales in the accompanying financial statements in the amount of $2.5 million at December 31, 2019 and $2.6 million at December 31, 2018.

M. 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.

N. Contributed Capital

Capital contributions of $3,780,105 and $2,543,773 are reported for 2019 and 2018, respectively, on the statement of revenues, expenses and changes in net position. There were no capital contributions resulting from federal grant awards for either 2019 or 2018.

O. Use of Estimates

The preparation of the financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Construction Financing

Capital expenditures in 2019 were made using 33.34% from Capital Contributions and 66.66% from rate revenue.

Q. Reclassification

Certain amounts reported within the 2018 financial statements have been reclassified to conform to the 2019 presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

The District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Deposit accounts are reconciled to the District's accounting records at year end, and the book balance of these accounts does not materially differ from the bank balance.

Investments

As of December 31, 2019, the District held the following investments:

Investments	Maturities	Measurement	Total
State Treasurers Local Government Investment Pool (LGIP)	51 days average	Amortized Cost	$24,643,904
Nonnegotiable Certificate of Deposit - Umpqua Bank	24 months	Cost	$5,050,526
Total Investments			$29,694,430

As of December 31, 2018, the District held the following investments:

Investments	Maturities	Measurement	Total
State Treasurers Local Government Investment Pool (LGIP)	42 days average	Amortized Cost	$23,217,506

The District is a participant in the Local Government Investment Pool, which is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov.

Credit Risk – The District's investment policy conforms with state law, which restricts investments of public funds to funds to debt securities and obligations of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit, and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), bankers' acceptances, investment-grade general obligation debt of state and local governments and public authorities, and the Washington State Treasurer's Local Government Investment Pool (LGIP). The LGIP portfolio meets the requirements set forth in GASB 79 to report the investment at amortized cost. The LGIP is governed by the State Finance Committee and is administered by the State Treasurer. The District does not have a policy specifically addressing custodial credit risk.

NOTE 3 – CAPITAL ASSETS

Utility Plant Activity for the year ended December 31, 2019 was as follows:

Utility Plant	Balance, 12/31/2018	Increase	Decrease	Balance, 12/31/2019
Assets not subject to depreciation:				
Land	$893,104			$893,104
Construction Work in Progress	2,216,822	11,108,764	(12,773,829)	551,757
Assets subject to depreciation or amortization:				
Intangible	665,984	414,391	(179,669)	900,706
Broadband	20,192,614	1,767,004	(21,074)	21,938,544
Transmission	7,658,053	49,118		7,707,171
Distribution	188,985,636	106,725,211	(99,940,500)	195,770,347
General Plant	24,378,162	3,540,625	(3,241,643)	24,677,144
Subtotal	244,990,375	123,605,113	(116,156,715)	252,438,773
Less Accumulated Depreciation & Amortization:				
Intangible	(347,993)	(126,031)	120,673	(353,351)
Broadband	(12,253,017)	(989,935)		(13,242,952)
Transmission	(3,220,350)	(184,021)		(3,404,370)
Distribution	(72,226,480)	(49,842,187)	45,002,206	(77,066,461)
General Plant	(14,808,183)	(1,194,112)	866,260	(15,136,035)
Total Accumulated Depreciation & Amortization	(102,856,022)	(52,336,286)	45,989,139	(109,203,169)
Net Utility Plant	**$142,134,353**	**$71,268,827**	**($70,167,576)**	**$143,235,604**

Utility Plant Activity for the year ended December 31, 2018 was as follows:

Utility Plant	Balance, 12/31/2017	Increase	Decrease	Balance, 12/31/2018
Assets not subject to depreciation:				
Land	$893,104			$893,104
Completed Construction Not Classified	6,006,219	3,076,321	(9,082,540)	0
Construction Work in Progress	6,024,104	11,961,706	(15,768,988)	2,216,822
Assets subject to depreciation or amortization:				
Intangible	1,318,085	3,203,144	(3,855,245)	665,984
Broadband	19,505,708	695,607	(8,701)	20,192,614
Transmission	6,653,243	1,018,444	(13,634)	7,658,053
Distribution	173,785,311	23,662,627	(8,462,302)	188,985,636
General Plant	22,924,192	3,692,286	(2,238,316)	24,378,162
Subtotal	237,109,966	47,310,135	(39,429,726)	244,990,375
Less Accumulated Depreciation & Amortization:				
Intangible	(628,882)	(171,302)	452,191	(347,993)
Broadband	(11,113,116)	(1,148,602)	8,701	(12,253,017)
Transmission	(3,059,311)	(174,673)	13,634	(3,220,350)
Distribution	(67,711,460)	(8,356,233)	3,841,213	(72,226,480)
General Plant	(14,455,677)	(861,219)	508,713	(14,808,183)
Total Accumulated Depreciation & Amortization	(96,968,445)	(10,712,029)	4,824,452	(102,856,022)
Net Utility Plant	**$140,141,521**	**$36,598,106**	**($34,605,274)**	**$142,134,353**

The District has active construction projects as of December 31, 2019 in the amount of $551,757. The District does not require future financing to complete these projects.

NOTE 4 – LONG TERM DEBT

The District has adopted GASB Statement No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. As of December 31, 2019 and 2018 the District had outstanding revenue and refunding bonds totaling $51,665,000 and $54,985,000, respectively. The bonds meet the definition of Direct Placement Debt as defined in GASB Statement No. 88, and are collateralized by the operating revenues of the District.

During the year ended December 31, 2019, the following changes occurred in long term debt:

Direct Placement Debt	Original Issue Amount	Balance, 12/31/18	Increases	Decreases	Balance, 12/31/19	Amounts Due Within One Year
2013A Electric Revenue & Refunding Bonds - interest rates ranging 2.0% - 5.0%, maturing in 2038	18,370,000	$17,590,000		($180,000)	$17,410,000	$185,000
2013B Electric Revenue & Refunding Bonds - interest rates ranging 1.0% - 4.2%, maturing in 2038	9,155,000	8,330,000		(175,000)	8,155,000	180,000
2016A Electric Revenue & Refunding Bonds - interest rates ranging 3.1% - 5.0%, maturing in 2041		16,870,000			16,870,000	
2016B Electric Revenue & Refunding Bonds - interest rates ranging 1.0% - 2.2%, maturing in 2022		12,195,000		(2,965,000)	9,230,000	3,000,000
Subtotal		54,985,000		(3,320,000)	51,665,000	3,365,000
Plus: Unamortized premium		2,413,634		(299,925)	2,113,709	
Less: Unamortized discount		(208,584)	15,022		(193,562)	
Total Direct Placement Debt		**$57,190,050**	**$15,022**	**($3,619,925)**	**$53,585,147**	**$3,365,000**

During the year ended December 31, 2018, the following changes occurred in long term debt:

