2021
ANNUAL REPORT

Financial statements for the years ended December 31, 2021 and 2020.

Published June 2022

PUBLIC UTILITY DISTRICT #1 OF FRANKLIN COUNTY
1411 W. Clark St, Pasco, WA 99301
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A MESSAGE TO OUR CUSTOMERS

Scott Rhees
General Manager

Holly Dohrman
Assistant General Manager

Like so many other utilities, Franklin PUD was no exception to the impacts from the changes due to the unprecedented events the world experienced. The District was able to weather the pandemic with minimal adverse outcomes and remains well positioned. Our commitment to our customers remains the same - to provide safe, reliable, low cost power. We are committed to providing excellent service, and to being the energy experts for the community we serve. Through innovation, forward thinking, making good prudent decisions we were able to preserve our rate payer dollars while maintaining reliability that our customers entrust us to provide. We strive to be the utility that is creative and inventive and will continue to find ways to keep the cost down for our rate payers.

Scott Rhees, Holly Dohrman, Commissioners, and Staff

WHAT'S INSIDE

MISSION & VISION

MISSION
To provide safe, reliable, and affordable cost-based power that benefits our customers.

VISION
Franklin PUD will be a respected and reliable steward of electric and broadband systems, delivering high value to customers in the form of: low-cost and reliable power; a system infrastructure that supports safety and reliability; commitment to conservation of energy resources and our environment; and committed employees who excel in customer service and make Franklin PUD a great place to work.

COMMISSIONERS

The Board of Commissioners is the governing body for Franklin PUD. Commissioners have overall responsibility for setting policy and appointing the General Manager, who is responsible for the implementation of policies and direction of operations.

Franklin PUD has a three-member Commission, and each Commissioner represents a certain district of Franklin County, as shown on the Commissioner District map on the next page. Commissioners are elected to serve a six-year term.

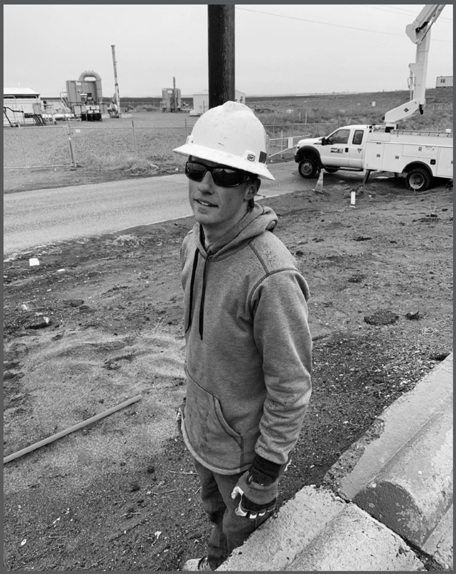
At the end of each year, the Commission elects a president, vice president, and secretary for the coming year. The Commission President conducts the meetings. Minutes are taken at all meetings and are available to the public and on the website.

ROGER WRIGHT
DISTRICT 1

BILL GORDON
DISTRICT 2

STU NELSON
DISTRICT 3

FAST FACTS (year end 2021)



In 2021 Franklin PUD's 91 employees served 28,050 customers in Pasco, Connell, Kahlotus and other surrounding areas within our 435 square mile service territory located in Franklin county, WA.

Franklin PUD has 20 substations and maintains 1,048 miles of transmission lines and 84 miles of distribution lines.

The reliability rating in 2021 was excellent as we were able to keep the power on 99.99% of the time.

CUSTOMERS
28,050

SUBSTATIONS
20

RELIABILITY RATING
99.99%

EMPLOYEES
91

TOTAL LINE MILES
1132

SERVICE TERRITORY
435 square miles

CUSTOMER SERVICE OVERVIEW

New Residential Service Requests Processed
585

In Person Transactions Completed
36,342

Phone Calls Received
60,170

LOW-INCOME DISCOUNTS

Customers Receiving Senior Discount
640

Customers Receiving Disability Discount
241

CUSTOMER DONATIONS TO HELPING HANDS

In 2021 customers donated $14,351.60 to our Helping Hands program. Helping Hands helps low-income customers in our service territory pay their electric bill.

ENERGY ASSISTANCE

1,837 customers received energy assistance from a federal program called Low-Income Home Energy Assistance Program (LIHEAP) for a total of $768,257.

1,583 customers, who were having financial difficulties as a result of COVID -19, received debt relief through the American Rescue Plan Act (ARPA) in the amount of $500,000. Funds were provided by the Washington State Department of Commerce.

CUSTOMER ENERGY CONSERVATION PROGRAM SUMMARY

Conservation Program Investments

Franklin PUD funded conservation: $108,152
BPA funded conservation: $1,314,249

Low-Income Conservation Program Investments

Franklin PUD funded: $143,056
BPA funded: $41,718

BROADBAND

Franklin PUD provides wholesale Broadband services to retail service providers and houses a state of the art 4800 square foot colocation facility.

Miles of Fiber
350

Speeds
10 Gbps to 100 Gbps

Retail Service Providers
33

ICE HARBOR LOCK & DAM, LOCATED ON THE SNAKE RIVER

FUEL MIX & POWER RESOURCES (overview)

Bonneville Power Administration (BPA)

Franklin PUD buys most of its power from Bonneville Power Administration (BPA). Depending upon hydroelectric generating conditions and market prices, we expect to procure between 90% and 95% of our total energy resources from BPA on an average annual basis.

The federal hydropower system is the Pacific Northwest's biggest source of clean energy. BPA markets wholesale electrical power from 31 federal dams in the Northwest that are operated by the U.S. Army Corps of Engineers and the Bureau of Reclamation. They also market power from Columbia Generating Station which is owned and operated by Energy Northwest, and several small nonfederal power plants.

Esquatzel Canal Hydroelectric Project

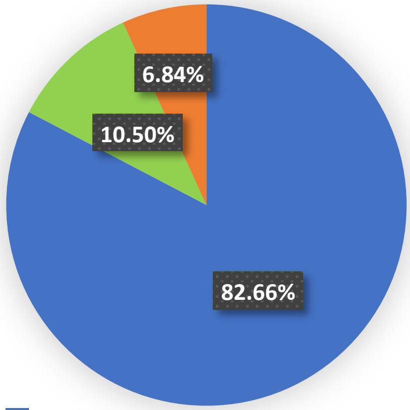
In 2011, Franklin PUD entered into an agreement with Green Energy Today, LLC for the Esquatzel Canal Hydroelectric Project, located at the confluence of the South Columbia Basin Irrigation District's Esquatzel Diversion Canal and the Columbia River five miles north of Pasco. Esquatzel is an irrigation canal project with 1-MW of capacity. It generates power year-round.

Frederickson Generation Project

In 2001, Franklin PUD entered into an agreement with Frederickson Power for the purchase of 30 MW of generating capacity from their combined-cycle natural gas-fired combustion turbine project station near Tacoma, Washington. Depending on the price of gas each day, Franklin PUD can use the power based on market power and gas prices.

2020 FUEL MIX DISCLOSURE

(most recent available)



HYDRO	82.66 %
NUCLEAR	10.50 %
UNSPECIFIED	6.84 %

Unspecified power is electricity obtained in a transaction where the seller does not identify a specific generating source, typically through short-term transactions in the bulk power markets.

UTILITY INVESTMENT IN NON-HYDRO RENEWABLE RESOURCES

Nine Canyon Wind: $2,239,846
White Creek Wind: $2,078,507

Nine Canyon Wind Project

Nine Canyon is located in the Horse Heaven Hills south of Kennewick and is owned by Energy Northwest. The project is comprised of forty-nine 1.3-MW turbines and fourteen 2.3-MW turbines with a total generating capacity of 96 MW. Franklin PUD contracts for the output of 10MW of capacity from this project.

Packwood Lake Hydroelectric Project

Owned by Energy Northwest, this small hydro project located in the Cascade Mountains south of Mount Rainier, was constructed in 1962, and has 27-MW of generating capacity. Franklin PUD contracts for 10.5% of the output from Packwood, which averages approximatley 1.1 aMW annually. Eleven other Washington PUD's contract for varying shares of the remaining 89.5%.

White Creek Wind Project

In 2007, Franklin PUD contracted for the output of 10 MW of capacity in the White Creek Wind Project, located in the Columbia River Gorge, approximately 21 miles east of Goldendale in Klickitat County, Washington. The project is comprised of 89, 2.3-MW wind turbines with a capacity of 205 MW.

