



2019 Comprehensive Annual Financial Report



Your Trusted Energy Partner

Public Utility District No. 1 of Benton County, Washington
for the fiscal years ended December 31, 2019 and 2018



Safety Program

Recordable Accidents

2019

**Zero OSHA recordable accidents
and illnesses**



Comprehensive Annual Financial Report

2019

**Public Utility District No. 1 of Benton County, Washington
for the fiscal years ended December 31, 2019 and 2018**

Prepared by Finance & Business Services and Communications & Government
Relations of Benton PUD



OUR PURPOSE

To improve the quality of life in our community through leadership, cooperation and stewardship.

OUR MISSION

We contribute high value to our community and customers by providing energy and related services using reliable and efficient delivery systems.

OUR VALUES

Safety
Excellence
Forward Focus
Integrity
Mutual Respect
Teamwork

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Comprehensive Annual Financial Report

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Introductory Section

2019

Your Trusted Energy Partner





EV Connections

Charging Forward

2019

**Launched \$250
Electric Vehicle Rebate**



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Public Utility District No. 1
of Benton County, Washington**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

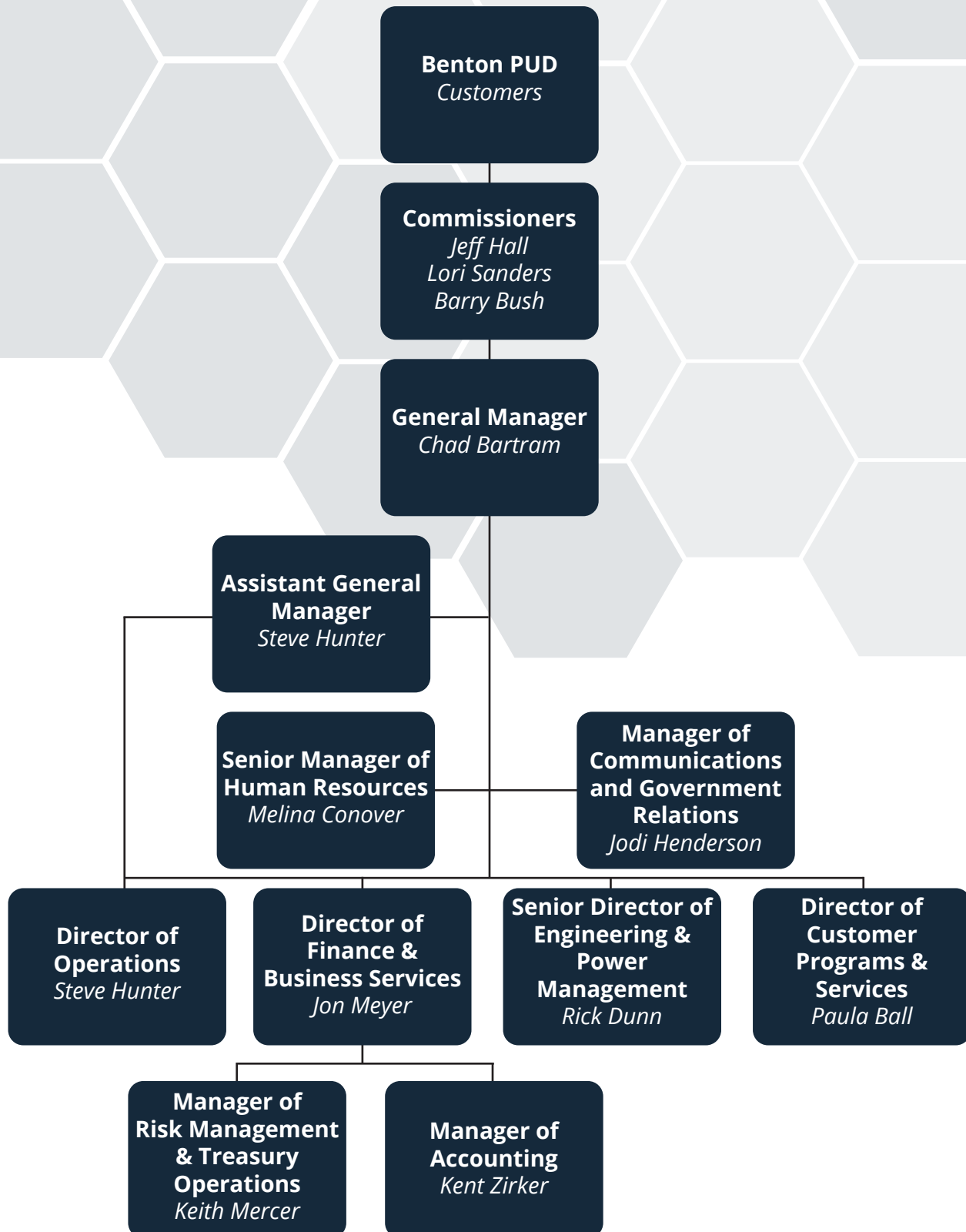
December 31, 2018

Christopher P. Morill

Executive Director/CEO

Organization Chart

Comprehensive Annual Financial Report



Commission Message

Comprehensive Annual Financial Report

Building on the past. Investing in the future.

Benton PUD continues to make strategic investments to ensure we can “keep the lights on” as our communities experience steady growth and economic development. In 2019, we rebuilt the Benton City Substation with new equipment and advanced technologies to help ensure reliable service and support economic development in Benton City and in the Red Mountain area. We also added new equipment and more capacity to our Orchard View Substation in Kennewick, managed the financial impacts of a regional power supply shortage resulting from extreme winter conditions, and continued working to preserve the value of clean and reliable hydropower.

Benton PUD plans to complete construction of a new substation in the Southridge area by the end of 2020. The new substation will support rapid residential and commercial development and ensure we are ready to serve light industrial properties, which have more extensive electricity demands and faster project development schedules.

Even with these capital-intensive investments, Benton PUD has continued to maintain low-cost rates through disciplined financial and operational planning, responsible management of our overhead expenses, and strategic investments in technology.

Giving back. Investing in our customers.

Benton PUD customers now have access to several self-service payment options and online tools. These additions enable convenient account management and the ability to monitor electricity usage on a 24/7 basis. This year, we launched Pay As You Go; a prepaid electricity program with no monthly bills and no deposits or fees. To avoid disconnection, customers assume responsibility for keeping the power on by configuring automatic notification settings and maintaining a minimum account balance. By prepaying for their electricity in smaller more frequent payments, customers can help manage their cash flow and eliminate the need for a deposit.

Benton PUD invites customer to donate to the Helping Hands program and provide financial assistance to those in need of help paying their electric bill. During the 2019 holiday season, the program was rebranded to Round Up for Helping Hands. Customers were encouraged to round up their monthly bill to the nearest dollar. Our holiday fundraiser far surpassed our goal of \$6,500, raising over \$11,000 to help our customers in need.

Benton PUD also expanded our low-income discount program, inviting qualifying low-income veterans and active military personnel to apply for discounts.

Benton PUD is exploring new ways to expand our customers assistance programs. As our customers face the challenge of the coronavirus (COVID-19) pandemic, our goal is to come alongside those in need and help them move forward through this challenging time. Benton PUD has been here for our customers since 1934. We are grateful and honored to carry on the long tradition of providing safe, reliable and affordable services that are critical to the daily lives of those we serve.



Sincerely,
Benton PUD Commissioners
Barry Bush (District 3), Jeff Hall (District 2),
and Lori Sanders (District 1).

Letter of Transmittal

Comprehensive Annual Financial Report

May 20, 2020

To the Board of Commissioners and Customers
Public Utility District No. 1 of Benton County, Washington

The Comprehensive Annual Financial Report (CAFR) of the Public Utility District (District) No. 1 of Benton County, Washington for the year ended December 31, 2019 is hereby submitted. The report is designed to assess the District's financial position, educate readers about District services, examine current challenges facing the District, and fulfill legal reporting requirements.