Direct Placement Debt	Original Issue Amount	Balance, 12/31/17	Increases	Decreases	Balance, 12/31/18	Amounts Due Within One Year
2013A Electric Revenue & Refunding Bonds - interest rates ranging 2.0% - 5.0%, maturing in 2038	18,370,000	$17,760,000		($170,000)	$17,590,000	$180,000
2013B Electric Revenue & Refunding Bonds - interest rates ranging 1.0% - 4.2%, maturing in 2038	9,155,000	8,505,000		(175,000)	8,330,000	175,000
2016A Electric Revenue & Refunding Bonds - interest rates ranging 3.1% - 5.0%, maturing in 2041		16,870,000			16,870,000	
2016B Electric Revenue & Refunding Bonds - interest rates ranging 1.0% - 2.2%, maturing in 2022		15,110,000		(2,915,000)	12,195,000	2,965,000
Subtotal		58,245,000		(3,260,000)	54,985,000	3,320,000
Plus: Unamortized premium		2,716,774		(303,140)	2,413,634	
Less: Unamortized discount		(223,606)	15,022		(208,584)	
Total Direct Placement Debt		**$60,738,168**	**$15,022**	**($3,563,140)**	**$57,190,050**	**$3,320,000**

Future Debt Service on the bonds is as follows:

Year	Principal	Interest	Total
2020	3,365,000	2,194,813	5,559,813
2021	3,445,000	2,128,193	5,573,193
2022	3,425,000	2,052,585	5,477,585
2023	2,180,000	1,972,676	4,152,676
2024	2,285,000	1,866,316	4,151,316
2025-2029	13,220,000	7,547,861	20,767,861
2030-2034	13,510,000	4,199,306	17,709,306
2035-2039	9,555,000	1,322,650	10,877,650
2040-2041	680,000	32,031	712,031
Total	**$ 51,665,000**	**$ 23,316,431**	**$ 74,981,431**

During 2013 the District issued Series 2013A Electric Revenue and Refunding bonds in the amount of $18,370,000 and Series 2013B (Taxable) in the amount of $9,155,000 for the purpose of financing certain capital improvements to the District's electric system and refund the 2001, 2002 and 2003 outstanding bonds, as well as certain maturities of the 2007 bonds. The refunding portion of the bond proceeds was placed in an irrevocable trust for future debt service on the refunded bonds. At December 31, 2013, the 2001, 2002 and 2003 bonds were considered defeased and are no longer reflected in the District's financial statements. The refunding resulted in net present value cash flow savings of ($1,071,453) and an economic loss from refunding of $770,025. Bond proceeds were also used to establish the debt service reserve fund in the amount of $3,142,483 as required by the bond resolutions.

In October 2016, the District issued Electric Revenue and Refunding Bonds Series 2016A and 2016B (taxable) in the amounts of $16,870,000 and $15,305,000, respectively. The bonds were issued for the purpose of refunding the portion of the 2007 series bonds maturing after September 1, 2017 and to fund future improvement to the electric utility system in the amount of $5 million. The refunding proceeds were placed in an irrevocable trust for future debt service on the refunded bonds and as of December 31, 2016 are no longer report within the District's Financial Statements. The transaction resulted in a net present value cash flow savings to the District of $2.4 million over the life of the refunded bonds and an economic gain of $257,938. The refunding resulted in an increase to the District's Debt Service Reserve Fund of $772,166. As of December 31, 2017 there were no unspent bond proceeds in the bond construction fund.

As of December 31, 2019 and 2018 the District maintained $3,914,649 in restricted assets related to bonded debt of the District. This represents the debt service reserve fund as required by the bond resolutions. There are a number of other limitations and restrictions contained in the various bond resolutions. The District is in compliance with all significant limitations and restrictions, including those regarding federal arbitrage.

Line of Credit

The District maintains a non-revolving line of credit to support standby letters of credit with Umpqua Bank in the amount of $3 million. The District did not utilize this line of credit in 2019 and does not anticipate utilizing it in 2020.

NOTE 5 – OTHER CREDITS AND LIABILITIES

Changes in Other Credits and Liabilities as of December 31, 2019 were as follows:

Other Credits & Liabilities - Current	2018	Increases	Decreases	2019
Compensated Absences – Current	710,089	1,263,063	(1,302,378)	670,774
Extended Sick Leave	6,176	202		6,378
Customer Advances for Construction	487,302	2,034,042	(2,146,304)	375,040
Other Current Liabilities	50,327	116,411	(76,054)	90,684
Total Other Current Liabilities	**$1,253,894**	**$3,413,718**	**($3,524,736)**	**$1,142,876**

Other Credits & Liabilities – Noncurrent	2018	Increases	Decreases	2019
Compensated Absences – Long Term	595,812	59,138		654,950
BPA Incentive Credit	1,572,265		(161,258)	1,411,007
Total Other Credits & Liabilities	**$2,168,077**	**$59,138**	**($161,258)**	**$2,065,957**

Changes in Other Credits and Liabilities as of December 31, 2018 were as follows:

Other Credits & Liabilities - Current	2017	Increases	Decreases	2018
Compensated Absences – Current	669,564	1,078,548	(1,038,023)	710,089
Conservation Credit	288,234	255,314	(543,548)	0
Extended Sick Leave	23,597	888	(18,309)	6,176
Customer Advances for Construction	854,989	1,968,329	(2,336,016)	487,302
Other Current Liabilities	209,735	87,681	(247,089)	50,327
Total Other Current Liabilities	**$2,046,119**	**$3,390,760**	**($4,182,985)**	**$1,253,894**

Other Credits & Liabilities – Noncurrent	2017	Increases	Decreases	2018
Compensated Absences – Long Term	706,557		(110,745)	595,812
BPA Incentive Credit	1,733,523		(161,258)	1,572,265
Total Other Credits & Liabilities	**$2,440,080**	**$0**	**($272,003)**	**$2,168,077**

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts – All Plans	2019	2018
Pension liabilities	$3,360,382	$4,620,744
Deferred outflows of resources	$833,405	$771,498
Deferred inflows of resources	$2,037,836	$1,844,829
Pension expense/expenditures	$20,055	$129,216

State Sponsored Pension Plans

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

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

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

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

Public Employees Retirement System (PERS)

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

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

__Contributions__

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1 Actual Contribution Rates:	Employer	Employee
January - June 2019		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	**12.83%**	**6.00%**
July - December 2019		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	**12.86%**	**6.00%**

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

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

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

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3 Actual Contribution Rates:	Employer 2/3	Employee 2/3
January - June 2019		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.83%**	**7.41%**
September - December 2018		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.86%**	**7.90%**

The District's actual PERS plan contributions were $462,217 to PERS Plan 1 and $686,799 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2017 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, 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 based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.

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 included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 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 Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2019, 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	% 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 the Net Pension Liability

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, 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 percent) or 1-percentage point higher (8.4 percent) than the current rate.