INDEPENDENT AUDITOR'S REPORT

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

Public Utility District No. 1 of Franklin County
January 1, 2020 through December 31, 2021

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Franklin County, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 23, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy, State Auditor

Olympia, WA

June 23, 2022

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

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

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of Public Utility District No. 1 of Franklin County, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2021. The District's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States*;* and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies

and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy, State Auditor

Olympia, WA

June 23, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Public Utility District No. 1 of Franklin County
January 1, 2020 through December 31, 2021

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Franklin County, as of December 31, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Matters of Emphasis

As discussed in Note 13 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 13. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy, State Auditor

Olympia, WA

June 23, 2022

PUBLIC UTILITY DISTRICT NO. 1 OF FRANKLIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Public Utility District No. 1 of Franklin County (District) provides the following overview and analysis of key data presented in the District's basic financial statements for the years ended December 31, 2021 and 2020, with additional comparative data for 2019. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District accounts for its financial activities within a single proprietary fund. The District's financial activities are comprised of the purchase, 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, 2021 and 2020 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 four categories: net investment in capital assets, restricted for debt service, restricted for pension and unrestricted.

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. Beginning with the 2021, the District has classified highly liquid investments within its definition of cash and cash equivalents. Amounts for 2020 have been restated for comparative purposes.

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.

COMPARATIVE CONDENSED FINANCIAL INFORMATION

STATEMENT OF NET POSITION (in thousands)

	2021	2020	2020 to 2021 Change	2019
Current and Other Assets	$91,838	$75,232	22.07%	$55,462
Capital Assets and Work in Progress	267,867	259,868	3.08%	252,439
Accumulated Depreciation	(122,473)	(115,760)	5.80%	(109,203)
Total Assets	**237,232**	**219,340**	**8.16%**	**198,698**
Deferred Outflows of Resources	4,633	4,247	9.09%	3,006
Total Assets and Deferred Outflows	**241,865**	**223,587**	**8.17%**	**201,704**
Current and Other Liabilities	19,093	15,717	21.48%	18,279
Noncurrent Liabilities	67,988	72,794	-6.60%	55,647
Total Liabilities	**87,081**	**88,511**	**-1.62%**	**73,926**
Deferred Inflows of Resources	13,209	3,694	257.58%	4,333
Total Liabilities and Deferred Inflows	**100,290**	**92,205**	**8.77%**	**78,259**
Net Investment in Capital Assets	96,775	97,294	-0.53%	96,114
Restricted for Debt Service	1,017	2,787	-63.51%	1,671
Restricted for Pension	1,153			
Unrestricted	42,630	31,301	36.19%	25,660
Total Net Position	**$141,575**	**$131,382**	**7.76%**	**$123,445**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)

	2021	2020	2020 to 2021 Change	2019
Operating Revenues:				
Retail Energy Sales	$85,833	$82,663	3.83%	$84,249
Sales for Resale	14,854	7,872	88.69%	10,342
Other	2,544	2,452	3.75%	2,524
Total Operating Revenues	103,231	92,987	11.02%	97,115
Nonoperating Revenues	1,486	858	73.19%	609
Total Revenues	**104,717**	**93,845**	**11.59%**	**97,725**
Operating Expenses:				
Power Supply	67,783	58,907	15.07%	66,964
Operations, Maintenance & Administrative	12,561	14,764	-14.92%	14,041
Taxes & Depreciation	13,135	12,419	5.77%	12,197
Total Operating Expenses	93,479	86,090	8.58%	93,202
Nonoperating Expenses	3,156	2,718	16.11%	2,050
Total Expenses	**96,635**	**88,808**	**8.81%**	**95,252**
Income (Loss) Before Capital Contributions	8,082	5,037	60.45%	2,472
Capital Contributions	2,704	2,900	-6.76%	3,780
Special Items	(593)			(1,000)
Change in Net Position	**10,193**	**7,937**	**28.42%**	**5,252**
Beginning Net Position	131,382	123,445	6.43%	118,193
Ending Net Position	**$141,575**	**$131,382**	**7.76%**	**$123,445**

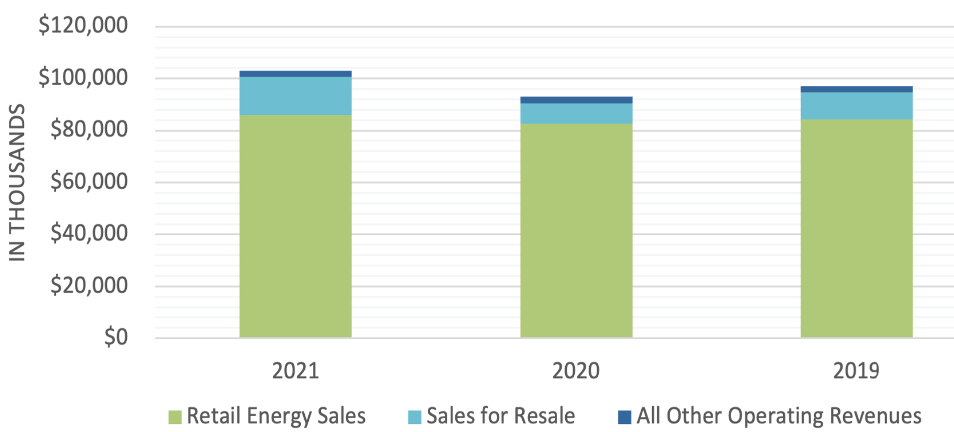
FINANCIAL ANALYSIS

The District sustained strong financial performance throughout 2021 despite the continual challenges faced in the wake of the COVID-19 state of emergency such as supply chain constraints, excessive material lead times, and rising costs. The District persevered through these challenges and continued to optimize financial resources, ending the year with an increase in Net Position of 7.76 % over 2020.

The following financial analysis focuses on the results of the District's operations by major components of income and expense for all periods presented.

Operating Revenues

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



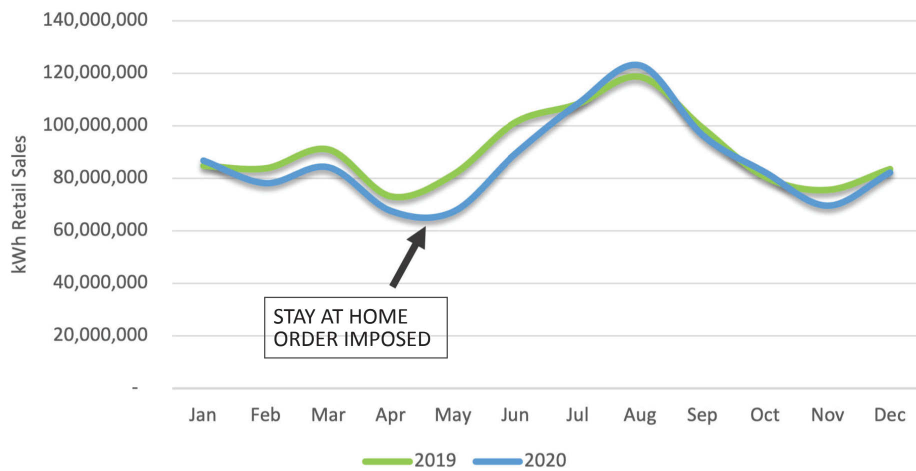
2020 to 2021:

The District experienced a 11.02% increase in Total Operating Revenue in 2021. With the gradual easing of COVID-19 related restrictions Retail Energy Sales Revenue saw 3.83% growth over 2020. Kilowatt hour loads overall rose by 6.78% and were partially attributable to an extreme heat event in June 2021 with temperatures above all previous records for four consecutive days. Additionally, residential development continued and the District added 579 (2.10% over 2020) new residential accounts.

Sales for Resale increased in 2021 by 88.69% from 2020. Although the District's own Retail Electric load required more of District's contracted Power Supply resources, the District remained a net seller of power as the Frederickson plant provided power for eleven months of 2021. This helped to serve the District's load as well as provide excess to sell on the open market. Overall pricing received on these transactions increased approximately 135% from 2020 on an average per megawatt hour basis.