State law requires that every local government submit financial reports to the State Auditor within 150 days after the close of each fiscal year. The District's bond covenants require financial information be provided to each nationally recognized municipal securities information repository in accordance with Section (b)(5) of Securities and Exchange Commission Rule 15c2-12 under the Securities and Exchange Act of 1934. This report is published to fulfill both requirements for the fiscal year ended December 31, 2019.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The certified public accounting firm of Moss Adams has issued an unmodified ("clean") opinion on the District's financial statements for the years ended December 31, 2019 and 2018. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this transmittal letter and should be read in conjunction with it.

Profile of the District

The District is a municipal corporation of the State of Washington established in 1934 for the purpose of engaging in the purchase, generation, transmission, distribution and sale of electric energy. Additionally, the District is authorized under state law to provide wholesale telecommunication services. The District is governed by an elected three-member board and maintains its administrative offices in Kennewick, WA.

The District is a statutory preference customer of the Bonneville Power Administration (BPA) and purchases most of its power from BPA. The District's remaining power supply requirements are supplied by various contract purchases (see Note 8). The District's contracted power supply is projected to be surplus for most months of the year. The District purchases and sells power within the wholesale markets to balance resources to load.

The District's properties include 38 substations, approximately 98 miles of 115 kV transmission lines, 1,707 miles of distribution lines, and other buildings, equipment, stores and related facilities.

The District is located in southeastern Washington, encompassing approximately 939 square miles of Benton County and includes the incorporated cities of Kennewick, Benton City, and Prosser (the Benton County seat). The District's largest city, Kennewick, as well as the City of Richland in Benton County (outside the District service territory), and the City of Pasco in adjacent Franklin County, make up what is known as the Tri-Cities.

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

The District adopts an annual budget for purposes of planning and management control. The budget process involves preparation of a proposed operating and capital budget by District staff for the ensuing year that is presented to the Board of Commissioners. During workshop sessions that are open to the public, the staff and Board review and revise the proposed budget. A public hearing is conducted to obtain ratepayer comments. The budget is approved by the Board and becomes the basis for operations for the next calendar year.

Local Economy

Benton County's economy is based on the following major industries: Government, healthcare, administrative and waste services, professional and technical services, hospitality and food services, and retail trade. These industries comprise 68.7% of employment; other notable industries include agriculture, and construction.

Government employment, which includes both public education and healthcare, is the largest employing industry in the County at 14.4%. State and local government employers provide a variety of services including, education, public safety, health and social services, and utilities. Large employers in this segment include Kennewick and Richland school districts, and Energy Northwest.

Healthcare and social assistance and construction industries had the largest percentage employment increases from the prior year, posting 0.8% and 0.5% respectively. Professional and technical services industry had the largest percentage employment decrease of 1.0%.

The Hanford Reservation, encompassing 560 square miles within Benton County, has evolved into one of the largest nuclear industrial centers in the United States. Today the focus is on energy research, environmental cleanup, and related technology. The major employers in Benton County are Battelle, PNNL, Bechtel National, and the Department of Energy and its contractors associated with the Hanford Project.

Farmland comprises the majority of Benton County's land area. Many corporate farms are located in the District encompassing over 100,000 acres of irrigated and dry land crops. Irrigation has led to increased production of a wide variety of crops including potatoes, apples, sweet corn, onions, grapes, cherries, wheat, hay, and hard and soft fruits. These crops are shipped to both domestic and export markets.

The local economy continues to be strong and steady. Tri-Cities nonfarm employment was up 2.9 percent in December 2019 as compared to December 2018. The Tri-Cities gained approximately 3,400 jobs during the year primarily as a result of expanding construction, educational and health services, and professional and business services. The Tri-Cities is a regional destination for communities throughout southeastern Washington and northeastern Oregon leading to continued growth in the leisure and hospitality and retail service industries.

Long-Term Financial Planning

The District's Executive and Leadership teams regularly review an updated five-year financial forecast. The forecast includes both operating (including power supply costs) and capital activity with a focus on reserve levels, debt service coverage levels, and potential rate action. The forecast is then reviewed with the Board of Commissioners on a regular basis.

The District has adopted a comprehensive set of financial policies for purposes of managing the District's finances. The policies cover such issues as liquidity, debt service coverage, debt financing, retail rates, enterprise risk management, power supply risk, credit risk, investment policies and practices, insurance, integrated planning, budgetary and procurement controls, and financial reporting.

The financial policies call for the development of financial plans to achieve a minimum debt service coverage ratio of 2.0 times annual debt service including capital contributions and 1.75 times annual debt service excluding capital contributions and provide for maintaining a debt ratio at 38% or less.

The financial policies related to reserve levels call for minimum operating reserves to be no less than 90 days cash on hand. In addition, the policies establish financial plans to maintain total unrestricted reserves that are expected to achieve or maintain the targeted bond rating that is the median for public power utilities. The Commission periodically reviews these policies.

Relevant Financial Policies

As a result of rising wholesale net power costs during the period and future years, the District increased retail rates an average of 2.9% effective October 1, 2019. The District will continue to evaluate the need for future retail rate increases in order to meet targets established in financial policies.

Major Initiatives

The District completed installation and testing of two self-serve kiosks for customers to make payments. One is located at each of the District offices in Kennewick and Prosser. District staff also completed implementation of a prepay option for customers to pay for electric service. The prepay option is titled Pay-As-You-Go and was made available in the Fall of 2019.

The District, in conjunction with Richland Energy Services, finished construction of the new Leslie Road substation in early 2019. This substation provides both utilities with improved distribution system reliability while also providing additional capacity for an area that has experienced substantial residential development in recent years, with more expected to come. The District also completed an overhaul of its Benton City Substation, which held the District's oldest working power transformer originally installed in the 1950's. The new substation equipment will help ensure continued reliable service for Benton City customers while also providing incremental capacity to accommodate growth in town and in the Red Mountain area.

The District also has substantial transmission, substation, distribution, and broadband projects planned over the next several years to continue to ensure reliable electric and broadband services while also accommodating steady customer growth. The nearly \$2.6 million in the 2020 capital budget for substation projects includes new construction at a site in the rapidly growing Southridge area as well as adding a control house and replacing or upgrading equipment at other substations. Additional 115 kilovolt transmission lines continue to be in the District's plans to improve long-term reliability for agricultural customers in southern Benton county as well as urban customers in the central area of the county.

The District is proactively planning distribution system projects to meet the needs of continued residential and commercial growth in its service territory while also improving reliability through reconductoring of low capacity distribution lines and continuing to invest in upgraded equipment and controls. The \$2.1 million 2020 capital budget for the District's broadband business includes \$0.8 million to meet expected small cell interconnection requests along with \$1.3 million to expand and upgrade the overall fiber network while also meeting new customer service requests.

Awards and Acknowledgments

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

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

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

Respectfully submitted,

Rick Dunn
General Manager

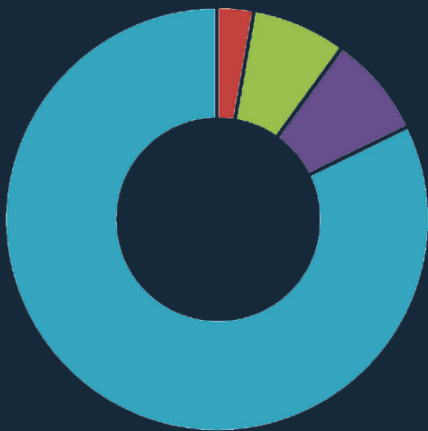
Jon L. Meyer
Senior Director of Finance
and Customer Services