2019:

	1% Decrease (6.40%)	Current Rate (7.40%)	1% Increase (8.40%)
PERS 1 (.067011%)	$3,266,988	$2,576,811	$2,012,697
PERS 2/3 (.080700%)	$6,011,982	$783,871	($3,506,139)

2018:

	1% Decrease (6.40%)	Current Rate (7.40%)	1% Increase (8.40%)
PERS 1 (.071672%)	$3,933,701	$3,200,896	$2,566,139
PERS 2/3 (.083158%)	$6,494,422	$1,419,848	($2,740,735)

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 June 30, 2019, the District reported a total pension liability of $3,360,682 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$2,576,811
PERS 2/3	$783,871

At June 30, 2018, the District reported a total pension liability of $4,620,744 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$3,200,896
PERS 2/3	$1,419,848

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.071672%	0.067011%	-0.004661%
PERS 2/3	0.083158%	0.080700%	-0.002458%

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.073408%	0.071672%	-0.001736%
PERS 2/3	0.085880%	0.083158%	-0.002722%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019 and 2018, the District recognized pension expense as follows:

2019	Pension Expense
PERS 1	($98,636)
PERS 2/3	$118,691
Total	**$20,055**

2018	Pension Expense
PERS 1	$193,915
PERS 2/3	($64,699)
Total	**$129,216**

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 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		$172,153
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$230,232	
Total	**$230,232**	**$172,153**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$224,581	$168,528
Net difference between projected and actual investment earnings on pension plan investments		$1,140,995
Changes of assumptions	$20,072	$328,886
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$227,274
Contributions subsequent to the measurement date	$358,520	
Total	**$603,173**	**$1,865,683**

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 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		$127,202
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$248,513	
Total	**$248,513**	**$127,202**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$174,036	$248,589
Net difference between projected and actual investment earnings on pension plan investments		$871,285
Changes of assumptions	$16,610	$404,077
Changes in proportion and differences between contributions and proportionate share of contributions	$1,510	$193,676
Contributions subsequent to the measurement date	$330,829	
Total	**$522,985**	**$1,717,627**

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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31		PERS 1
2020		38,004
2021		90,020
2022		32,124
2023		12,005
2024		
Thereafter		
Total	**$**	**172,153**

Year ended December 31		PERS 2/3
2020		395,280
2021		630,303
2022		304,410
2023		183,697
2024		96,899
Thereafter		10,443
Total	**$**	**1,621,032**

NOTE 7 – DEFERRED COMPENSATION AND HEALTH BENEFIT PLANS

Deferred Compensation Plans

The District 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 match is locked at a maximum rate of 2%. 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. The District made matching contributions of $129,769 and $144,659 in 2019 and 2018, respectively. Employees made contributions of $505,971 and $570,139 to the 457 and 401(a) plans in 2019 and 2018, respectively.

Heath Benefit Plans

Employees who elect to participate in a District provided wellness program receive a $150 per month contribution into their health reimbursement agreement (HRA). In addition, the District makes annual contributions to employee HRA accounts for those employees who enroll in the District's consumer directed health plan (CDHP). The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries.

NOTE 8 - POWER SUPPLY

Bonneville Power Administration (BPA)

The District obtains power from BPA under a long-term power purchase agreement. BPA supplies the District's power under a Block and Slice Power Sale Agreement, which extends from October 1, 2011 through September 30, 2028. The Block product provides power in monthly amounts ranging between 50 average megawatts (aMW) to 81 aMW. Monthly Block purchase amounts are fixed, but are shaped to the District's monthly power requirements. The Slice product provides the District 0.78% of the output of the federal system. The District's share of the Slice product is expected to be 75 aMW, but may vary considerably based on water conditions within the Northwest. Depending upon hydroelectric generating conditions and market prices, the District expects to procure between 90% and 95% of its total energy resources from BPA on an average annual basis.

Beginning October 1, 2011, BPA changed its rate-making methodology to a tiered rate approach. Each preference customer received a High Water Mark (HWM) based on its 2010 load that defined its right to buy power at a Tier 1 rate. The Tier 1 rate is based on the cost of the existing federal system. HWMs are translated into "Tier 1 Cost Allocators" (TOCAs) which, when multiplied by the estimated costs of the federal system, determine their power costs. There is an additional monthly load shaping charge (or credit) for Block and Load Following products, determined by the shape of customers' loads when compared to the shape of the federal system.

If a preference customer wants to buy more BPA power beyond their HWM, it will be sold by BPA at a Tier 2 rate set to fully recover BPA's cost to serve the additional power. Preference customers also have the option of serving some, or all, of their above-HWM load with non-federal resources. At this time the District has no plans to buy Tier 2 power from BPA.

BPA is required by federal law to recover all of its costs through the rates that it charges its customers. The rate provisions for the Block product include a cost recovery adjustment clause (CRAC). The CRAC allows BPA to raise rates to collect sufficient funds to pay costs. A dividend distribution clause (DDC) results in dollars being returned to customers, in the form of future power rate decreases, if excess dollars are collected.

Pursuant to the Slice product rate provisions, the District is subject to additional charges or credits from BPA if BPA's actual costs deviate from budgeted amounts. The Slice product is not subject to the CRAC or DDC; but rather, the District pays its share of cost increases or receives its share of cost decreases through an annual true-up mechanism. The District's share of the true-up was approximately ($380,816) and ($113,203) in 2018 and 2019, respectively.

After determining that it had over collected from its public customers in providing payments to IOU's for residential exchange benefits in FY 2002-2006, BPA decided to credit the District to reimburse for these over collections. After that decision was challenged by the IOUs and others, parties finally settled the residential exchange issue in 2011. Under the terms of the agreement, the District's credit of approximately $1 million per year will extend through FY 2018.

Beginning in April 2013, the District receives a monthly $50,000 credit on its power bill for participation in the BPA Prepay Program. This program allowed customers to purchase blocks of prepaid credits for the future delivery of power in order to help BPA fund improvements to its infrastructure. The District purchased one block of prepay credits in the amount of $6.8 million for the period April 2013 through September 2028. Total monthly credits received by the District will be $9.3 million, and will result in a net present value savings of approximately $1.1 million.

The District also entered into a contract with BPA for transmission service effective May 31, 1997, which provides adequate transmission capacity to meet the District's annual system peak load. The transmission contract extends through September 30, 2031.

Frederickson Project

The District has an agreement with Frederickson Power, L.P. for the purchase of 30 MW of contract capacity from the Frederickson combined-cycle natural gas-fired combustion turbine project station near Tacoma, Washington. The agreement expires September 1, 2022. The District is able to economically dispatch the plant each day based on spot market power and gas prices. Power costs include a capacity charge and fixed and variable operation and maintenance charges indexed to performance and escalation factors. The District is responsible for supplying natural gas to Frederickson Power, L.P. at Huntingdon, British Columbia on days that the plant is generating power. Natural gas is supplied to the Frederickson Project via the Northwest Pipeline. A proportionate share of the cost of this transportation is passed-through to the District each month.

The District is currently soliciting options for the replacement of the capacity needs which will become necessary with the expiration of the Frederickson contract to provide firm power in order to protect the District's long-term energy and financial positions.

Pasco Combustion Turbine Generating Station

The District and Grays Harbor PUD jointly constructed a four-unit, 44 megawatt (MW), simple-cycle gas-turbine generating station located in the District's service area. Commercial operation commenced in August 2002. The PUDs jointly own certain common facilities and individually own specific facilities (i.e., the turbines and SCR outfitted exhaust systems). In 2013, the District expended funds to repair the Pasco Combustion Turbine Generating Station to make it saleable. It was not intended to be placed back into service and was accordingly reclassified in 2013 as an asset held for sale. Grays Harbor PUD made a similar determination in early 2014. The PUDs are in the process of seeking a buyer for the facility. Refer to Note 12 – Special Item.

Energy Northwest

Energy Northwest is a municipal corporation and a joint operating agency of the State of Washington. It has the authority to acquire, construct and operate works, plants, and facilities for the generation and transmission of electric power and energy. The membership of Energy Northwest consists of twenty-three public utility districts, including the District, and five cities, all located in the State of Washington. The District is a participant in Nuclear Project Nos. 1 and 3, Columbia Generating Station, the Packwood Lake Hydroelectric Project and the Nine Canyon Wind Project. Columbia Generating Station, the Packwood Lake Hydroelectric Project and the Nine Canyon Wind Project are operating; Project Nos. 1 and 3 have been terminated.