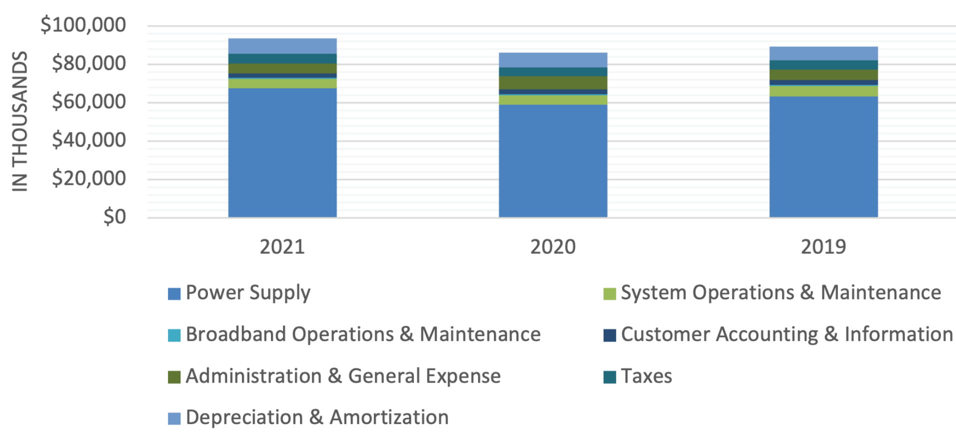
2019 to 2020:
Total Operating Revenues decreased in 2020, down 4.25% from 2019 levels. Retail sales of energy to customers comprised comprises the largest portion of operating revenues, and decreased 1.88% in 2020 as a result of the decreased electric usage by District customers in the Commercial rate classes. The decline in usage was a product of the closure of schools and businesses through the Stay at Home orders imposed by the State of Washington, as well as milder winter weather than what was experienced early in 2019.

Sales for Resale decreased 23.88% from 2019. On an average basis, the District received 37% less per megawatt hour sold on the open market in 2020 than in 2019, resulting in a decrease in Sales for Resale revenue despite abundant excess power available to sell.

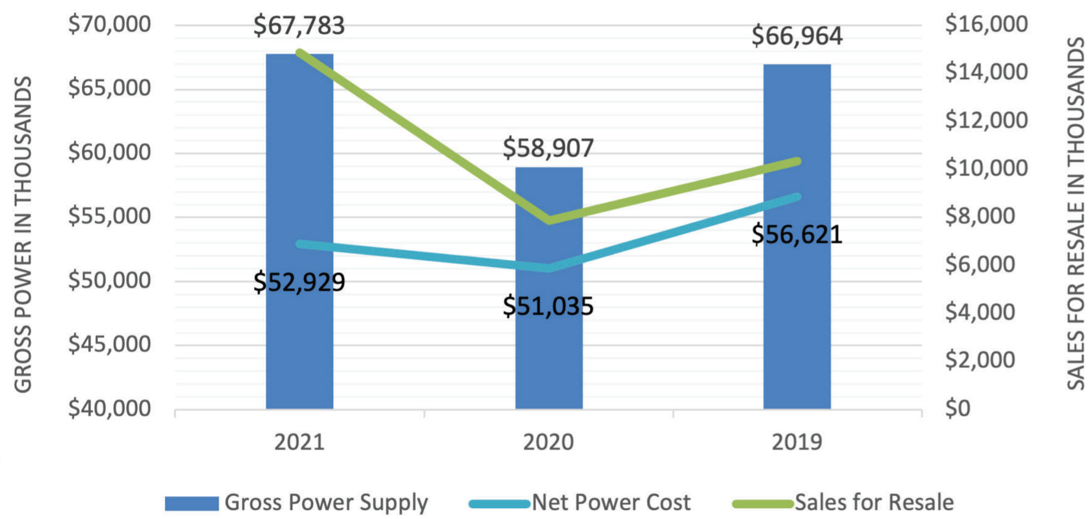


Operating Expenses

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. Power Supply Costs comprised approximately 72.25% of the District's total operating expenses in 2021. Net Power Supply is Power Supply less revenue received from the sale of electricity on the secondary market (Sales for Resale). The following graph illustrates the components of the District's Power Supply Costs on both a gross and net basis.



2020 to 2021:
The District's Power Supply costs rose 15.07% from 2020 as retail loads began to recover from the COVID-19 related decline of 2020. Additionally, the District's Frederickson plant resource ran eleven months in 2021, requiring purchases of natural gas to run the plant. Natural gas purchases and hedges increased 141% over 2020, and the District experienced significantly higher natural gas pricing in 2021 than in 2020.

2019 to 2020:
The District's Power Supply costs dropped 12.03% in 2020 in response to decreased usage by the District's retail customers during the COVID-19 pandemic and related business and school closures. With decreased retail loads, particularly in the Commercial sector, more of the District's lowest cost power supply was available to serve the District's load, reducing exposure to purchasing energy on the open market. When it was necessary to purchase energy on the open market, it was at lower prices than were experienced in 2019.

Capital Contributions

2020 to 2021:
Recognized revenue from Capital Contributions decreased 6.76% in 2021. Many projects closed and recognized in 2021 were started in 2020, and such projects were on average smaller in scale than prior to the COVID-19 pandemic. The District expects this number to increase in 2022 due to the completion of two large scale commercial projects.

2019 to 2020:
Capital Contributions decreased by 23.28% in 2020, as a result of the temporary shutdown of residential development and other construction projects in the District's service territory during the first several months of the COVID-19 pandemic. By the close of 2020, many of these developments resumed construction with expected completion in 2021.

SUMMARY OF FINANCIAL POSITION

The District's overall financial position improved in 2021, with an increase in Net Position of approximately $10.2 million largely the result of a credit to pension costs resulting from the recognition of the District's proportionate share of the pension income by the Public Employees Retirement System Plans 2 and 3, as well as increased Retail Energy Sales and Sales for Resale. The District built Unrestricted Cash Reserves by utilizing bond proceeds to fund certain capital projects and saving over $1.5 million in debt service payments from previous years resulting from the issuance of the 2020 Revenue and Refunding bonds. These measures enabled the District to hold rates steady during 2021, with no planned rate increase for 2022. The District last rate increase was 4.1%, effective May 1, 2017.

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 achieved all financial performance metrics for 2021, 2020 and 2019.

Capital Asset and Long-Term Debt Activity

CAPITAL ASSETS (in thousands)

	2021	2020	Increase (Decrease)	% Change	2019
Land	$892	$893	($1)	-0.11%	$893
Plant in Service	265,767	257,066	8,701	3.38%	250,994
Construction Work in Progress	1,208	1,908	(701)	-36.74%	552
Accumulated Depreciation	(122,473)	(115,760)	(6,713)	5.80%	(109,203)
Total Net Capital Assets	$145,394	$144,107	$1,286	0.89%	$143,236

The District's Net Capital Assets increased slightly (.89%) in 2021. Despite challenges with supply chain constraints and long material lead times, the District was able to continue with improvements and additions to the Electric and Wholesale Broadband systems. Major rehabilitation on the Franklin Substation began in 2020 and continued throughout 2021, and it comprised approximately 63% of the District's Construction Work in Progress Balance. The project is expected to be complete in 2022. The District also continued its deployment of Automated Metering Infrastructure (AMI), also with expected completion in 2022.

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

LONG TERM DEBT (in thousands)

	2021	2020	Increase (Decrease)	% Change	2019
Revenue Bonds	$67,104	$69,586	($2,482)	-3.57%	$53,585

Debt service payments totaled $4.1 million in 2021 and $5.5 million annually in 2020 and 2019.

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

Bond Ratings

In 2020, the District affirmed its credit rating with Moody's Global Ratings Scale (A1) and Standard & Poor's from (A+). There were no changes to the District's ratings in 2021.

OTHER SIGNIFICANT MATTERS

The District completed the sale of the District' Combustion Turbines and related equipment in 2021. For more information, refer to Note 12 – Special Item.

In 2020 and 2021, 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 – COVID-19 Pandemic.

In 2021 and 2020, the District qualified as a subrecipient of grant funding from multiple programs. Refer to Note 14 – Grant Awards for further information.