Fuel Mix

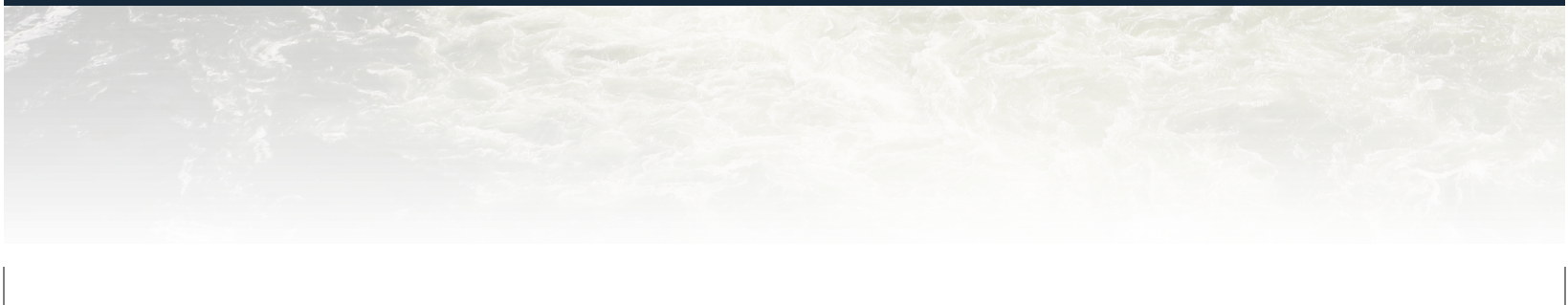
Over 95% Carbon Free



2019



- Hydro 80%
- Nuclear 10%
- Wind 5%
- Other 5%





Financial Section

2019

Your Trusted Energy Partner



Transmission & Distribution

Building for the Future

2019

Benton City Substation Rebuild
Orchard View Substation Upgrade
Leslie Road Substation Build

Independent Auditor's Report



Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying statements of net position of Public Utility District No. 1 of Benton County, Washington (the "District") and the statements of fiduciary net position of the Pension Trust Funds as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows of the District for the years then ended, and the statement of changes in fiduciary net position of the Pension Trust Funds for the years then ended, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District and the Pension Trust Funds as of December 31, 2019 and 2018, and the respective results of operations and cash flows for the District, and changes in financial position for the Pension Trust Funds for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Other Information

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

Moss Adams LLP

Portland, Oregon
May 14, 2020

Management's Discussion & Analysis

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

Overview of the Financial Statements

Public Utility District No. 1 of Benton County (District) accounts for its financial activities within a single proprietary fund titled the Electric System. The Electric System is used to account for the purchase, generation, transmission, distribution, and sale of electric energy, as well as the sale of wholesale telecommunication services.

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

The basic financial statements, presented on a comparative format for the years ended December 31, 2019 and 2018, consist of:

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

Statement of Revenues, Expenses, and Changes in Net Position: This statement reflects the transactions and events that 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 nonoperating 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 four categories of activities: operating, noncapital financing, capital and related financing, and investing.

Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position: These statements account for resources held in trust for the benefit of parties outside the District. Resources held in trust are not reflected in the District's other statements and are not available to support District operations.

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.

Condensed Comparative Financial Information

Provided below is a 3-year comparison of key financial information:

Statement of Net Position (*in thousands*)

	2019	2018	Increase (Decrease) 2019-2018	% Change 2019-2018	2017
Assets and Deferred Outflows of Resources					
Current & Noncurrent Assets	\$80,565	\$94,030	(\$13,465)	-14.3%	\$92,286
Utility Plant	142,948	132,198	10,750	8.1%	125,666
Subtotal Assets	223,513	226,228	(2,715)	-1.2%	217,952
Deferred Outflows of Resources	5,004	5,951	(947)	-15.9%	2,552
Total Assets and Deferred Outflows of Resources	228,517	232,179	(3,662)	-1.6%	220,504
Liabilities and Deferred Inflows of Resources					
Current Liabilities	23,657	22,815	842	3.7%	20,875
Noncurrent Liabilities	62,107	69,964	(7,857)	-11.2%	72,448
Subtotal Liabilities	85,764	92,779	(7,015)	-7.6%	93,323
Deferred Inflows of Resources	7,145	5,500	1,645	29.9%	3,026
Total Liabilities and Deferred Inflows of Resources	92,909	98,279	(5,370)	-5.5%	96,349
Net Position					
Net Investment in Capital Assets	89,870	74,962	14,908	19.9%	64,407
Restricted for Debt Service	1,108	1,108	-	-	1,108
Unrestricted	44,630	57,830	(13,200)	-22.8%	58,640
Total Net Position	\$135,608	\$133,900	\$1,708	1.3%	\$124,155

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

	2019	2018	Increase (Decrease) 2019-2018	% Change 2019-2018	2017
Operating Revenues					
Retail Energy Sales	\$134,197	\$129,792	\$4,405	3.4%	\$130,811
Secondary Market Sales	24,133	26,070	(1,937)	-7.4%	15,828
Other	4,167	4,007	160	4.0%	3,504
Nonoperating Revenues					
Interest Income	1,031	1,144	(113)	-9.9%	605
Other Income	409	447	(38)	-8.5%	562
Unrealized Gain/(Loss) on Investments	14	51	(37)	-72.5%	(33)
Total Revenues	163,951	161,511	2,440	1.5%	151,277
Operating Expenses					
Power Supply	115,981	106,171	9,810	9.2%	96,775
Operations, Maintenance and A&G	22,241	21,674	567	2.6%	21,760
Taxes/Depreciation/Amortization	24,400	23,667	733	3.1%	24,197
Nonoperating Expenses					
Interest Expense	2,484	2,832	(348)	-12.3%	2,910
Debt Premium Amortization & (Gain) on Defeased Debt	(408)	(454)	46	-10.1%	(493)
Total Expenses	164,698	153,890	10,808	7.0%	145,149
Income/(Loss) before Contributions	(747)	7,621	(8,368)	-109.8%	6,128
Capital Contributions	2,455	2,124	331	15.6%	1,991
Change in Net Position	1,708	9,745	(8,037)	-82.5%	8,119
Beginning Net Position	\$133,900	\$124,155	\$9,745	7.8%	\$116,036
Ending Net Position	\$135,608	\$133,900	\$1,708	1.3%	\$124,155

Financial Analysis

During 2019, the District's overall financial position and results of operations ended with a positive net position. The District's net position increased by \$1.7 million compared to an increase of \$9.7 million in 2018. Provided below is a year-over-year analysis of the change in net position by major component of income, with a primary focus on changes between 2019 and 2018.

Operating Revenues

2018 to 2019:

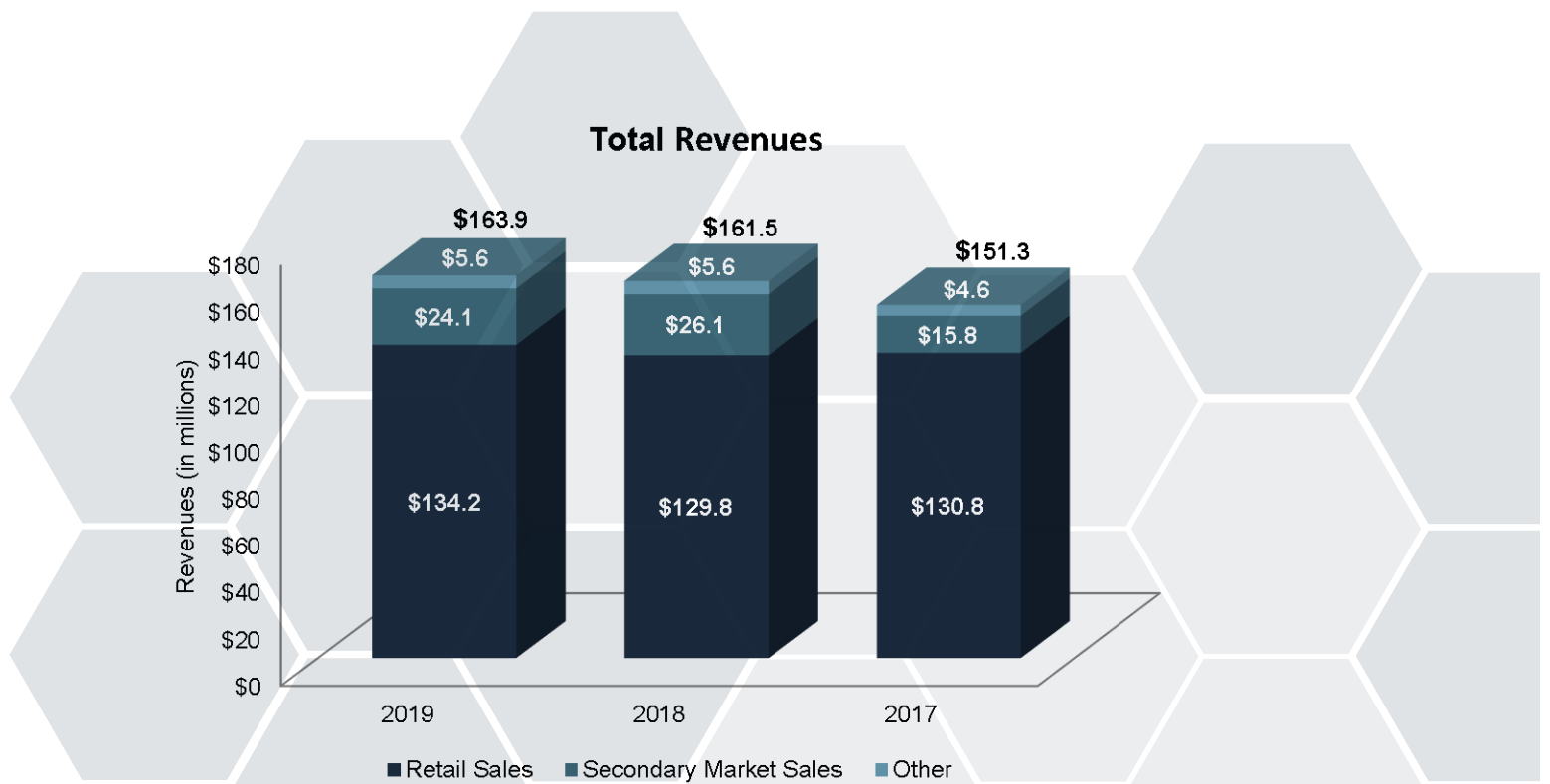
Revenues from sales to retail customers (retail energy sales) in 2019 increased \$4.4 million (3.4%) from 2018. A late winter that included extremely cold temperatures in February and March contributed to an increase in kilowatt hours (kWh) sold to customers of 1.5%. In addition, active service agreements increased by 1.5% and the District had a rate increase of 2.9% effective October 1, 2019.