The District, Energy Northwest and BPA have entered into separate "net billing agreements" with respect to Energy Northwest's Project No. 1, Columbia Generating Station and 70% ownership share of Project No. 3. Under terms of these agreements, the District has purchased from Energy Northwest and, in turn, assigned to BPA a maximum of capability of each project. BPA is unconditionally obligated to pay the District and the District is unconditionally obligated to pay Energy Northwest, the pro rata share of the total annual costs of each project, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output. The District's respective shares may be increased by not more than 25% upon default of other public agency participants.

- Packwood Lake Hydroelectric Project

  The District is a 10.5% participant in Energy Northwest's 27 MW Packwood Project (the "Project"), located in the Cascade Mountains south of Mount Rainier. The Project, having satisfied all of the requirements for relicensing with the Federal Energy Regulatory Commission, was issued a new forty-year license on October 1, 2018. Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized, and no equity is accumulated. Accordingly, no investment for the joint venture is reflected on the District's statement of net position. The participants entered into new Power Sales Contracts with Energy Northwest effective October 1, 2011. The participants' Agreements obligate the 12 participants to pay annual costs and receive excess revenues. The District uses their share of the energy to serve customer load.

- Nine Canyon Wind Project

  The Nine Canyon Wind Project is another Energy Northwest generation project. It is located in the Horse Heaven Hills area southwest of Kennewick. The District has a contract for 2.01 MW of Phase I capacity and 8 MW of Phase III capacity. Nine Canyon has a capacity factor of 29% and the District receives approximately 2.88 aMW.

White Creek Wind Project

The District entered into a 20-year Purchase Agreement with LL&P Wind Energy, Inc., a wholly-owned subsidiary of Lakeview Light and Power. The District purchases all of the energy and associated environmental attributes produced from 10 MW of the White Creek Wind Project's (White Creek) capacity. White Creek has a capacity factor of 30% and the District receives approximately 3 aMW. During the first contract year (2008) the price of energy delivered to the District was $51.97 per MWH; the price will increase by 2% annually during the term of the contract. The environmental attributes included in that price includes any and all credits, benefits, emissions reductions, offset and allowances attributable to the White Creek as a renewable energy resource.

Esquatzel Hydroelectric Project

The District contracted with Green Energy Today, LLC in 2011 to acquire the output from a small conduit hydroelectric project in Pasco, Washington, known as the Esquatzel Project. The Esquatzel Project generates approximately .7 aMW of electricity annually from return water flowing out of an agricultural canal that drains into the Columbia River. Water is diverted from the canal into a penstock and through a turbine with a generating capacity of 1 MW. The Esquatzel Project generally generates electricity year-round. The District's agreement with Green Energy Today, LLC is for a 20-year term, with a first right of refusal for two additional 10-year periods.

Energy Independence Act (I-937)

The citizens of Washington State passed Initiative 937 in November, 2006, now codified in the Revised Code of Washington Chapter 19.285 as the Energy Independence Act (the "Act"), which mandates renewable energy and conservation targets for the State's utilities with more than 25,000 customers. As of December 31, 2016 the District crossed this customer threshold. The Esquatzel, Nine Canyon and White Creek contracts will provide some of the renewable energy the District will need to comply with the Act's targets in the future.

The Esquatzel Project is a distributed generation resource. The Act defines distributed generation as an eligible renewable resource with a generating capacity of not more than 5 MW. As such, each MWH generated by the Esquatzel Project will count double toward the District's requirements under the Act.

Conservation / Energy Services

Conservation funding is available from BPA under the Energy Efficiency Incentive ("EEI") program in two year blocks. The District also budgets for self-funded conservation projects. Under EEI, utilities request reimbursement from BPA after conservation dollars have been spent on eligible projects. EEI funds rebate incentives for residential energy efficiency upgrades including: weatherization, heat pumps, compact fluorescent lamps, and Energy Star appliances. The EEI Funds also provide incentives for industrial, irrigation and commercial accounts for cost-effective energy savings,

NOTE 9 - RISK MANAGEMENT

The District maintains the following insurance coverage:

Coverage	Limit
Buildings and Personal Property	$108,700,000
General Liability	$2,000,000
Electromagnetic Field Liability	$500,000
Umbrella Liability	$15,000,000
Directors, Officers & Mgrs. Liability	$10,000,000
Employee Theft Liability	$4,000,000
Crime/Faithful Performance	$2,000,000
Forgery or Alteration	$2,000,000
Computer Fraud/Funds Transfer	$4,000,000
E&O Technology	$3,000,000

The District has not paid insurance settlements in excess of coverage in any of the past three years.

NOTE 10 – PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. d.b.a. NOANET

The District, along with eight other Washington State Public Utility Districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over Public Benefit Fibers leased from BPA, throughout Washington. The network began commercial operation in January 2001.

NoaNet recorded a decrease in net position (unaudited) of $4,803,789 and a decrease of $8,817,425 for 2019 and 2018, respectively.

As a member of NoaNet, and in accordance with Interlocal Cooperation Act, RCW 39.34, members are permitted to enter into agreements for joint or cooperative actions and undertakings, including the financing thereof. In March 2019, eight NoaNet members agreed to provide bridge financing in the amount of $1,560,000 for certain capital expenditures of NoaNet. The District's funding commitment under the agreement is 12.82% or $200,000. In October 2019, the first draw was approved in the amount of $665,000 with the District's share equaling $85,257. The District remitted payment to NoaNet on October 18, 2019, and recorded a Note Receivable equal to the District's share. Of this amount, $8,526 is expected to be received within one year. In 2019, the District recorded $888 of interest income in accordance with repayment terms of the agreement.

The District reports no investment or liability account balance reflecting NoaNet membership.

NoaNet's Annual Report may be obtained by writing to: Northwest Open Access Network, Chief Financial Officer, 7195 Wagner Way, Suite 104, Gig Harbor, WA 98335.

NOTE 11– TELECOMMUNICATIONS SERVICES

The District installed and continues to build out a fiber optic backbone system in its service area to provide wholesale telecommunication services and for internal use by the electric system. The District has connected its fiber optic system to NoaNet's fiber optic communications system. Broadband coverage is also being extended through the development of a wireless network to deliver high-speed Internet service.

The following is a summary of Broadband activities for 2019 and 2018:

Broadband	2019	2018
Operating Revenues:		
Drop Fees	$165,380	$77,783
Fiber Transport charges	1,154,369	1,001,346
WiFi Transport	9,000	8,767
Collocation Rental	202,698	103,994
Miscellaneous Broadband Services	357,566	348,097
BTOP Program Income	(8,234)	131,804
Total Operating Revenues	$1,880,779	$1,671,791
Operating Expenses:		
Labor and Benefits	233,177	227,301
Supplies	8,102	5,486
Professional Services	56,501	43,474
Other Charges	123,308	91,730
Hardware and Fiber Maintenance	125,129	117,583
Depreciation	989,935	1,148,602
Total Operating Expenses	$1,536,152	$1,634,176
Capital Contributions	$250,000	$0
Capital Investment:		
Current	1,745,930	686,906
Cumulative (since 2000)	$21,938,544	$20,192,614

The above are included in summarized amounts within the District's financial statements

NOTE 12 – SPECIAL ITEM

During 2010, the District's Pasco Combustion Turbine plant became temporarily inoperable. In 2013, certain repairs were conducted to make the turbines operable and available for sale. As of December 31, 2019, District management determined that the fair value of the turbines was approximately $1.4 million based on markets for similar assets. This resulted in an adjustment to the value of the turbines of $1 million for 2019 that is presented within the Statement of Revenues, Expenses and changes in Net Position as a Special Item. Refer to Note 8 for additional information.