PUBLIC UTILITY DISTRICT NO. 1 OF FRANKLIN COUNTY

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2021 and 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2021	2020
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)		
Unrestricted	$41,174,782	$25,374,597
Restricted	14,987,894	19,465,133
Total Cash and Cash Equivalents	56,162,676	44,839,730
Customer Accounts Receivable, Net	9,994,787	9,201,129
Wholesale Power Receivable	1,929,121	777,015
BPA Prepay Receivable, Current Portion	600,000	600,000
Notes Receivable, Current Portion		179,996
Inventories	4,306,959	3,759,141
Prepayments	450,633	400,550
Derivative Asset (Note 1)	4,733,237	2,397,452
Asset Held for Sale (Note 12)		1,447,004
Other Current Assets	4,744	7,654
Total Current Assets	**78,182,157**	**63,609,671**
Noncurrent Assets		
Investments - Unrestricted		5,171,868
Restricted Debt Service Reserve Fund (Note 2)	2,306,675	2,400,496
BPA Prepay Receivable (Note 8)	3,450,000	4,050,000
Net Pension Asset (Note 6)	7,899,656	
Utility Plant (Note 3)		
Land	892,140	893,104
Plant in Service	265,766,885	257,066,097
Construction Work in Progress	1,208,172	1,908,455
Accumulated Depreciation	(122,473,485)	(115,760,034)
Net Utility Plant	145,393,712	144,107,622
Total Noncurrent Assets	**159,050,043**	**155,729,986**
TOTAL ASSETS	**237,232,200**	**219,339,657**
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	1,699,839	855,904
Deferred loss on refunding	2,060,820	2,381,430
Deferred Pension Outflows (Note 6)	872,245	1,009,849
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**4,632,904**	**4,247,183**
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$241,865,104**	**$223,586,840**
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts Payable	$6,554,010	$6,545,935
Customer Deposits	1,516,172	1,626,366
Accrued Taxes Payable	2,506,469	2,722,639
Accrued Interest Payable	721,058	482,822
Other Credits and Liabilities (Note 5)	4,160,696	1,313,872
Revenue Bonds, Current Portion (Note 4)	1,935,000	2,170,000
Derivative Liability (Note 1)	1,699,839	855,904
Total Current Liabilities	**19,093,244**	**15,717,538**
Noncurrent Liabilities		
Outstanding Revenue Bonds (Note 4)	65,169,092	67,416,068
Net Pension Liability (Note 6)	777,865	3,236,916
Other Credits and Liabilities (Note 5)	2,041,171	2,140,816
Total Noncurrent Liabilities	**67,988,128**	**72,793,800**
TOTAL LIABILITIES	**87,081,372**	**88,511,338**
DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging derivatives	4,733,237	2,397,452
Deferred Pension Inflow (Note 6)	8,311,437	1,113,172
Deferred Gain on Refunding (Note 4)	164,142	182,901
TOTAL DEFERRED INFLOWS OF RESOURCES	**13,208,816**	**3,693,525**
NET POSITION		
Net Investment in Capital Assets	96,775,284	97,294,189
Restricted for Debt Service	1,016,675	2,786,732
Restricted for Pension	1,153,288	
Unrestricted	42,629,669	31,301,056
TOTAL NET POSITION	**141,574,916**	**131,381,977**
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$241,865,104**	**$223,586,840**

The accompanying notes are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Retail Energy Sales (Note 1)	$85,832,689	$82,662,504
Broadband Revenue	2,156,718	2,016,423
Sales for Resale	14,854,244	7,872,328
Other Operating revenue	387,566	435,631
TOTAL OPERATING REVENUES	**103,231,217**	**92,986,886**
OPERATING EXPENSES		
Power Supply (Note 8)	67,782,765	58,906,962
System Operations and Maintenance	4,605,143	4,913,024
Broadband Operations and Maintenance	627,105	596,804
Customer Accounting and Information	2,099,419	2,441,185
Administration and General Expense	5,229,318	6,812,814
Taxes	5,070,615	4,679,733
Depreciation and Amortization of Intangible Assets	8,064,794	7,739,256
TOTAL OPERATING EXPENSES	**93,479,159**	**86,089,778**
OPERATING INCOME	9,752,058	6,897,108
NONOPERATING REVENUES AND EXPENSES		
Interest Income	120,137	280,382
Bond Interest, Debt Premium/Discount Amortization and Issuance Costs	(2,155,611)	(2,337,195)
Federal and State Grant Revenue (Note 14)	1,291,292	481,028
Federal and State Grant Expense (Note 14)	(1,000,000)	(381,028)
Other Nonoperating Revenue (Expense)	73,682	96,143
TOTAL NONOPERATING REVENUES AND EXPENSES	**(1,670,500)**	**(1,860,670)**
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEM	8,081,558	5,036,438
CAPITAL CONTRIBUTIONS	2,704,080	2,900,122
SPECIAL ITEM (Note 12)	(592,699)	
CHANGE IN NET POSITION	**10,192,939**	**7,936,560**
NET POSITION, BEGINNING OF YEAR	**131,381,977**	**123,445,417**
NET POSITION, END OF YEAR	**$141,574,916**	**$131,381,977**

The accompanying notes are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF FRANKLIN COUNTY

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

CASH FLOWS FROM OPERATING ACTIVITIES	2021	2020 As Restated
Cash received from customers	$104,177,402	$97,296,801
Cash paid to suppliers and counterparties	(76,683,000)	(70,585,568)
Cash paid to employees	(8,676,300)	(9,229,213)
Taxes Paid	(5,286,785)	(3,763,275)
Other receipts	3,394	34,906
NET CASH PROVIDED BY OPERATING ACTIVITIES	**13,534,711**	**13,753,651**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grant Revenue	1,000,000	481,028
Grant Expense	(1,000,000)	(381,028)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**-**	**100,000**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(8,431,444)	(8,619,982)
Interest paid on long-term debt	(1,927,501)	(2,141,986)
Principal paid on long-term debt	(2,170,000)	(3,365,000)
Contributions in aid of construction	4,766,565	3,344,419
Bond Proceeds		17,002,578
Release of Debt Service Reserve	93,821	1,514,153
Grant Revenue	9,995	
Proceeds from disposal of plant	154,795	8,708
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(7,503,769)**	**7,742,890**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment purchases	(70,935)	(121,341)
Investment sales and maturities	5,242,802	
Interest Income	120,137	280,382
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**5,292,004**	**159,041**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**11,322,946**	**21,755,582**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**44,839,730**	**23,084,148**
CASH AND CASH EQUIVALENTS, END OF YEAR	**$56,162,676**	**$44,839,730**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$9,752,058	$6,897,108
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	8,064,794	7,739,256
Miscellaneous other revenue and receipts	992,530	450,710
Miscellaneous other disbursements and expenses	(2,818,864)	(698,811)
Pension Expense (Credit)	(2,505,534)	(1,037,424)
(Increase) decrease in accounts receivable (Net)	(1,765,769)	1,130,349
(Increase) decrease in plant supplies	(547,818)	(792,515)
(Increase) decrease in prepaid expenses	(50,083)	(36,456)
(Increase) decrease in other assets	2,910	(4,437)
(Decrease) increase in payables	(208,095)	200,432
(Decrease) increase in other credits	2,618,582	(94,561)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$13,534,711**	**$13,753,651**

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

During 2021 and 2020, the District received $325,891 and $308,167, respectively, in non-cash capital contributions.

Accumulated increases and decreases in the fair value of hedging derivatives had no effect on cash flows for 2021 or 2020. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Franklin County (the District) was established in 1938 and purchases, 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, 1,132 miles of transmission and distribution lines, and other buildings, equipment, and related facilities. The District has 89 employees and serves 32,840 active accounts. The District has operating revenues in excess of $103 million and total assets of over $237 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.

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.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, short-term highly liquid investments with a maturity of less than three months at the time of purchase are considered cash equivalents. Cash equivalents classified as noncurrent are not included in the Statement of Cash Flows due to their intended purpose.

Funds in the Local Government Investment Pool (LGIP), a qualified, unrated external investment pool, are reported at amortized cost which approximates fair value. 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. Refer to Note 2 – Cash and Investments.

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 under both current and non-current assets based on the nature and intent of the funds use. Refer to Note 2 – Cash and Investments.

Investments

As of December 31, 2020, the District held a non-negotiable Certificate of Deposit, maturing July 31, 2021, which has been recorded using a cost-based measure as prescribed by GASB Statement No. 31. Refer to Note 2 – Cash and Investments.

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. As of December 31, 2020 and 2021, the District used an alternative method of estimation based due to the growth in the aging of Accounts Receivable that has resulted from the state-imposed moratorium on utility disconnection for non-payment.

Inventories

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

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, 2021, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2021			
	Classification	Amount	Classification	Amount	Notional	
Cash Flow Hedges:						
Financial Swap Forward	Deferred Inflow	$ 3,351,770	Derivative Asset	$ 3,351,770	5,874	MWh
Financial Swap Forward	Deferred Inflow	$ 1,381,467	Derivative Asset	$ 1,381,467	578,400	mmbtu
Financial Swap Forward	Deferred Outflow	$ (1,461,175)	Derivative Liability	$ (1,461,175)	54,494	MWh
Financial Swap Forward	Deferred Outflow	$ (238,664)	Derivative Liability	$ (238,664)	168,000	mmbtu

These derivative instruments were entered into between August 2019 and December 2021 with maturities between January 2022 and September 2023.