Revenues from secondary market energy and natural gas sales decreased by \$1.9 million (7.4%), primarily as a result of lower than average water resulting in lower generation received under the District's power contracts; even though, secondary market prices had risen about 34.3% on average from the prior year.

2017 to 2018:

Revenues from sales to retail customers (retail energy sales) in 2018 decreased \$1.0 million (0.8%) from 2017. Warmer winter months contributed to a decrease in kilowatt hours (kWh) sold to customers of 2.5%, the effects of which were partially offset by an increase in retail rates of 1.9% effective October 1, 2017. Active service agreements increased by 1.3%.

Revenues from secondary market energy and natural gas sales increased by \$10.2 million (64.7%), primarily as a result of financial hedges and an increase in secondary market prices of about 29.1%.



Operating Expenses

2018 to 2019:

Power supply expense increased by \$9.8 million (9.2%), primarily as a result of a secondary market power price excursion in February and March, a time of extreme cold in the region. In addition, net power expense (power supply expense less secondary market sales) increased by \$11.7 million (14.7%), primarily attributable to the above-mentioned power supply costs and lower secondary market sales as a result of lower than average generation received under the District's power contracts. The District uses net power expense as a means to measure overall financial performance related to power supply management.

Total operations, maintenance and administrative and general (A&G) expenses increased by \$567,000 (2.6%). The increase was in part due to increased tree trimming preventative maintenance, broadband maintenance, and other general expenses. The District charges internal labor to operations, maintenance, A&G activities, and capital projects. In 2019, the internal labor required for operations and maintenance activities increased \$6,000 from 2018 and internal labor performed on capital projects increased \$399,000.

Taxes assessed by state and municipal governments increased by \$404,000 (2.5%), primarily as a result of increased retail sales. Depreciation and amortization increased \$329,000 (3.3%) as a result of increased capital projects, 2019 had the most capital additions in the past eight years.

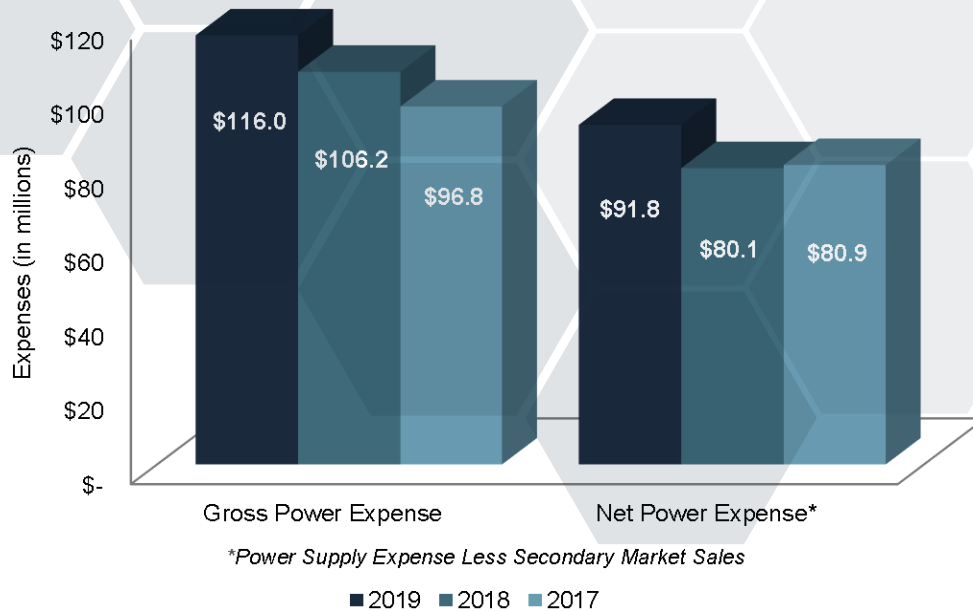
2017 to 2018:

Power supply expense increased by \$9.4 million (9.7%), primarily as a result of financial hedges, higher market prices, and increased purchase transactions by The Energy Authority (TEA) to manage daily loads. In addition, net power expense (power supply expense less secondary market sales) decreased by \$846,000 (1.0%), primarily attributable to effective use of financial hedges.

Total operations, maintenance and administrative and general (A&G) expenses decreased by \$86,000 (0.4%). The decrease was primarily due to a reduction in pension expense which offset other increases. The District charges internal labor to operations, maintenance, A&G activities, and capital projects. In 2018, the internal labor required for operations and maintenance activities increased \$127,000 from 2017 and internal labor performed on capital projects increased \$21,000.

Taxes assessed by state and municipal governments decreased by \$206,000 (1.5%), primarily as a result of lower retail sales. Depreciation and amortization decreased \$323,000 (3.2%) as a result of assets becoming fully depreciated and updating useful lives to better match the service life of certain assets.

Gross and Net Power Expenses



Other Income & Expense

During 2019, interest income decreased by \$113,000 (9.9%) due to less cash in investments or Washington State Treasurer’s Local Government Investment Pool (LGIP). The average investment rate of the LGIP increased from 1.9% in 2018 to 2.3% in 2019. At year-end, the District’s investments had an unrealized gain of \$14,000.

During 2018, interest income increased by \$539,000 (89%) due to higher interest rates on investments with the Washington State Treasurer’s Local Government Investment Pool (LGIP). The average investment rate of the LGIP increased from 0.97% in 2017 to 1.9% in 2018. At year-end, the District’s investments had an unrealized gain of \$51,000.

There were no significant restrictions, commitments, or other limitations that would affect the availability of resources for future use in 2019, 2018, and 2017.

Capital Contributions

During 2019, capital contributions increased by \$331,000 (15.6%), primarily due to a new large agriculture service.

During 2018, capital contributions increased by \$133,000 (6.7%), primarily due to increased customer requested line extensions.

Summary of Financial Position

The overall financial position of the District increased \$1.7 million primarily due to reduced pension expense. A large draw down of reserves was planned for 2019 as a result of a larger than normal capital budget that included multiple substations and distribution projects. In addition to the planned draw down of reserves, net power expense was \$5.7 million over what was originally projected resulting in a lower increase in net position than originally planned. While the District had a large draw down of reserves, most financial metrics remained within the District's policy limits including debt service coverage. As costs continue to rise, including net power costs, the District had an average rate increase of 2.9% effective October 1, 2019. Prior to that, the last rate increase was 1.9% effective October 1, 2017.