NOTE 13 – SUBSEQUENT EVENT

In March 2020, the State of Washington was declared an area of major disaster due to the rapid circulation of the novel coronavirus (COVID-19). Drastic federal, state and local measures were taken to slow the spread of the virus throughout the community, affecting the District's operations and potential customer revenue. Due to the nature and timing of these events, an estimate of financial impact to the District cannot be made. Required

Required Supplementary Information

Schedules of Proportionate Share of the Net Pension Liability
As of June 30, 2019
Last 10 Fiscal Years*

PERS Plan 1	2014	2015	2016	2017	2018	2019
District's proportion of the net pension liability (asset)	0.079646%	0.075912%	0.076313%	0.073408%	0.071672%	0.067011%
District's proportionate share of the net pension liability	$4,012,205	$3,970,904	$4,098,368	$3,483,267	$3,200,896	$2,576,811
Covered payroll	$8,110,199	$8,269,970	$8,640,630	$8,782,843	$8,995,977	$9,030,505
District's proportionate share of the net pension liability as a percentage of covered payroll	49.47%	48.02%	47.43%	39.66%	35.58%	28.53%
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%	61.24%	63.22%	67.12%

PERS Plan 2 & 3	2014	2015	2016	2017	2018	2019
District's proportion of the net pension liability (asset)	0.079646%	0.075912%	0.088890%	0.085880%	0.083158%	0.080700%
District's proportionate share of the net pension liability	$1,795,150	$3,187,453	$4,475,541	$2,983,919	$1,419,849	$783,871
Covered payroll	$7,585,236	$7,921,255	$8,279,471	$8,419,679	$8,624,717	$8,773,359
District's proportionate share of the net pension liability as a percentage of covered payroll	23.67%	40.24%	54.06%	35.44%	16.46%	8.93%
Plan fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%	90.97%	93.29%	97.77%

Notes:

*These schedules are to be built prospectively until they contain ten years of data.

Required Supplementary Information

Schedules of Employer Contributions
As of December 31, 2019
Last 10 Fiscal Years*

PERS Plan 1	2015	2016	2017	2018	2019
Statutorily or contractually required contributions	$392,546	$435,891	$455,221	$493,987	$462,217
Contributions in relation to the statutorily or contractually required contributions	(392,546)	(435,891)	(455,221)	(493,987)	(462,217)
Contribution deficiency (excess)	0	0	0	0	0
Covered payroll	$8,516,494	$8,666,873	$8,801,724	$9,203,426	$9,072,975
Contributions as a percentage of covered payroll	4.61%	5.03%	5.17%	5.37%	5.09%

PERS Plan 2 & 3	2015	2016	2017	2018	2019
Statutorily or contractually required contributions	$457,619	$517,463	$581,381	$661,198	$686,799
Contributions in relation to the statutorily or contractually required contributions	(457,619)	(517,463)	(581,381)	(661,198)	(686,799)
Contribution deficiency (excess)	0	0	0	0	0
Covered payroll	$8,156,162	$8,306,014	$8,435,389	$8,822,218	$8,910,291
Contributions as a percentage of covered payroll	5.61%	6.23%	6.89%	7.49%	7.71%

Notes:
*These schedules are to be built prospectively until they contain ten years of data.

STATISTICAL SECTION

Comprehensive Annual Financial Report for years ended December 31, 2019 and 2018

STATISTICAL SECTION

This part of the District's comprehensive annual financial report is presented as an enhancement to the basic financial statements, notes to the financial statements, and required supplementary information Information in this section is useful in assessing the District's overall financial condition.

FINANCIAL TRENDS

These schedules present trend information to help the reader understand how the District's financial position has changed over time.

REVENUE CAPACITY

These schedules contain information to guide the reader in assessing the District's primary source of revenue, electric sales.

DEBT CAPACITY

These schedules present historical information about the affordability of the District's debt burden.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Demographic and economic information contained in these schedules illustrate the setting in which the District conducts business.

OPERATING INFORMATION

These schedules contain historical service and infrastructure data useful in assessing the District's activities and their relationship to the information in the District's financial report.

SCHEDULE OF CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31

	2019	2018	2017
OPERATING REVENUES			
Retail Energy Sales	$84,248,908	$81,797,071	$80,670,148
Broadband Revenue	1,880,779	1,671,791	1,486,057
Sales for Resale	10,342,134	12,755,537	6,855,980
Other Electric Revenue	98,000	100,800	89,260
Other Operating Revenues	545,339	539,940	432,141
TOTAL OPERATING REVENUES	97,115,160	96,865,139	89,533,586
OPERATING EXPENSES			
Power Supply[1]	66,963,594	63,035,372	57,804,660
System Operations & Maintenance	5,204,505	5,667,060	4,840,509
Broadband Operations & Maintenance	546,217	485,574	343,799
Customer Accounting & Information	2,483,621	2,464,239	2,353,652
Administrative & General Expense	5,806,805	5,489,306	5,873,726
Taxes	4,760,344	4,749,889	4,973,711
Depreciation	7,437,092	7,363,965	6,866,123
TOTAL OPERATING EXPENSES	93,202,178	89,255,405	83,056,180
NET OPERATING (EXPENSE)/REVENUE	3,912,982	7,609,734	6,477,406
NONOPERATING REVENUES (EXPENSES)			
Interest Income	609,441	465,544	244,147
Interest, Amortization and Bond Issuance Costs[2]	(2,018,856)	(2,070,025)	(2,133,021)
Other Nonoperating Revenue (Expense)	(31,436)	(325,715)	118,245
TOTAL	(1,440,851)	(1,930,197)	(1,770,629)
OTHER CHANGES IN NET POSITION			
Capital Contributions	3,780,105	2,543,773	2,219,725
Special Item	(1,000,000)		(3,000,000)
TOTAL CHANGE IN NET POSITION	5,252,236	8,223,310	3,926,502
NET POSITION			
Net Investment in Capital Assets	93,577,030	88,939,977	83,468,127
Restricted[1]	3,914,649	3,914,649	3,914,649
Unrestricted[2,3]	25,953,738	25,338,555	22,587,094
TOTAL NET POSITION	$123,445,417	$118,193,181	$109,969,870

1) Certain amounts have been reclassified to conform to the current year presentation.

2) Governmental Accounting Standards Board Statement No. 65 was implemented effective 2013 classifying debt issuance costs as expense when incurred. 2012 was restated for comparative purposes in the financial statements.
2011 was restated for comparative purposes and the cumulative effect of $(1,283,107) has been applied to Net Position.

3) Governmental Accounting Standards Board Statement No. 68 was implemented effective 2015 recording the District's proportionate share of State pension amounts.
2014 was restated for comparative purposes and the cumulative effect of ($7,841,995) has been applied to Net Position.