As of December 31, 2020, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2020			
	Classification	Amount	Classification	Amount	Notional	
Cash Flow Hedges:						
Financial Swap Forward	Deferred Inflow	$ 1,686,765	Derivative Asset	$ 1,686,765	21,847	MWh
Financial Swap Forward	Deferred Inflow	$ 710,687	Derivative Asset	$ 710,687	836,400	mmbtu
Financial Swap Forward	Deferred Outflow	$ (781,469)	Derivative Liability	$ (781,469)	6,098	MWh
Financial Swap Forward	Deferred Outflow	$ (74,435)	Derivative Liability	$ (74,435)	3,000	mmbtu

These derivative instruments were entered into between January 2019 and December 2020 with maturities between January 2021 and September 2023.

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 – Power Supply) 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 and Strategies:

The District enters into derivative energy transactions to hedge its known or expected positions within its approved risk management policy. Decisions are made to enter into forward transactions to protect its financial position, specifically to deal with 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 – Power Supply) 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, 2021 or 2020.

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, 2021, the District had 41 counterparties. As of December 31, 2020, the District had 42 counterparties. The maximum credit extended to any single counterparty in either year was $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 $4,733,237 and $2,397,452 as of December 31, 2021 and 2020, respectively. The District transacts with various counterparties throughout the year, and as of December 31, 2021 six counterparties comprised 100% of the net exposure to credit risk, with credit ratings ranging from Not Rated/Baa2 to A. As of December 31, 2020 five counterparties comprised 100% of the net exposure to credit risk, with credit ratings ranging from Not Rated/Baa2 to A.

<u>Basis Risk</u>
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, 2021 and 2020, 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.

<u>Termination Risk</u>
As of December 31, 2021 and 2020, 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, 2021 and 2020.

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 $4,050,000 as of December 31, 2021. Of this amount $600,000 will be collected within one year and is accordingly classified within current accounts receivable, the remaining $3,450,000 is shown under noncurrent assets. For more information regarding the BPA prepay program, refer to Note 8 - Power Supply.

In 2019, a long term receivable was established as a result of participation in a bridge financing agreement with Noanet (see Note 10 - Participation in Northwest Open Access Network, Inc. d.b.a. NOANET). The outstanding balance of this receivable was $179,996 as of December 31, 2020. This receivable was paid in full by Noanet in January 2021. Refer to Note 10 - Participation in Northwest Open Access Network, Inc. d.b.a. NOANET for further information.

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 2020. In 2021, the District completed the sale of turbines used in the decommissioned Combustion Turbine plant. Refer to Note 3 - Capital Assets, and Note 12 – Special Item.

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 700 hours, and is payable upon separation of service, retirement, or death. Employees hired before April 1, 2011 may accumulate a maximum of 1,200 hours. The District estimates a minimum of $702,389 in compensated absences will be paid within one year. As of December 31, 2021 and 2020, $702,389 and $746,416 respectively, were included in the current portion of other Credits and Liabilities on the statement of net position. An additional amount of $952,680 and $891,067 is included in long term compensated absences as of December 31, 2021 and 2020.

Extended sick leave is sick leave accrued by employees (at 30%) prior to April 1, 1993, adjusted to actual as of December 31, 2021 and 2020. 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 Revenues, Expenses and Changes in 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, 2021 and 2020, an amount of $3,220,855 and $441,230 respectively was included in Other Credits and Liabilities under Current Liabilities on the Statement of Net Position. Refer to Note 5 - Other Credits and Liabilities.

Debt Premium and 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.

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 $2.6 million at December 31, 2021 and $2.7 million at December 31, 2020.

Pensions

For purposes of measuring the net pension asset and 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.

Contributed Capital

Capital contributions of $2,704,080 and $2,900,122 are reported for 2021 and 2020, respectively, on the statement of revenues, expenses and changes in net position.

Federal and State Grant Revenue

The District was awarded funding from multiple agencies in 2021 and 2020. Portions of the funding were eligible for matching funds from the State of Washington. Programs funded by grants were conducted on a cost reimbursement basis; no funds were advanced to the District. These funds are included within the amount presented on the Statement of Revenues, Expenses and Changes in Net Position. Refer to Note 14 – Grant Awards.

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.

Construction Financing

Capital expenditures in 2021 were made using 32.47% from capital contributions, 33.02% from rate revenue and 34.51% from bond funds.

Reclassification

Certain amounts reported within the 2020 financial statements have been reclassified to conform to the 2021 presentation.

NOTE 2 – CASH AND INVESTMENTS

The District records cash and investments in accordance with the District's bond covenants as well as third-party contractual agreements where applicable.

As of December 31, the District held the following Cash and Investments:

Type	2021	2020
Cash Deposits	$5,790,186	$4,540,599
State Treasurer's Local Government Investment Pool	40,933,088	42,699,627
Umpqua Bank - Money Market Account	11,746,077	
Umpqua Bank - Nonnegotiable Certificate of Deposit		5,171,868
Total Cash and Investments	**$58,469,351**	**$52,412,094**

The following table reconciles the amounts listed above to those reported within the Statement of Net Position:

	2021	2020
Unrestricted Cash and Cash Equivalents, Current:		
Revenue Fund	$39,756,989	$23,946,804
Customer Deposits	1,417,793	1,417,793
Special Deposits		10,000
Subtotal	41,174,782	25,374,597
Restricted Cash and Cash Equivalents, Current:		
Bond Principal and Interest	1,366,058	3,039,058
Bond Proceeds - Construction Funds	13,611,836	16,426,075
Escrow - Washington Department of Transportation	10,000	
Total Cash and Cash Equivalents, Current	56,162,676	44,839,730
Investment - Unrestricted		5,171,868
Restricted Debt Service Reserve	2,306,675	2,400,496
Total Funds	**$58,469,351**	**$52,412,094**

Credit Risk

In accordance with the District's bond resolutions and investment policy all investments are held in instruments permitted for funds of the District under the Revised Code of Washington.

The District's cash deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or protected against loss by deposit with financial institutions recognized as qualified public depositories of the state of Washington under the guidelines of the Washington State Public Deposit Protection Commission (PDPC). The District intends to hold time deposits and securities until maturity.

Concentration of Credit Risk

The District's investment policy requires the investment portfolio maintain liquidity to meet the District's operational needs, including the placement of an amount no less than the District's Target Reserves in the Local Government Investment Pool (LGIP), an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

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

Custodial Credit Risk

The District's deposits are held by public depositories authorized by the Washington Public Deposit Protection Commission (PDPC). Public depositories are required to fully collateralize deposits in accordance with state law, and as such are not subject to custodial credit risk.

Bond Principal and Interest

The District's bond resolutions require deposit of District Revenues sufficient to pay accrued semi-annual interest and annual principal as due within the coming year. These funds are restricted by the bond resolutions strictly for payment of debt service obligations.

Debt Service Reserve

In accordance with the District's bond resolution, the District provides a reserve account for the payment of principal and interest on the bonds. The reserve account does not secure the bonds. The District recalculates the balance required of the reserve account in accordance with the bond resolutions annually and releases an amount to bring the fund to the level required. The Debt Service Reserve fund is held in liquid Cash Equivalents; however, the District has classified it as noncurrent as the intent is not to use the fund for current debt service coming due.

Escrow Account

In 2021 the District established a separate escrow account to secure a $10,000 blanket bond held with the Washington State Department of Transportation (WSDOT). The funds in this account are held in a separate escrow savings bank account for benefit of WSDOT and covers all projects the District performs on behalf of WSDOT.