District financial policies require that financial plans be developed to maintain minimum end-of-year cash and investment balances contained within unrestricted accounts sufficient to provide funding for a specified amount of operating expenses, power supply expenses, catastrophic loss, debt service, and capital improvements. The District's unrestricted cash and investment balances totaled \$42.5 million, \$57.3 million, and \$56.8 million at December 31, 2019, 2018, and 2017, respectively. Actual balances exceeded the minimum required level per District financial policies for each year.

In accordance with District financial policies and covenants established within the District's bond resolutions, the District is required to maintain and collect rates and charges sufficient to provide net revenues (defined as net position less depreciation, amortization, and interest expense) in each fiscal year in an amount at least equal to 1.25 times the annual debt service. For the years ended 2019, 2018, and 2017, the District was in compliance with such policies and covenants.

Capital Asset and Long-Term Debt Activity

During 2019, gross capital additions totaled \$21.4 million. Capital contributions associated with these additions totaled \$2.5 million. Major capital additions included completion of additions and improvements to existing distribution infrastructure and substations. Other capital additions included general plant, information technology, additions to broadband infrastructure, and a 1.5% growth in customers served by the District, as well as internal capital expenditures to meet District needs. Construction work-in-progress totaled \$9.4 million at year-end, a net increase of \$2.5 million from 2018.

During 2018, gross capital additions totaled \$16.6 million. Capital contributions associated with these additions totaled \$2.1 million. Major capital additions included completion of additions and improvements to existing distribution infrastructure and substations, additions to broadband infrastructure, and a 1.3% growth in customers served by the District, as well as internal capital expenditures to meet District needs. Construction work-in-progress totaled \$6.9 million at year-end, a net increase of \$2.3 million from 2017.

In 2019 Fitch Ratings upgraded the District's rating to AA- from A+. In addition, Standard & Poor's affirmed its rating of A+. Moody's was unchanged at Aa3.

Debt service payments totaled \$6.5 million in 2019, \$6.5 million in 2018, and \$6.2 million in 2017.

Additional information about the District's capital assets and long-term debt is presented in Notes 2 and 5, respectively.

Benton PUD Fiduciary Pension Trust Funds

The District's Fiduciary Pension Trust Funds, 401(a) and 457(b), are single-employer defined contribution plans that account for the assets of employee retirement income and other deferred benefits sponsored by the District, also serves as trustee, and administered by ICMA-RC. The District has identified the Pension Trust Funds as a fiduciary fund in the District's financial statements.

Condensed Comparative Fiduciary Financial Information

Provided below is a 3-year comparison of key financial information:

Statement of Fiduciary Net Position (in thousands)

	2019	2018	Increase (Decrease) 2019-2018	% Change 2019-2018	2017
Assets					
Investments	\$33,471	\$28,032	\$5,439	19.4%	\$28,621
Notes Receivable From Participants	179	173	6	3.5%	236
Total Fiduciary Net Position	\$33,650	\$28,205	\$5,445	19.3%	\$28,857

Statement of Changes in Fiduciary Net Position (in thousands)

	2019	2018	Increase (Decrease) 2019-2018	% Change 2019-2018	2017
Contributions					
Employee and Employer Contributions	\$2,347	\$1,892	\$455	24.0%	\$1,850
Net Increase (Decrease) in Fair Value of Investments	4,901	(889)	5,790	-651%	3,312
Miscellaneous	200	14	186	1329%	41
Total Contributions	7,448	1,017	6,431	632.4%	5,203
Deductions					
Benefit Payments	1,748	1,603	145	9.0%	956
Other	255	66	189	286%	97
Total Deductions	2,003	1,669	334	20.0%	1,053
Change in Fiduciary Net Position	5,445	(652)	6,097	-935%	4,150
Beginning Fiduciary Net Position	\$28,205	\$28,857	(\$652)	-2.3%	\$24,707
Ending Fiduciary Net Position	\$33,650	\$28,205	\$5,445	19.3%	\$28,857



Total fiduciary net position in 2019 increased by \$5.4 million (19.4%) compared to a decrease of \$0.7 million (2%) in 2018. The changes in total fiduciary net position for 2019 and 2018 are primarily due to changes in the fair value of investments. For 2019, fair value of investments increased \$5.8 million; while fair value of investments decreased \$4.2 million in 2018.

STATEMENT OF NET POSITION

As of December 31, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2019	2018
ASSETS		
CURRENT ASSETS		
Unrestricted Cash & Cash Equivalents	\$40,518,734	\$46,652,499
Investments (Note 3)	1,997,300	10,668,115
Accounts Receivable, Net	10,095,609	9,355,672
BPA Prepay Receivable (Note 8)	600,000	600,000
Accrued Interest Receivable	12,653	181,517
Wholesale Power Receivable	1,800,430	1,699,439
Accrued Unbilled Revenues	5,019,000	4,500,000
Inventory - Materials & Supplies	5,578,435	5,674,743
Prepaid Expenses & Option Premiums	358,860	353,585
Total Current Assets	65,981,021	79,685,570
NONCURRENT ASSETS		
Restricted Bond Reserve Fund	1,107,865	1,107,865
BPA Prepay Receivable (Note 8)	4,650,000	5,250,000
Other Receivables (Note 1)	266,992	163,010
Other Charges (Note 4)	8,559,051	7,822,857
Subtotal Noncurrent Assets	14,583,908	14,343,732
Utility Plant (Note 2)		
Land and Intangible Plant	3,850,754	3,531,698
Electric Plant in Service	335,666,086	318,902,899
Construction Work in Progress	9,449,446	6,911,759
Less: Accumulated Depreciation	(206,017,530)	(197,148,521)
Net Utility Plant	142,948,756	132,197,835
Total Noncurrent Assets	157,532,664	146,541,567
TOTAL ASSETS	223,513,685	226,227,137
DEFERRED OUTFLOWS OF RESOURCES		
Pension Deferred Outflow (Note 6)	1,300,658	1,180,507
Accumulated Decrease in Fair Value of Hedging Derivatives	3,703,061	4,770,996
Total Deferred Outflows of Resources	5,003,719	5,951,503
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$228,517,404	\$232,178,640
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$11,898,764	\$11,460,839
Customer Deposits	2,114,497	2,035,979
Accrued Taxes Payable	3,787,295	3,666,006
Other Accrued Liabilities	1,485,680	1,440,221
Accrued Interest Payable	430,664	461,914
Revenue Bonds, Current Portion (Note 5)	3,940,000	3,750,000
Total Current Liabilities	23,656,900	22,814,959
NONCURRENT LIABILITIES		
Revenue Bonds (Note 5)	49,097,539	53,454,777
Pension Liability (Note 6)	5,017,752	6,852,561
BPA Prepay Incentive Credit	1,411,021	1,572,277
Other Credits & Liabilities (Note 4)	6,581,371	8,083,917
Total Noncurrent Liabilities	62,107,683	69,963,532
TOTAL LIABILITIES	85,764,583	92,778,491
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Defeased Debt	40,634	31,212
Pension Deferred Inflow (Note 6)	3,204,807	2,930,225
Accumulated Increase in Fair Value of Hedging Derivatives	3,899,210	2,539,134
Total Deferred Inflows of Resources	7,144,651	5,500,571
NET POSITION		
Net Investment in Capital Assets	89,870,583	74,961,846
Restricted for Debt Service	1,107,865	1,107,865
Unrestricted	44,629,722	57,829,867
Total Net Position	135,608,170	133,899,578
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$228,517,404	\$232,178,640