2016	2015	2014 as restated	2013	2012 as restated	2011 as restated	2010
$73,894,581	$75,121,236	$74,003,036	$70,510,591	$64,731,883	$64,223,925	$62,117,034
1,358,933	1,457,290	1,096,225	1,126,104	773,295	692,344	674,984
7,970,459	9,256,768	12,051,753	8,965,265	7,289,135	7,102,867	7,181,842
132,478	68,229	179,078	47,384	67,075	75,424	75,410
484,693	496,287	358,286	469,021	504,368	362,747	412,946
83,841,144	86,399,810	87,688,378	81,118,365	73,365,756	72,457,307	70,462,216
57,475,326	58,299,865	58,573,957	54,427,647	49,332,150	44,376,498	46,007,418
3,819,269	3,680,766	3,732,851	4,002,534	3,920,438	3,617,829	3,438,314
258,317	283,743	279,119	240,929	240,184	403,627	342,010
1,747,416	1,757,472	1,814,313	1,527,148	1,517,748	1,461,454	1,422,055
7,390,042	6,878,866	6,814,262	6,597,487	6,283,650	5,976,327	5,882,274
5,138,588	5,268,784	5,246,807	5,304,774	4,685,698	4,565,185	3,973,385
6,579,684	6,366,029	6,004,302	6,595,192	6,360,582	6,059,197	5,702,314
82,408,642	82,535,525	82,465,611	78,695,711	72,340,450	66,460,117	66,767,770
1,432,502	3,864,285	5,222,767	2,422,654	1,025,306	5,997,190	3,694,446
123,991	76,330	56,170	58,716	95,128	65,549	112,332
(2,806,788)	(2,884,549)	(3,023,280)	(2,802,736)	(2,358,967)	(2,501,539)	(2,744,745)
121,967	107,782	220,549	229,853	322,082	146,647	(89,833)
(2,560,830)	(2,700,437)	(2,746,561)	(2,514,167)	(1,941,757)	(2,289,343)	(2,722,246)
2,855,788	2,787,707	3,119,480	1,956,989	2,786,887	2,731,640	2,680,505
	(3,000,000)					
1,727,460	951,555	5,595,686	1,865,476	1,870,436	6,439,487	3,652,705
80,591,206	70,465,479	70,054,868	70,618,709	78,659,916	71,626,137	67,758,243
3,914,649	3,142,483	3,142,483	3,142,483			
21,537,513	30,707,946	30,167,002	31,849,470	25,085,270	30,248,613	29,082,536
$106,043,368	$104,315,908	$103,364,353	$105,610,662	$103,745,186	$101,874,750	$96,840,779

REVENUES AND CONSUMPTION BY CUSTOMER CLASS
FOR THE YEARS ENDED DECEMBER 31

	2019	2018	2017	2016
RETAIL ELECTRIC SALES				
Residential	$35,970,844	$34,672,340	$35,242,145	$30,751,621
General and Industrial	39,852,260	38,250,963	37,242,986	35,011,340
Small Irrigation	4,342,001	4,544,648	4,258,328	4,208,177
Large Irrigation	3,762,041	4,014,032	3,601,798	3,596,505
Street Lighting	231,809	225,128	234,957	236,036
Security Lighting	89,953	89,960	89,934	90,902
TOTAL	$84,248,908	$81,797,071	$80,670,148	$73,894,581
RETAIL ELECTRIC SALES (MWh)				
Residential	381,010	357,358	380,711	337,391
General and Industrial	575,989	554,369	551,076	529,445
Small Irrigation	63,428	68,285	63,090	68,740
Large Irrigation	57,816	61,776	56,626	59,864
Street Lighting	707	1,045	3,129	5,328
Security Lighting	588	593	599	640
TOTAL	1,079,538	1,043,426	1,055,231	1,001,408
RETAIL ELECTRIC LOAD PERCENTAGE				
Residential	35.3%	34.2%	36.1%	33.7%
General and Industrial	53.3%	53.1%	52.2%	52.9%
Small Irrigation	5.9%	6.5%	6.0%	6.9%
Large Irrigation	5.3%	5.9%	5.4%	6.0%
Street Lighting	0.1%	0.1%	0.3%	0.5%
Security Lighting	0.1%	0.1%	0.1%	0.1%
TOTAL	100.0%	100.0%	100.0%	100.0%
REVENUE PER KWH (Cents)				
Residential	9.44	9.70	9.26	9.11
General and Industrial	6.92	6.90	6.76	6.61
Small Irrigation	6.84	6.66	6.75	6.12
Large Irrigation	6.51	6.50	6.36	6.01
Street Lighting	32.79	21.54	7.51	4.43
Security Lighting	15.30	15.17	15.01	14.20
TOTAL	7.80	7.84	7.64	7.38
NUMBER OF ACCOUNTS				
Residential	26,969	26,119	25,517	25,026
General and Industrial	3,620	3,524	3,460	3,429
Small Irrigation	828	823	821	820
Large Irrigation	73	73	73	72
Street Lighting	56	54	47	44
TOTAL	31,546	30,593	29,918	29,391

(1) As of 2011 the District has included the Basic energy charge in Retail Energy Sales.
Accordingly, 2010 amounts have been reclassified.

2015	2014	2013	2012	2011[1]	2010[1]
$30,772,955	$30,573,381	$29,709,164	$27,962,396	$26,124,424	$24,464,253
35,701,569	35,038,905	33,006,390	29,759,365	31,298,121	30,848,817
4,311,667	4,125,092	3,797,756	3,493,096	3,312,697	3,289,724
4,004,706	3,869,279	3,618,056	3,121,575	3,067,506	3,099,202
241,178	316,932	301,098	318,531	346,478	341,636
89,161	79,447	78,127	76,920	74,699	73,402
$75,121,236	$74,003,036	$70,510,591	$64,731,883	$64,223,925	$62,117,034
336,228	349,204	350,167	336,205	335,005	321,335
558,860	543,356	534,717	523,009	519,647	504,593
76,148	74,444	66,976	64,969	64,764	62,501
67,087	66,563	63,176	56,688	57,427	56,709
5,277	4,717	4,638	4,201	4,467	4,310
634	600	595	592	580	571
1,044,234	1,038,884	1,020,269	985,664	981,890	950,019
32.2%	33.6%	34.1%	33.8%	34.7%	33.3%
53.5%	52.3%	52.9%	53.1%	51.4%	51.7%
7.3%	7.2%	6.6%	6.6%	7.0%	7.6%
6.4%	6.4%	5.8%	6.0%	6.4%	6.9%
0.5%	0.5%	0.5%	0.5%	0.4%	0.4%
0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
9.15	8.76	8.48	8.32	7.80	7.61
6.39	6.45	6.17	5.69	6.02	6.11
5.66	5.54	5.67	5.38	5.12	5.26
5.97	5.81	5.73	5.51	5.34	5.47
4.57	6.72	6.49	7.58	7.76	7.93
14.06	13.24	13.13	12.99	12.88	12.85
7.19	7.12	6.91	6.57	6.54	6.54
24,569	24,117	23,797	23,435	23,059	22,424
3,381	3,348	3,293	3,272	3,224	3,197
828	829	830	809	799	804
72	71	69	69	66	69
46	42	38	38	38	38
28,896	28,407	28,027	27,623	27,186	26,532

RETAIL RATES, ALL CLASSES
FOR THE YEARS ENDED DECEMBER 31

All amounts shown in dollars ($)