NOTE 3 – CAPITAL ASSETS

Utility Plant Activity for the year ended December 31, 2021 was as follows:

Utility Plant	Balance, 12/31/2020	Increase	Decrease	Balance, 12/31/2021
Assets not subject to depreciation:				
Land	$893,104	$100,394	($101,358)	$892,140
Construction Work in Progress	1,908,455	12,819,414	(13,519,697)	1,208,172
Assets subject to depreciation or amortization:				
Intangible	900,706		(77,607)	823,099
Broadband	22,699,779	957,005		23,656,784
Transmission	7,800,140	275,475		8,075,615
Distribution	201,247,987	22,498,897	(15,511,737)	208,235,147
General Plant	24,417,485	558,755		24,976,240
Subtotal	259,867,656	37,209,940	(29,210,399)	267,867,197
Less Accumulated Depreciation and Amortization:				
Intangible	(504,108)	(122,472)	77,607	(548,973)
Broadband	(14,111,709)	(878,247)		(14,989,956)
Transmission	(3,576,878)	(186,201)		(3,763,079)
Distribution	(82,258,838)	(11,461,702)	6,495,083	(87,225,457)
General Plant	(15,308,501)	(637,519)		(15,946,020)
Total Accumulated Depreciation and Amortization	(115,760,034)	(13,286,141)	6,572,690	(122,473,485)
Net Utility Plant	**$144,107,622**	**$23,923,799**	**($22,637,709)**	**$145,393,712**

Utility Plant Activity for the year ended December 31, 2020 was as follows:

Utility Plant	Balance, 12/31/2019	Increase	Decrease	Balance, 12/31/2020
Assets not subject to depreciation:				
Land	$893,104			$893,104
Construction Work in Progress	551,757	10,770,408	(9,413,710)	1,908,455
Assets subject to depreciation or amortization:				
Intangible	900,706			900,706
Broadband	21,938,544	761,235		22,699,779
Transmission	7,707,171	103,392	(10,423)	7,800,140
Distribution	195,770,347	25,168,929	(19,691,289)	201,247,987
General Plant	24,677,144	364,813	(624,472)	24,417,485
Subtotal	252,438,773	37,168,777	(29,739,894)	259,867,656
Less Accumulated Depreciation and Amortization:				
Intangible	(353,351)	(150,757)		(504,108)
Broadband	(13,242,952)	(868,757)		(14,111,709)
Transmission	(3,404,370)	(182,931)	10,423	(3,576,878)
Distribution	(77,066,461)	(15,740,961)	10,548,584	(82,258,838)
General Plant	(15,136,035)	(765,617)	593,151	(15,308,501)
Total Accumulated Depreciation and Amortization	(109,203,169)	(17,709,023)	11,152,158	(115,760,034)
Net Utility Plant	**$143,235,604**	**$19,459,754**	**($18,587,736)**	**$144,107,622**

The District has active construction projects as of December 31, 2021 in the amount of $1,208,172. The District does not require future financing to complete these projects.

NOTE 4 – LONG TERM DEBT

During the year ended December 31, 2021, the following changes occurred in long term debt:

Series	Final Maturity	Original Issue Amount	Balance, 12/31/20	Increases	Decreases	Balance, 12/31/21	Amounts Due Within One Year
2013B - interest rates ranging 1.0% - 4.2%	2038	$9,155,000	$7,975,000		($190,000)	$7,785,000	
2016A - interest rates ranging 3.1% - 5.0%	2041	16,870,000	16,870,000			16,870,000	55,000
2016B - interest rates ranging 1.0% - 2.2%	2022	15,305,000	3,860,000		(1,980,000)	1,880,000	1,880,000
2020A Electric Revenue Bonds - interest rate 4.0%	2045	6,055,000	6,055,000			6,055,000	
2020B - interest rates ranging .6% - 2.9%	2041	32,135,000	32,135,000			32,135,000	
Subtotal			66,895,000		(2,170,000)	64,725,000	1,935,000
Plus: Unamortized premium			2,716,978		(313,366)	2,403,612	
Less: Unamortized discount			(25,910)		1,390	(24,520)	
Total Long Term Debt			**$69,586,068**		**($2,481,976)**	**$67,104,092**	**$1,935,000**

During the year ended December 31, 2020, the following changes occurred in long term debt:

Series	Final Maturity	Original Issue Amount	Balance, 12/31/19	Increases	Decreases	Balance, 12/31/20	Amounts Due Within One Year
2013A - interest rates ranging 2.0% - 5.0%	2038	$18,370,000	$17,410,000		($17,410,000)		
2013B - interest rates ranging 1.0% - 4.2%	2038	9,155,000	8,155,000		(180,000)	7,975,000	190,000
2016A - interest rates ranging 3.1% - 5.0%	2041	16,870,000	16,870,000			16,870,000	
2016B - interest rates ranging 1.0% - 2.2%	2022	15,305,000	9,230,000		(5,370,000)	3,860,000	1,980,000
2020A Electric Revenue Bonds - interest rate 4.0%	2045	6,055,000		6,055,000		6,055,000	
2020B - interest rates ranging .6% - 2.9%	2041	32,135,000		32,135,000		32,135,000	
Subtotal			51,665,000	38,190,000	(22,960,000)	66,895,000	2,170,000
Plus: Unamortized premium			2,113,709	902,005	(298,736)	2,716,978	
Less: Unamortized discount			(193,562)		167,652	(25,910)	
Total Long Term Debt			**$53,585,147**	**$39,092,005**	**($23,091,084)**	**$69,586,068**	**$2,170,000**

Future Debt Service on the bonds is as follows:

Year	Principal	Interest	Total
2022	$1,935,000	$2,163,175	$4,098,175
2023	2,750,000	2,119,634	4,869,634
2024	2,825,000	2,041,663	4,866,663
2025	2,915,000	1,954,363	4,869,363
2026	3,000,000	1,861,687	4,861,687
2027-2031	16,670,000	7,666,438	24,336,438
2032-2036	16,880,000	4,778,778	21,658,778
2037-2041	12,055,000	2,115,588	14,170,588
2041-2045	5,695,000	580,800	6,275,800
Total	**$ 64,725,000**	**$ 25,282,125**	**$ 90,007,125**

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 reported 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.

In December 2020 the District issued series 2020A Electric Revenue and Refunding bonds in the amount of $6,055,000 and Series 2020B (taxable) in the amount of $32,135,000. Series 2020B included $10 million new proceeds as well as $22,135,000 to advance refund the outstanding balance of 2013A Tax Exempt bonds as well as portions of the 2021 and 2022 maturities of the Series 2016B Bonds. New bond proceeds were issued for the purpose of financing certain capital improvements. Refunding proceeds were placed in an irrevocable trust for future debt service on the refunded bonds. Accordingly, those bonds are no longer considered outstanding and are not reported within the District's financial statements. The bond resolution did not require a debt service reserve for these bond issues. This resulted in a release of the District's Debt Service Reserve fund of $1,514,153 which was designated for future debt service payments.

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

In 2020, the District renewed a non-revolving line of credit to support standby letters of credit with Umpqua Bank in the amount of $3 million for a period of one year. The District did not utilize this line of credit in 2020 and did not renew it when it expired in 2021.

NOTE 5 – OTHER CREDITS AND LIABILITIES

Changes in Other Credits and Liabilities as of December 31, 2021 were as follows:

Other Credits and Liabilities - Current	2020	Increases	Decreases	2021
Compensated Absences – Current	$746,416	$1,064,884	($1,108,911)	$702,389
Extended Sick Leave	6,884	214		7,098
Customer Advances for Construction	441,230	4,522,235	(1,742,610)	3,220,855
Other Current Liabilities	119,342	121,030	(10,018)	230,354
Total Other Current Liabilities	**$1,313,872**	**$5,708,363**	**($2,861,539)**	**$4,160,696**

Other Credits and Liabilities – Noncurrent	2020	Increases	Decreases	2021
Compensated Absences – Long Term	$891,067	$61,613		$952,680
BPA Incentive Credit	1,249,749		(161,258)	1,088,491
Total Other Credits and Liabilities	**$2,140,816**	**$61,613**	**($161,258)**	**$2,041,171**

Changes in Other Credits and Liabilities as of December 31, 2020 were as follows:

Other Credits and Liabilities - Current	2019	Increases	Decreases	2020
Compensated Absences – Current	$670,774	$1,043,737	($968,095)	$746,416
Extended Sick Leave	6,378	506		6,884
Customer Advances for Construction	375,040	2,199,486	(2,133,296)	441,230
Other Current Liabilities	90,684	83,238	(54,580)	119,342
Total Other Current Liabilities	**$1,142,876**	**$3,326,967**	**($3,155,971)**	**$1,313,872**

Other Credits and Liabilities – Noncurrent	2019	Increases	Decreases	2020
Compensated Absences – Long Term	$654,950	$236,117		$891,067
BPA Incentive Credit	1,411,007		(161,258)	1,249,749
Total Other Credits and Liabilities	**$2,065,957**	**$236,117**	**($161,258)**	**$2,140,816**

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all state sponsored pension plans for the years 2021 and 2020:

Aggregate Pension Amounts – All Plans	2021	2020
Pension liabilities	($777,865)	$3,236,916
Pension assets	$7,899,656	
Deferred outflows of resources	$872,245	$1,009,849
Deferred inflows of resources	($8,311,437)	$1,113,172
Pension expense (income)	($1,977,835)	$3,315

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 Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

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

Or the DRS Annual Report 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.