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the years ended December 31, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Retail Energy Sales	\$134,197,389	\$129,792,002
Secondary Market Sales	\$22,649,145	24,618,712
Transmission of Power for Others	\$1,483,740	1,450,552
Broadband Revenue	\$2,476,304	2,250,450
Other Revenue	\$1,690,615	1,756,987
<i>Total Operating Revenues</i>	<u>\$162,497,193</u>	<u>159,868,703</u>
OPERATING EXPENSES		
Power Supply (Includes Prepaid Power Amortization, See Note 8)	\$115,980,971	106,171,090
Transmission Operation & Maintenance	\$129,425	163,952
Distribution Operation & Maintenance	\$9,923,012	9,645,034
Broadband Expense	\$1,061,880	936,989
Customer Accounting, Collection & Information	\$4,328,333	4,267,684
Administrative & General Expense	\$6,798,593	6,660,053
Taxes	\$14,216,802	13,812,993
Depreciation	\$10,183,035	9,854,391
<i>Total Operating Expenses</i>	<u>\$162,622,051</u>	<u>151,512,186</u>
OPERATING INCOME/(LOSS)	(\$124,858)	8,356,517
NONOPERATING REVENUES & EXPENSES		
Interest Income	\$1,031,048	1,144,102
Other Income	\$409,124	446,903
Interest Expense, net of amounts capitalized	(\$2,484,359)	(2,832,268)
Debt Premium Amortization & Gain on Defeased Debt	\$407,817	453,711
Unrealized Gain on Investments	\$14,260	51,590
<i>Total Nonoperating Revenues & Expenses</i>	<u>(\$622,110)</u>	<u>(735,962)</u>
INCOME/(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(\$746,968)	7,620,555
CAPITAL CONTRIBUTIONS	<u>\$2,455,560</u>	<u>2,124,000</u>
CHANGE IN NET POSITION	\$1,708,592	9,744,555
TOTAL NET POSITION, BEGINNING OF YEAR	<u>\$133,899,578</u>	<u>124,155,023</u>
TOTAL NET POSITION, END OF YEAR	<u>\$135,608,170</u>	<u>\$133,899,578</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the years ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Counterparties	\$161,238,256	\$159,455,334
Cash Paid to Suppliers and Counterparties	(123,454,456)	(111,194,170)
Cash Paid to Employees for Services	(14,843,011)	(14,330,905)
Taxes Paid	(14,095,513)	(13,799,716)
<i>Net Cash Provided by Operating Activities</i>	8,845,276	20,130,543
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other Interest Expense	(35,667)	(77,891)
<i>Net Cash Used by Noncapital Financing Activities</i>	(35,667)	(77,891)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(21,082,845)	(16,613,340)
Bond Principal Paid	(3,750,000)	(3,570,000)
Bond Interest Paid	(2,418,649)	(2,598,737)
Capital Contributions	2,455,560	2,124,000
Proceeds from Sale of Assets	52,829	44,749
<i>Net Cash Used by Capital and Related Financing Activities</i>	(24,743,105)	(20,613,328)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	1,199,912	1,022,239
Proceeds from Sale of Investments	8,685,075	2,000,000
Advance to Related Party	(85,256)	-
<i>Net Cash Provided by Investing Activities</i>	9,799,731	3,022,239
NET INCREASE (DECREASE) IN CASH	(6,133,765)	2,461,563
CASH & CASH EQUIVALENTS BALANCE, BEGINNING OF YEAR	\$47,760,364	45,298,801
CASH & CASH EQUIVALENTS BALANCE, END OF YEAR	\$41,626,599	\$47,760,364
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	(\$124,858)	\$8,356,517
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	10,183,035	9,854,391
BPA Prepaid & Power Contracts Amortization	1,178,400	1,178,400
(Increase) Decrease in Unbilled Revenues	(519,000)	300,000
Miscellaneous Other Revenue & Receipts	56,286	91,516
Pension Expense/(Credit) - non cash portion	(1,292,773)	(1,371,215)
Decrease (Increase) in Accounts Receivable	(739,937)	(771,908)
Decrease (Increase) in Inventories	96,308	(130,371)
Decrease (Increase) in Wholesale Power Receivable	(100,991)	(292,038)
Decrease (Increase) in Miscellaneous Assets	26,757	(128,081)
Decrease (Increase) in Prepaid Expense & Option Premiums	(5,275)	137,478
Increase (Decrease) in Accounts Payable	437,925	1,537,844
Increase (Decrease) in Accrued Taxes Payable	121,289	13,277
Increase (Decrease) in Customer Deposits	78,518	368,139
Increase (Decrease) in BPA Prepay Incentive Credit	(161,256)	(161,256)
Increase (Decrease) in Other Current Liabilities	214,093	1,493,150
Increase (Decrease) in Other Credits	(603,245)	(345,300)
Net Cash Provided by Operating Activities	\$8,845,276	\$20,130,543

NONCASH OPERATING, INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The District's investments had an unrealized gain of \$14,260 at December 31, 2019 and an unrealized gain of \$51,590 at December 31, 2018.

Bond Interest Paid does not include subsidy payments on Series 2010 Revenue Build America Bonds made directly by the US Treasury to the Fiscal Paying Agent of \$352,838 in 2019 and \$355,387 in 2018 (see Note 5).

The net effect of accumulated increases and decreases in the fair value of hedging derivatives had no effect on cash flows for 2019 and 2018. For accumulated decreases in fair value, \$3,703,061 and \$4,770,996 in 2019 and 2018 respectively, the District records an offsetting liability. For accumulated increases in fair value, \$3,899,210 and \$2,539,134 in 2019 and 2018 respectively, the District records an offsetting asset.

The deferred inflows and outflows relating to GASB 68 had no effect on cash flows for 2019 and 2018. The pension deferred outflow was \$1,300,658, and \$1,180,507 as of December 31, 2019 and 2018 respectively. The pension deferred inflow was \$3,204,807, and \$2,930,225 as of December 31, 2019 and 2018, respectively.

The accompanying notes are an integral part of the financial statements.

STATEMENT OF FIDUCIARY NET POSITION

As of December 31, 2019 and 2018

Pension Trust Funds - Defined Contribution	2019	2018
ASSETS		
Investments, at Fair Value		
Stable Value/Cash Management Mutual Funds	\$6,905,782	\$6,263,360
Bond	1,190,383	929,014
Balanced/Asset Allocation	14,668,221	12,544,325
U.S. Stock	9,068,504	6,930,073
International/Global Stock	1,181,444	795,904
Real Estate	306,910	221,703
Self-Directed Brokerage Accounts	149,957	348,203
Total Investments	33,471,201	28,032,582
Notes Receivable From Participants	178,743	172,865
Total Assets	33,649,944	28,205,447
FIDUCIARY NET POSITION HELD IN TRUST FOR PENSION TRUST FUNDS	\$33,649,944	\$28,205,447

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the years ended December 31, 2019 and 2018

Pension Trust Funds - Defined Contribution	2019	2018
ADDITIONS		
Contributions		
Plan Members	\$1,267,234	\$1,194,247
Employer	239,421	232,755
Rollovers	831,333	455,617
Loan Interest	8,722	9,516
Total Contributions	2,346,710	1,892,135
Net Increase (Decrease) in Fair Value of Investments	4,900,874	(888,945)
Miscellaneous Additions	200,598	14,606
Total Additions	7,448,182	1,017,796
DEDUCTIONS		
Benefits Paid to Plan Members	1,748,528	1,603,502
Fees	50,323	54,947
Miscellaneous Deductions	204,834	10,820
Total Deductions	2,003,685	1,669,269
CHANGE IN FIDUCIARY NET POSITION	5,444,497	(651,473)
TOTAL FIDUCIARY NET POSITION HELD IN TRUST, BEGINNING OF YEAR	28,205,447	28,856,920
TOTAL FIDUCIARY NET POSITION HELD IN TRUST, END OF YEAR	\$33,649,944	\$28,205,447

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements - December 31, 2019 & 2018

Note 1 - Summary of Operations and Significant Accounting Policies

Public Utility District No. 1 of Benton County, Washington (the District) is a municipal corporation of the State of Washington established in 1934 for the purpose of engaging in the purchase, generation, transmission, distribution, and sale of electric energy. Additionally, the District is authorized under state law to provide wholesale telecommunication services.

The District serves Benton County exclusive of most of the City of Richland, the U.S. Department of Energy's operations on the Hanford Reservation, the City of West Richland and those rural areas of the County that are served by the Benton Rural Electric Association. Cities in the District's service area include Kennewick, population 83,670, Prosser, population 6,145, and Benton City, population 3,520. The District maintains its administrative offices in the City of Kennewick. The District is governed by an elected three-member board.