	2019	**2018**	**2017** [(4)]	**2016**
Residential				
Monthly Basic Charge (Single Phase)	34.00	34.00	34.00	34.00
Monthly Basic Charge (Three Phase)	58.72	58.72	58.72	58.72
Energy Charge	0.0673	0.0673	0.0673	0.0635
Small General				
Monthly Basic Charge	39.56	39.56	39.56	38.00
Energy Charge	0.0744	0.0744	0.0744	0.0715
Medium General				
Monthly Basic Charge	51.88	51.88	51.88	49.84
Demand Charge	8.26	8.26	8.26	7.93
Energy Charge, April - August	0.0364	0.0364	0.0364	0.0350
Energy Charge, September - March	0.0461	0.0461	0.0461	0.0443
Large General				
Monthly Basic Charge	69.26	69.26	69.26	66.53
Demand Charge	8.44	8.44	8.44	8.11
Energy Charge, April - August	0.0365	0.0365	0.0365	0.0351
Energy Charge, September - March	0.0455	0.0455	0.0455	0.0437
Industrial				
Monthly Basic Charge	486.70	486.70	486.70	467.53
Demand Charge	8.67	8.67	8.67	8.33
Energy Charge, April - August	0.0363	0.0363	0.0363	0.0349
Energy Charge, September - March	0.0456	0.0456	0.0456	0.0438
Small Irrigation				
Demand charge	5.15	5.15	5.15	4.95
Energy Charge, April - August	0.0321	0.0321	0.0321	0.0308
Energy Charge, September - March	0.0526	0.0526	0.0526	0.0505
Large Irrigation				
Demand charge	9.51	9.51	9.51	9.14
Energy Charge, April - August	0.0320	0.0320	0.0320	0.0307
Energy Charge, September - October	0.0437	0.0437	0.0437	0.0420
Energy Charge, November - March	0.0527	0.0527	0.0527	0.0506

(1) Rates shown were effective May 1, 2013. Rates effective January 1 through April 30 are shown in the 2012 column.

(2) Rates shown were effective May 1, 2014. Rates effective January 1 through April 30 are shown in the 2013 column.

(3) Rates shown were effective September 1, 2015. Rates effective January 1 through August 31 are shown in the 2014 column.

(4) Rates shown were effective May 1, 2017. Rates effective January 1 through April 30 are shown in the 2016 column.

2015 [3]	2014 [2]	2013 [1]	2012	2011	2010
34.00	22.09	21.45	11.45	11.45	11.45
58.72	38.15	37.04	19.77	19.77	19.77
0.0635	0.0711	0.0690	0.0731	0.0731	0.0731
38.00	29.86	28.99	23.26	23.26	23.26
0.0715	0.0723	0.0702	0.0686	0.0686	0.0686
49.84	48.57	47.16	44.96	44.96	44.96
7.93	7.73	7.5	7.15	7.15	7.15
0.0350	0.0341	0.0331	0.0316	0.0316	0.0316
0.0443	0.0432	0.0419	0.0399	0.0399	0.0399
66.53	64.83	62.94	161.78	161.78	161.78
8.11	7.9	7.67	7.31	7.31	7.31
0.0351	0.0342	0.0332	0.0307	0.0307	0.0307
0.0437	0.0426	0.0414	0.0383	0.0383	0.0383
467.53	455.61	442.34	421.68	421.68	421.68
8.33	8.12	7.88	7.51	7.51	7.51
0.0349	0.0340	0.0330	0.0315	0.0315	0.0315
0.0438	0.0427	0.0415	0.0396	0.0396	0.0396
4.95	4.5	4.37	4.17	4.17	4.17
0.0308	0.0280	0.0272	0.0259	0.0259	0.0259
0.0505	0.0459	0.0446	0.0425	0.0425	0.0425
9.14	8.91	8.65	8.43	8.43	8.43
0.0307	0.0299	0.0290	0.0271	0.0271	0.0271
0.0420	0.0409	0.0397	0.0371	0.0371	0.0371
0.0506	0.0493	0.0479	0.0448	0.0448	0.0448

PRINCIPAL RATEPAYERS
FOR THE YEARS ENDED DECEMBER 31

2019

Customer	Industry	kWh	Percentage of Total kWh	Retail Sales	Percentage of Total Retail Electric Sales
Commerical #1	Food Processing	137,134,177	12.7%	$8,212,855	9.7%
Commerical #2	Food Processing	34,793,823	3.2%	2,229,709	2.6%
Commerical #3	Education	26,982,024	2.5%	1,988,101	2.4%
Commerical #4	City Government	26,041,829	2.4%	1,952,324	2.3%
Commerical #5	Food Processing	24,252,840	2.2%	1,713,084	2.0%
Commerical #6	Agriculture	23,407,926	2.2%	1,562,920	1.9%
Commerical #7	Agriculture	23,214,433	2.2%	1,482,408	1.8%
Commerical #8	Food Processing	22,660,925	2.1%	1,397,099	1.7%
Commerical #9	Corrections Facility	15,233,040	1.4%	927,853	1.1%
Commerical #10	Food Processing	10,649,280	1.0%	712,376	0.8%
		344,370,297	31.9%	$22,178,729	26.3%
Total All Ratepayers		1,079,538,000		$84,248,908	

Source: District Customer Information System

2010

Customer	Industry	kWh	Percentage of Total kWh	Retail Sales	Percentage of Total Retail Electric Sales
Commerical #1	Food Processing	138,168,740	14.5%	$7,248,650	11.7%
Commercial #2	Food Processing	33,005,121	3.5%	1,991,389	3.2%
Commercial #3	City Government	21,654,278	2.3%	1,366,775	2.2%
Commerical #4	Education	17,300,546	1.8%	1,336,253	2.2%
Commerical #5	Food Processing	15,684,400	1.7%	971,404	1.6%
Commerical #6	Food Processing	13,040,160	1.4%	757,670	1.2%
Commerical #7	Agriculture	12,127,938	1.3%	720,855	1.2%
Commercial #8	Education	9,999,779	1.1%	623,946	1.0%
Commercial #9	Agriculture	9,089,308	1.0%	496,415	0.8%
Commerical #10	Food Processing	7,194,320	0.8%	446,855	0.7%
		277,264,590	29.2%	$15,960,212	25.7%
Total All Ratepayers		950,019,000		$62,117,034	

DEBT CAPACITY INFORMATION
FOR THE YEARS ENDED DECEMBER 31

RATIOS OF OUTSTANDING DEBT

	2019	2018	2017	2016
Outstanding Revenue Bonds	$51,277,875	$54,985,000	$58,245,000	$61,445,000
Unamortized Premium & Discount	2,307,272	2,205,050	2,493,168	2,800,939
Other Long Term Debt				
Total Outstanding Debt	$53,585,147	$57,190,050	$60,738,168	$64,245,939
Total Debt to Total Assets	27%	29%	31%	33%
Total Debt per Ratepayer	1,699	1,869	2,030	2,129

DEBT SERVICE COVERAGE

	2019	2018	2017	2016
Debt Service Calculation:				
Net operating income	$3,912,982	$7,609,734	$6,477,406	$1,432,502
Rate Stabilization Fund				
Depreciation	7,437,092	7,363,965	6,866,123	6,579,684
Other income	4,358,110	2,683,601	2,463,872	2,979,779
Revenue available for debt service	$15,708,184	$17,657,300	$15,807,401	$10,991,965
Annual debt service	$5,574,581	$5,566,274	$5,555,992	$5,709,970
Debt service coverage	2.82	3.17	2.85	1.93