<u>Contributions</u>

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 (OSA) 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 2021 were as follows:

PERS Plan 1 Actual Contribution Rates:	Employer	Employee
January - June 2021		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	**12.97%**	**6.00%**
September - December 2021		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 1 Actual Contribution Rates:	Employer	Employee
January - August 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	**12.86%**	**6.00%**
September - December 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	**12.97%**	**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.

<u>Contributions</u>

The PERS Plan 2/3 employer and employee contribution rates are developed by the OSA to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 Unfunded Accrued Actuarial Liability (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 2021 were as follows:

PERS Plan 2/3 Actual Contribution Rates:	Employer 2/3	Employee 2
January - June 2021		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.97%**	**7.90%**
September - December 2021		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**10.25%**	**6.36%**

The District's actual PERS plan contributions were $398,725 to PERS Plan 1 and $646,278 to PERS Plan 2/3 for the year ended December 31, 2021.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 2/3 Actual Contribution Rates:	Employer 2/3	Employee 2
January - August 2020		
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%**
September - December 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.97%**	**7.90%**

The District's actual PERS plan contributions were $475,287 to PERS Plan 1 and $752,902 to PERS Plan 2/3 for the year ended December 31, 2020.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were no changes in methods and assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.

- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% 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/(Asset)

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.

2021:

	1% Decrease (6.40%)	Current Rate (7.40%)	1% Increase (8.40%)
PERS 1 (.063695%)	$1,325,137	$777,865	$300,588
PERS 2/3 (.079301%)	($2,250,458)	($7,899,656)	($12,551,772)

2020:

	1% Decrease (6.40%)	Current Rate (7.40%)	1% Increase (8.40%)
PERS 1 (.063394%)	$2,803,411	$2,238,151	$1,745,185
PERS 2/3 (.078093%)	$6,214,583	$998,765	($3,296,464)

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, 2021, the District reported a pension liability of $777,865 and ($7,899,656) for its proportionate share of the net pension liability (asset) as follows:

	Liability (or Asset)
PERS 1	$777,865
PERS 2/3	($7,899,656)

At June 30, 2020, the District reported a total pension liability of $3,236,916 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$2,238,151
PERS 2/3	$998,765

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

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.063394%	0.063695%	0.000301%
PERS 2/3	0.078093%	0.079301%	0.001208%

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.067011%	0.063394%	-0.003617%
PERS 2/3	0.080700%	0.078093%	-0.002607%

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.

Pension Expense

For the year ended December 31, 2021 and 2020, the District recognized pension expense as follows:

	2021	2020
PERS 1	($135,122)	($38,906)
PERS 2/3	(1,842,713)	42,221
Total	**($1,977,835)**	**$3,315**

Deferred Outflows of Resources and Deferred Inflows of Resource

At December 31, 2021, 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		$863,170
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$170,342	
Total	**$170,342**	**$863,170**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$383,675	$96,842
Net difference between projected and actual investment earnings on pension plan investments		6,602,257
Changes of assumptions	11,544	561,006
Changes in proportion and differences between contributions and proportionate share of contributions	19,595	188,162
Contributions subsequent to the measurement date	287,089	
Total	**$701,903**	**$7,448,267**

At December 31, 2020, 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		$12,461
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$246,073	
Total	**$246,073**	**$12,461**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$357,543	$125,169
Net difference between projected and actual investment earnings on pension plan investments		50,723
Changes of assumptions	14,225	682,241
Changes in proportion and differences between contributions and proportionate share of contributions		242,578
Contributions subsequent to the measurement date	392,008	
Total	**$763,776**	**$1,100,711**

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

Year ended December 31	PERS 1
2022	228,654
2023	209,530
2024	198,119
2025	226,867
2026	-
Total	**$ 863,170**

Year ended December 31	PERS 2/3
2022	1,856,772
2023	1,738,151
2024	1,652,645
2025	1,762,830
2026	28,842
Thereafter	(5,784)
Total	**$ 7,033,456**

Franklin PUD 401(a) Qualified Plan and 457 Deferred Compensation Plan

The District sponsors and serves as trustee for single-employer defined contribution plans (the Plans) for the purpose of providing retirement income to employees. The Plans were established pursuant to Internal Revenue Code (IRC) sections 457(b) and 401(a) and are administered by MissionSquare Retirement (formerly known as ICMA-RC). The District's employer-appointed Deferred Compensation Committee (DCC) operates and oversees the Plans in accordance with the Committee's Operating Guidelines.

<u>Plan Description</u>

The plan assets are held in trust for the exclusive benefit of the plan participants and their beneficiaries. Plan participants include permanent District employees, retirees, and those who have separated but have elected to keep assets in the plan. The District's Commission may alter, amend or terminate the Plans. There are no forfeitures of member assets.

Prior to January 1, 2020, participation in the Plan(s) was optional at the discretion of the employee. Effective January 1, 2020, employees who do not make a plan choice within 30 days of hire are automatically enrolled in the 401(a) Plan. The 401(a) Plan had 130 and 132 participants as of December 31, 2021 and 2020, respectively. The 457(b) Plan had 134 and 135 participants as of December 31, 2021 and 2020, respectively.

<u>Contributions</u>

Employees may contribute to the Plans up to the pretax compensation limit as defined in the plan documents. Employees eligible to participate in the Plans are regular, permanent employees of the District. As of January 1, 2020 the District is required to contribute 3% of regular employee wages to the plan for each eligible employee. Prior to January 1, 2020, the District matched 50% of employee contributions up to a maximum of 2% of the employee's regular wage. The District made contributions of $262,996 and $270,560 in 2021 and 2020, respectively. Employees made contributions of $480,634 and $531,245 to the 457 and 401(a) Plans in 2021 and 2020, respectively.

NOTE 7 - HEALTH BENEFIT PLANS

HRA VEBA

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. The plan is administered by HRA VEBA Trust. As of January 1, 2020, the District makes an additional monthly $50 contribution on behalf of each regular, full-time employee of the District irrespective of the employee's participation in the District provided wellness program.

Paid Family Medical Leave Act Self-Insurance

The District administers a voluntary plan for paid medical leave benefits for its employees. Voluntary plans are approved by the Employment Security Department and are available for employers who wish to opt out of the State of Washington's Paid Family & Medical Leave Program for either family leave benefit, medical leave benefit, or both, and instead administer their own internal plan. Employers with voluntary plans are required to offer benefits that are equal to or exceed the benefits offered by the State's program and must report employee hours, wages, premiums deducted from employee pay, and other information to the Employment Security Department on a quarterly basis. For qualifying Family Leave, District employees participate in the program provided by the State of Washington.

The District paid $122,295 and $74,578 in claims during 2021 and 2020, respectively. District employees pay no premium for this benefit.

NOTE 8- POWER SUPPLY

Bonneville Power Supply (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.

Beginning December 2019, BPA implemented a surcharge to power rates to increase its cash reserves. This surcharge was $41,435 per month . The collection of this surcharge was terminated with the June 2020 billings to minimize cost impacts caused by the COVID-19 emergency. Since this point, the reserves balances have increased and it is not anticipated that the charges will resume.

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 $106,726 and ($666,734) in 2021 and 2020, respectively.

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.

In 2020, the District entered into an agreement with Powerex to replace the Frederickson resource with 40 megawatts (MW) firm power annually for the months of July, August and September beginning in January 2023. The agreement runs through 2028. In 2021, the agreement was amended to include 15MW firm power for all other months, with the option to increase to 25MW if needed.

Pasco Combustion Turbine Generating Station

The District and Grays Harbor PUD jointly constructed a four-unit, 44 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. In 2021, the District completed the sale of the turbines. 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.

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, approximately 1 aMW, 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	$123,400,000
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 $1,152,955 and a decrease of $4,125,150 for 2021 and 2020, 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. In June 2020, the second draw was approved in the amount of $895,000 with the District's share equaling $114,739. The District remitted payment to NoaNet on June 19, 2020, and recorded a Note Receivable equal to the District's share. The District recorded $7,074 in 2020 of interest income in accordance with repayment terms of the agreement. This obligation was paid in full by Noanet in January 2021.