The District's service area comprises approximately 939 square miles of Benton County. The District's properties include 38 substations, approximately 98 miles of 115kV transmission lines, 1707 miles of distribution lines, and other buildings, equipment, stores, and related facilities.

The District has fiduciary responsibility for its 401(a) and 457 defined contribution plans, also known as Pension Trust Funds. The investments, contributions, benefit payment activity, and fiduciary net position are reported in separate statements that follow the Statement of Cash Flows.

As required by generally accepted accounting principles (GAAP), management has considered all potential component units in defining the reporting entity and other than the fiduciary component units previously described has no component units. The following is a summary of the more significant policies:

a) **Basis of Accounting and Presentation:** The accounting policies of the District conform to GAAP applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In 2019, the District adopted GASB statements No. 84 Fiduciary Activities and No. 88 Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. In connection with Statement No. 84, the District follows GASB Statement No. 67 Financial Reporting for Pension Plans for its defined contribution plans. In addition, the District evaluated GASB statements No. 83 Certain Asset Retirement Obligations and No. 90 Majority Equity Interests; these statements had no impact on the District's accounting or reporting requirements. In 2018, the District adopted GASB statement No. 86 Certain Debt Extinguishment Issues.

Accounting records are maintained in accordance with methods prescribed by the Washington State Auditor's Office under the authority of Revised Code of Washington (RCW) 43.09 and the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC). The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting where revenues are recognized when incurred, regardless of the timing of the related cash flows. 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 nonoperating revenues and expenses.

The Pension Trust Funds account for the activities of the 401(a) and 457 defined contribution plans, which accumulate resources for pension benefit payments to qualified members. Additions and deductions are accounted for on the same basis of accounting as District operations. Resources held in Pension Trust Funds are not reflected in the District's other statements and are not available to support District operations.

b) Utility Plant and Depreciation: Utility plant is recorded at original cost, which includes both direct costs of construction or acquisition and indirect costs. The District's capitalization threshold is \$5,000 for non-infrastructure capital. All costs related to infrastructure are capitalized. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and improvements is capitalized.

Property, plant, and equipment are depreciated using the straight-line method over these estimated useful lives:

Buildings and Improvements	33 - 40 years
Generation Plant	20 years
Electric Plant - Transmission	25 - 40 years
Electric Plant - Distribution	10 - 40 years
Electric Plant/Equipment - Broadband	5 - 30 years
Transportation Equipment	16 years
General Plant & Equipment	4 - 14 years

Initial depreciation on utility plant is recorded in the month subsequent to purchase or completion of construction. Composite rates are used for asset groups and, accordingly, no gain or loss is recorded on the disposition of an asset unless it represents a major retirement. The composite depreciation rate was approximately 3.0% in 2019 and 3.1% in 2018. When operating plant assets are retired, their original cost together with removal costs, less salvage, is charged to accumulated depreciation.

Preliminary survey and investigation costs incurred for proposed projects are deferred pending a final decision to develop the project. Costs relating to projects ultimately constructed are reclassified to utility plant. If the project is abandoned, the costs are expensed.

c) Allowance for Funds Used During Construction (AFUDC): AFUDC represents the estimated costs of financing construction projects and is computed using the District's long-term borrowing rate. The allowance totaled \$291,545 and \$165,860 in 2019 and 2018, respectively, and is capitalized as part of the cost of the project and reflected as a reduction of interest expense.

d) Restricted Assets: In accordance with bond resolutions, related agreements, and laws, separate restricted accounts have been established. These assets are restricted for specific uses including bond reserve and capital additions and are classified as current or noncurrent assets, as appropriate. When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as needed.

e) Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all short-term highly liquid investments with a maturity of 3-months or less when purchased to be cash equivalents.

f) Accounts Receivable: Receivables are considered past due after 20 days and are written off 210 days after the respective billing dates. The percentage-of-sales allowance method is used to estimate uncollectible accounts. The reserve is then reviewed for adequacy against an aging schedule of accounts receivable. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis. The reserve for uncollectible accounts totaled \$489,501 and \$388,999 in 2019 and 2018, respectively.

g) Other Receivables: Other receivables include a Rural Economic Development Revolving Fund, which was established during 2008 pursuant to RCW 82.16.0491. The District contributed to the fund in 2008 and 2009. Each contribution to the fund was partially offset by a public utility tax credit. The District appointed Benton-Franklin Council of Governments to oversee and direct activities of the fund. The District does not have a reserve for uncollectible accounts related to Other Receivables as it expects to fully collect these amounts.

The balance also includes an advance to a related party receivable extended to NoaNet in 2019, totaling \$85,256. See Note 10.

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

i) Derivative Instruments: The District follows GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Subject to certain exceptions, GASB Statement No. 53 requires every derivative instrument be recorded on the statement of net position as an asset or liability measured at its fair value, and changes in the derivative's fair value be recognized in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred.

It is the District's policy to document and apply as appropriate the normal purchase and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity, natural gas, and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity and natural gas are considered to be derivatives under GASB Statement No. 53, but do not generally meet the "normal purchases and normal sales" criteria.

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

	Changes in Fair Value		Fair Value at December 31, 2019		Notional (MWh/MMBtu)
	Classification	Amount	Classification	Amount	
Cash Flow Hedges:					
Financial Swap Forward	Deferred Inflow	(\$3,899,210)	Derivative Asset	\$3,899,210	3,440,330
Financial Swap Forward	Deferred Outflow	\$3,703,061	Derivative Liability	(\$3,703,061)	2,304,800

These derivative instruments were entered into between January 2018 and December 2019 with maturities between January 2020 and September 2022. The District paid or received no cash to enter into these transactions.

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

	Changes in Fair Value		Fair Value at December 31, 2018		Notional (MWh/MMBtu)
	Classification	Amount	Classification	Amount	
Cash Flow Hedges:					
Financial Swap Forward	Deferred Inflow	(\$2,539,134)	Derivative Asset	\$2,539,134	3,023,250
Financial Swap Forward	Deferred Outflow	\$4,770,996	Derivative Liability	(\$4,770,996)	920,225

These derivative instruments were entered into between November 2016 and December 2018 with maturities between January 2019 and September 2020. The District paid or received no cash to enter into these transactions.

The fair values of the commodity swap contracts were based on the futures price curve for the Mid-Columbia Intercontinental Exchange (ICE) index for electricity and the Sumas index for natural gas; additionally, all instruments close at the same index, respectively. The fair value of the options was calculated using the Black-76 options pricing model. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the District's fair value measurements are classified as Level 2.

Objective & Strategies:

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

- *Combustion Turbine* - The District purchases gas for future periods to generate electricity when the Frederickson Plant (see Note 8) is economically viable on a marginal basis for that period based on parameters set by the Risk Management Committee. If load projections indicate 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. From time to time, the District will sell physical power forward in the next calendar month at a price based on the Mid-Columbia ICE index to perfect financial forward sales that settle based on the same index.
- *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 Plant is economically viable for the period, by buying gas). 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 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 power and natural gas swaptions
- Financial natural gas swing and basis swaps

Risks

Credit Risk - The District has developed a credit policy that establishes guidelines for setting credit limits and monitoring credit exposure on a continuous basis. The policy addresses frequency of counterparty

credit evaluations, credit limits per specific counterparty, and counterparty credit concentration limits. A summary of counterparty credit exposure related to derivatives is provided in Note 8.

Commodity transactions, both physical and financial, are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness. The District had 41 counterparties with approved credit limits for electric power and natural gas sales and purchases as of December 31, 2019, and 43 counterparties at December 31, 2018. Counterparty credit limits are based on The Energy Authority's (TEA) (see Note 8) proprietary credit rating system and other factors. Credit ratings for counterparties range from "not-rated" to AAA, with a majority of counterparties rated between BBB- and AAA. Not-rated counterparties either provide additional security or are assigned credit limits of \$25,000 or less.

The District's counterparty credit limits are scaled against TEA credit limits with a maximum credit limit of \$3 million. This mitigates the District's credit exposure by netting and setting off the District's sales with purchases made by other TEA clients. Credit concentration limits based on market conditions and available qualified counterparties are established by the Risk Management Committee.

The District has 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 Swaps and Derivatives 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 agreements to diffuse a portion of the risk.