2015	2014 as restated	2013	2012 as restated	2011 as restated	2010
$59,929,999	$62,670,000	$65,225,000	$50,420,000	$53,855,000	$57,120,000
1,590,823	1,684,524	1,778,225	2,175,796	1,854,113	1,924,917
			22,594	45,791	67,656
$61,520,822	$64,354,524	$67,003,225	$52,618,390	$55,754,904	$59,112,573
32%	34%	36%	31%	33%	36%
2,265	2,391	1,905	2,323	2,517	2,727
$3,864,285	$5,222,767	$2,422,654	$1,025,306	$5,997,190	$3,694,446
6,366,029	6,004,302	6,595,192	6,360,582	6,059,197	5,702,314
2,864,037	3,175,650	2,015,705	2,882,015	2,797,189	2,792,837
$13,094,351	$14,402,719	$11,033,551	$10,267,903	$14,853,576	$12,189,597
$5,712,580	$5,703,945	$5,749,225	$5,962,394	$5,917,006	$5,898,881
2.29	2.53	1.92	1.72	2.51	2.07

DEMOGRAPHIC AND ECONOMIC INFORMATION
FOR THE YEARS ENDED DECEMBER 31

	2019	2018	2017	2016
DEMOGRAPHIC STATISTICS				
Population (1)				
Franklin County	94,347	92,125	90,160	88,670
City of Pasco	75,290	73,590	71,680	70,560
Connell	5,500	5,460	5,450	5,365
Kahlotus	165	165	168	185
Mesa	495	495	495	495
Total Personal Income (in thousands) - Franklin County (2)	N/A	$3,527,604	$3,278,454	$3,186,131
Per Capita Income - Franklin County (2)	N/A	$37,390	$35,587	$35,339
Unemployment Rate - Franklin County (3)	6.2%	7.7%	8.4%	9.6%

(1) Source: Washington State Office of Financial Management

(2) Source: U.S. Bureau of Economic Analysis

(3) Source: Labor Market and Economic Analysis, Washington Employment Security Department

PRINCIPAL EMPLOYERS - TRI-CITIES METROPOLITAN STATISTICAL AREA (4)

For the years ended December 31

2019				
Company	Industry	Employees	Rank	Percentage of Total MSA Employment
Battelle PNNL	Research & Development	4,500	1	3.2%
Kadlec Regional Medical Center	Health Services	3,800	2	2.7%
Kennewick School District	Education	3,000	3	2.2%
Lamb Weston	Food Processing	3,000	3	2.2%
Pasco School District	Education	3,000	3	2.2%
Washington River Protection Solutions	Environmental Remediation Services	2,971	6	2.1%
Mission Support Alliance	Support Services - Hanford DOE Site	2,240	7	1.6%
Richland School District	Education	1,800	8	1.3%
CH2M	Environmental Remediation Services	1,550	9	1.1%
Tyson Foods	Food Processing	1,375	10	1.0%

(4) Source: TRIDEC (Tri-City Development Council)

2015	2014	2013	2012	2011	2010
87,150	86,600	84,800	82,500	80,500	75,500
68,240	67,770	65,600	62,670	61,000	56,300
5,405	5,330	5,350	5,320	5,150	4,220
185	185	195	195	190	225
495	495	495	495	495	455
$3,015,469	$2,742,073	$2,645,389	$2,589,898	$2,479,492	$2,273,045
$33,955	$31,228	$30,534	$30,169	$29,711	$28,695
9.4%	11.8%	11.0%	11.5%	10.9%	9.5%

2010			
Company	Industry	Employees	Percentage of Total MSA Employment
Battelle/PNNL	Research/National Laboratory	4,485	3.6%
URS	DOE Contractor	3,500	2.8%
CH2M Hill	DOE Contractor	3,260	2.6%
ConAgra	Food Processing	3,057	2.5%
Bechtel National	DOE Contractor	2,850	2.3%
Kadlec Medical Center	Hospital	2,175	1.8%
Washington River Protection Solutions	DOE Contractor	1,686	1.4%
Mission Support Alliance	DOE Contractor	1,478	1.2%
Washington Closure Hanford	DOE Contractor	1,370	1.1%
Tyson Foods	Meat Packing	1,300	1.1%

OPERATING INDICATORS
FOR THE YEARS ENDED DECEMBER 31

	2019	2018	2017	2016
Total Electric Sales (MWh)				
Retail	1,079,538	1,043,426	1,055,231	1,001,408
Sales for Resale	210,274	270,690	270,322	281,635
Total MWh sales	1,289,812	1,314,116	1,325,553	1,283,043
Annual Revenue per Account				
Residential	$1,334	$1,328	$1,381	$1,229
General and Industrial	$11,009	$10,854	$10,764	$10,210
Small Irrigation	$5,244	$5,522	$5,187	$5,132
Large Irrigation	$51,535	$54,987	$49,340	$49,951
Street Lighting	$4,139	$4,137	$4,999	$5,364
Annual kWh per Account				
Residential	14,128	13,682	14,920	13,482
General and Industrial	159,113	157,309	159,271	154,402
Small Irrigation	76,604	82,971	76,845	83,829
Large Irrigation	792,000	846,247	775,699	831,444
Street Lighting	12,625	19,204	66,574	121,091
Number of employees	99	99	103	102
Number of employees by function:				
Distribution	48	46	47	48
Production	0	0	0	0
Customer Relations	20	21	24	20
Administrative	31	32	32	34
Net Utility Plant	$143,235,604	$142,134,353	$140,141,521	$137,426,361
Utility System Reliability	99.99%	99.99%	99.99%	99.99%
Number of Customer Interruptions	220	210	189	242
CDDs (1)	1,112	1,221	1,347	1,099
HDDs (1)	5,655	4,668	5,618	4,396
Annual Precipitation (inches) (1)	9.31	6.43	8.60	7.65

(1) Source: Hanford Meteorological Station

2015	2014	2013	2012	2011	2010
1,044,234	1,038,884	1,020,269	985,664	981,890	950,019
355,794	389,295	289,220	335,643	247,770	179,688
1,400,028	1,428,179	1,309,489	1,321,307	1,229,660	1,129,707
$1,253	$1,268	$1,248	$1,193	$1,133	$1,091
$10,559	$10,466	$10,023	$9,095	$9,708	$9,649
$5,207	$4,976	$4,576	$4,318	$4,146	$4,092
$55,621	$54,497	$52,436	$45,240	$46,477	$44,916
$5,243	$7,546	$7,924	$8,382	$9,118	$8,990
13,685	14,480	14,715	14,346	14,528	14,330
165,294	162,293	162,380	159,844	161,181	157,833
91,966	89,800	80,694	80,308	81,056	77,738
931,764	937,507	915,594	821,565	870,106	821,870
114,717	112,310	122,053	110,553	117,553	113,421
100	99	94	94	97	99
47	47	44	45	48	47
0	0	0	0	1	1
21	21	18	18	17	20
32	31	32	31	31	31
$131,018,797	$127,390,697	$123,210,127	$130,869,088	$127,381,041	$125,465,209
99.99%	99.99%	99.98%	99.99%	99.99%	99.99%
217	216	260	242	190	165
1,534	1,426	1,318	1,057	884	870
4,228	4,611	5,297	4,940	5,467	4,899
6.48	6.53	5.38	8.18	4.45	10.19