NoaNet Financial Guarantee

In December 2020, current Members of NoaNet entered into a Repayment Agreement to guarantee the 10-year, $24,775,000 Telecommunications Network Revenue Bonds (2020 Bonds) issued by NoaNet to finance capital improvements and other expenses, repay loans and a line of credit, fund a reserve account, and pay bond issuance costs. The 2020 Bonds will become due beginning in December 2021 through December 2030 with interest due semi-annually at rates ranging from 0.591 percent to 2.120 percent.

The 2020 Bonds were issued and guaranteed pursuant to RCW chapters 24.06 and 39.34 and Title 54. Under the Repayment Agreement, each guarantor acknowledged and agreed that it is a guarantor of the payment of the principal and interest on the 2020 Bonds and was liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such principal and interest up to each Member's agreed upon percentage interest. The District's guarantee was 10 percent of the outstanding Bonds.

To the extent NoaNet's gross revenue is insufficient to pay principal and interest amounts when due, NoaNet shall bill each guarantor no less than 65 days in advance of each principal and interest payment date for its percentage share. Each guarantor has 30 days to pay after receipt of the bill. In event of a failure by any guarantor to pay such amounts when due, the guarantor shall be subject to all remedies as contained in NoaNet's bylaws. Each guarantor shall remain obligated to pay its respective share of principal and interest on the 2020 Bonds, when due, whether or not it remains a member of NoaNet. The District's outstanding guarantee is $2,253,000 and $2,477,500 as of December 2021 and 2020 respectively.

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 2021 and 2020:

Broadband	**2021**	**2020**
Operating Revenues		
Drop Fees	$87,458	$46,767
Fiber Transport charges	1,264,249	990,517
Dark Fiber	420,244	398,270
WiFi Transport	600	1,300
Collocation Rental	264,848	236,289
Miscellaneous Broadband Services	119,319	343,280
Total Operating Revenues	**2,156,718**	**2,016,423**
Operating Expenses		
Labor and Benefits	307,182	359,746
Supplies	4,451	7,600
Professional Services	78,179	65,399
Other Charges	164,117	102,260
Hardware and Fiber Maintenance	73,176	61,799
Depreciation	878,247	868,757
Total Operating Expenses	**1,505,352**	**1,465,561**
Capital Investment		
Current	957,005	761,235
Cumulative (since 2000)	$23,656,784	$22,699,779

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

NOTE 12 – SPECIAL ITEM

During 2021, the District completed the sale of turbine equipment that was presented as an Asset Held for Sale on the Statement of Net Position since 2013. An agreement was signed with the purchaser in August 2021, with final delivery taking place in February 2022. The sale resulted in a loss on the sale of the assets in the amount of $592,699 and is presented as a Special Item on the Statement of Revenues, Expenses and Changes in Net Position.

NOTE 13 – COVID-19 PANDEMIC

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

The District took measures to limit the spread of the virus including adopting remote-work for certain employees, closure of public spaces, and increased sanitation measures. The District re-opened to the public in March 2021, with most safety measures remaining in place.

NOTE 14 – GRANT AWARDS

Coronavirus Aid, Relief, and Economic Security Act (CARES)

In November of 2020, the District qualified and received assistance in the amount of $100,000 through the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The funds were administered through Washington State Department of Commerce and Franklin County, and reimbursed the District for certain operating expenses incurred to facilitate compliance with COVID-19 related public health measures. This amount is presented within Federal and State Grant Revenue in the Nonoperating section on the District’s Statement of Revenues, Expenses and Changes in Net Position.

Additionally, certain District ratepayers qualified for assistance through the CARES Act to apply towards their outstanding electric bills. The District coordinated an application and certification process to comply with funding requirements and assist ratepayers in applying for grant assistance. The District received $381,028 in CARES assistance directly on behalf of qualifying ratepayers to apply towards past due account balances. The amount received is presented within Federal and State Grant Revenue in the Nonoperating section on the District’s Statement of Revenues, Expenses and Changes in Net Position, and the amount applied toward past due account balances is shown as Federal and State Grant Expense.

American Rescue Plan Act (ARPA)

In March 2021 the American Rescue Plan Act was signed into law, and the City of Pasco was allocated approximately $17.4 million in grant funding. The City of Pasco entered into agreement with the District to utilize $1 million of the funds to allocate portions of the funding to City of Pasco residents experiencing several financial hardship due to the COVID-19 emergency in the form of a Utility Assistance Program administered by the District. The District was a subrecipient of this funding. The agreement specified that the $1 million was to be allocated equally between the District and the City of Pasco for Utility Assistance for their respective customers. The amount received is presented as Federal and State Grant Revenue in the Nonoperating section on the District’s Statement of Revenues, Expenses and Changes in Net Position. The amount allocated to the City Pasco and applied to District customer account balances is shown as Federal and State Grant Expense.

Federal Emergency Management Act (FEMA)

In February 2021, a federal disaster was declared for a wildfire that took place in September 2020. This fire destroyed certain electric distribution assets owned by the District. The District has applied for and received approval for public assistance through the Washington State Department of Military and Federal Emergency Management Agency (FEMA) to partially reimburse the cost of labor, material, contract labor and other expenses incurred to restore power and rebuild/replace the assets lost. Recovery from the disaster includes the undertaking of projects designed to prevent similar disasters in the future. Funding for the projects was provided 75% by FEMA, 12.5% by Washington State Department to the Military Emergency Management Division, and 12.5% by the District. The District recorded Federal and State Grant Revenue in the amount of $291,292 related to FEMA projects in 2021. Of this amount, $9,995 was received in 2021 with the remainder paid in January 2022.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

AS OF JUNE 30, 2021

Last 10 Fiscal Years*

PERS Plan 1	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.063695%	0.063394%	0.067011%	0.071672%	0.073408%	0.076313%	0.075912%	0.079646%
District's proportionate share of the net pension liability (asset)	$777,865	$2,238,151	$2,576,811	$3,200,896	$3,483,267	$4,098,368	$3,970,904	$4,012,205
Covered payroll	$9,599,892	$9,297,855	$9,030,505	$8,995,977	$8,782,843	$8,640,630	$8,269,970	$8,110,199
District's proportionate share of the net pension liability as a percentage of covered payroll	8.10%	24.07%	28.53%	35.58%	39.66%	47.43%	48.02%	49.47%
Plan fiduciary net position as a percentage of the total pension liability	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

PERS Plan 2 & 3	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.079301%	0.078093%	0.080700%	0.083158%	0.085880%	0.088890%	0.075912%	0.079646%
District's proportionate share of the net pension liability (asset)	($7,899,656)	$998,765	$783,871	$1,419,849	$2,983,919	$4,475,541	$3,187,453	$1,795,150
Covered payroll	$9,484,772	$9,101,618	$8,773,360	$8,624,717	$8,419,679	$8,279,471	$7,921,255	$7,585,236
District's proportionate share of the net pension liability (asset) as a percentage of covered payroll	(83.29%)	10.97%	8.93%	16.46%	35.44%	54.06%	40.24%	23.67%
Plan fiduciary net position as a percentage of the total pension liability	91.42%	97.22%	97.77%	93.29%	90.97%	85.82%	89.20%	93.29%

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

SCHEDULES OF EMPLOYER CONTRIBUTIONS

AS OF DECEMBER 31, 2020

Last 10 Fiscal Years*

PERS Plan 1	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$398,725	$475,287	$462,217	$493,987	$455,221	$435,891	$392,546
Contributions in relation to the statutorily or contractually required contributions	(398,725)	(475,287)	(462,217)	(493,987)	(455,221)	(435,891)	(392,546)
Contribution deficiency (excess)	0	0	0	0	0	0	0
Covered payroll	$9,103,780	$9,659,765	$9,072,975	$9,203,426	$8,801,724	$8,666,873	$8,516,494
Contributions as a percentage of covered payroll	4.38%	4.92%	5.09%	5.37%	5.17%	5.03%	4.61%

PERS Plan 2 & 3	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$646,278	$752,902	$686,799	$661,198	$581,381	$517,463	$457,619
Contributions in relation to the statutorily or contractually required contributions	(646,278)	(752,902)	(686,799)	(661,198)	(581,381)	(517,463)	(457,619)
Contribution deficiency (excess)	0	0	0	0	0	0	0
Covered payroll	$9,019,796	$9,506,322	$8,910,291	$8,822,218	$8,435,389	$8,306,014	$8,156,162
Contributions as a percentage of covered payroll	7.17%	7.92%	7.71%	7.49%	6.89%	6.23%	5.61%

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