Forward 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 District will pay or receive the equivalent of a fixed or known price for energy purchased or sold. The agreements also permit the District to hedge the risk of an underlying physical position by using call options, put options, runoff insurance, and weather insurance.

The aggregate fair value of hedging derivative instruments in asset positions was \$3,899,210 and \$2,539,134 at December 31, 2019 and 2018, respectively. There was no collateral held or liabilities included in the netting arrangements.

Although the District executes hedging derivative instruments with various counterparties, three counterparties comprise 100% of the net exposure to credit risk as of December 31, 2019. These counterparties are rated BBB+/A3 (76 contracts comprising 90.7% of net exposure), A-/A2 (6 contracts

comprising 4.7% of net exposure), and BBB+/A3 (66 contracts comprising 4.6% of net exposure). At December 31, 2018, three counterparties comprised 100% of the net exposure to credit risk. These counterparties are rated BBB+/Baa1 (98 contracts comprising 97% of net exposure), BBB/Baa2 (6 contracts comprising 2% of net exposure), and BBB+/A3 (47 contracts comprising 1% of net exposure).

Basis Risk - The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. There are no derivative transactions outstanding that carry basis risk as of December 31, 2019 or 2018. 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 6 months of delivery. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

Termination Risk - As of December 31, 2019 and 2018, no termination events have occurred, and there are no outstanding transactions with material 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 generally does not fall under the events of default provisions, unless the nonperforming party fails to pay the resulting liquidated damages when due.

There is no rollover, interest rate, or market access risk for these derivative products at December 31, 2019 or 2018.

j) Debt Premium Amortization and Gain on Defeased Debt: Original issue and reacquired bond premiums relating to revenue bonds are amortized over the terms of the respective bond issues using the bonds outstanding method. Premiums are reported with revenue bonds on the Statement of Net Position. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, gains on debt refundings have been deferred and amortized over the shorter of the remaining life of the old or new debt. Gains are reported as deferred inflows of resources on the Statement of Net Position. Effective with GASB 65, bond issuance costs are expensed in the period incurred.

k) Revenue Recognition: Revenues from retail sales of electricity are recognized when occurred and reported net of bad debt expense of \$228,200 and \$213,000 at December 31, 2019 and 2018, respectively. Revenues include an estimate for energy delivered to customers between the last billing date and the end of the year. This amount is reflected in the accompanying financial statements as

Accrued Unbilled Revenue in the amount of \$5.0 million and \$4.5 million at December 31, 2019 and 2018, respectively.

l) Capital Contributions: Capital contributions for the District consist mainly of line extension fees. Line extension fees represent amounts collected to recover the costs of installing new lines. Capital contributions are recorded as deferred revenues when received and reclassified to revenue when the related project is completed. Deferred revenues are reported as Other Credits & Liabilities on the Statement of Net Position, see also Note 4.

m) Pensions: For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the state sponsored Public Employees Retirement System (PERS) and the District Pension Trusts 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 and the District respectively. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See also Note 6.

n) Compensated Absences: The District consolidated its vacation and sick leave program to a personal leave program May 1, 1993. Accrued unused sick leave balances for active employees as of April 30, 1993, were frozen and converted to a supplemental leave benefit (SLB). The SLB may be used by employees to make up the difference between short-term disability benefit payments and 100% of gross, straight time pay. Additionally, an employee may restore work hours required for short-term disability eligibility one-time per Collective Bargaining Agreement Contract cycle (3 years). At death, the District is obligated to pay 100% of the SLB cash value to the employee's beneficiary. At retirement, the District is obligated to deposit 30% of the SLB cash value into the retiring employee's Voluntary Employee Beneficiary Association Trust account. The liability for unpaid supplemental leave benefits was \$15,415 and \$15,110 at December 31, 2019 and 2018, respectively.

Employees earn personal leave in accordance with length of service. The District accrues the cost of personal leave in the year when earned. Personal leave may accumulate to a maximum of 1,200 hours for employees hired prior to April 1, 2011, and is payable upon separation of service, retirement, or death. For employees hired on or after April 1, 2011, personal leave may accumulate to a maximum of 700 hours.

The liability for unpaid leave, benefits, and related payroll taxes was \$3,048,625 and \$2,797,147 at December 31, 2019 and 2018, respectively. Of the liability for unpaid leave, \$1,421,008 and \$1,351,064 at December 31, 2019 and 2018, respectively, were classified as a current liability and the remainder as a long-term liability (see Note 4).

o) Use of Estimates: The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

p) Investments: It is the District's policy to record investments at fair value. For various risks related to the investments see Note 3.

q) Significant Risk and Uncertainty: The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include prices on the wholesale market for short-term power, interest rates, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other Endangered Species Act issues, Environmental Protection Agency and other federal government regulations, or orders concerning the operation, maintenance, and/or licensing of facilities, other governmental regulations, and the deregulation of the electrical utility industry.

The District's accounts receivable are concentrated with a diverse group of customers and counterparties who have purchased energy or other products and services. These customers generally do not represent a significant concentration of credit risk. The District mitigates credit risk by requiring large customers to provide an acceptable means of payment assurance and by an ongoing financial review of counterparties and establishment of credit limits based on the results of that review.

r) Bonneville Power Administration Prepay Program: In March 2013, the District participated in BPA's Prepay Program making a lump-sum up-front payment of \$6.8 million. The District will receive \$9.3 million in credits which started in April 2013 and continue until September 2028. (See Note 8)

Note 2 - Utility Plant

Utility plant activity for the years ended December 31 was as follows:

Activity for 2019

Electric Plant Assets	Balance		Increase	Decrease	Balance	
	Dec. 31, 2018				Dec. 31, 2019	
Capital Assets Not Being Depreciated:						
Land and Intangible Plant	\$3,531,698	\$319,056		\$0	\$3,850,754	
Construction Work in Progress	6,911,759	20,674,426		(18,136,739)	9,449,446	
Capital Assets Being Depreciated:						
Transmission	10,136,730	-		-	10,136,730	
Generation	1,912,370	-		-	1,912,370	
Distribution	232,458,023	14,236,745		(926,753)	245,768,015	
General	74,395,776	4,286,562		(833,367)	77,848,971	
Subtotal	318,902,899	18,523,307		(1,760,120)	335,666,086	
Less Accumulated Depreciation for:						
Transmission	(6,588,115)	(251,655)		-	(6,839,770)	
Generation	(1,190,603)	(88,278)		-	(1,278,881)	
Distribution	(146,600,338)	(7,173,414)		1,209,204	(152,564,548)	
General	(42,769,465)	(2,697,152)		132,286	(45,334,331)	
Total Accumulated Depreciation	(197,148,521)	(10,210,499)		1,341,490	(206,017,530)	
Net Utility Plant	\$132,197,835	\$29,306,290		(\$18,555,369)	\$142,948,756	

Activity for 2018

Electric Plant Assets	Balance		Increase	Decrease	Balance	
	Dec. 31, 2017				Dec. 31, 2018	
Capital Assets Not Being Depreciated:						
Land and Intangible Plant	\$3,493,641	\$38,057		\$0	\$3,531,698	
Construction Work in Progress	4,599,287	13,816,163		(11,503,691)	6,911,759	
Capital Assets Being Depreciated:						
Transmission	9,827,655	309,075		-	10,136,730	
Generation	1,912,370	-		-	1,912,370	
Distribution	221,865,956	11,474,772		(882,705)	232,458,023	
General	72,325,445	2,834,317		(763,986)	74,395,776	
Subtotal	305,931,426	14,618,164		(1,646,691)	318,902,899	
Less Accumulated Depreciation for:						
Transmission	(6,335,928)	(252,187)		-	(6,588,115)	
Generation	(1,112,187)	(78,416)		-	(1,190,603)	
Distribution	(140,932,217)	(6,817,182)		1,149,061	(146,600,338)	
General	(39,977,275)	(2,854,103)		61,913	(42,769,465)	
Total Accumulated Depreciation	(188,357,607)	(10,001,888)		1,210,974	(197,148,521)	
Net Utility Plant	\$125,666,747	\$18,470,496		(\$11,939,408)	\$132,197,835	

Note 3 - Deposits and Investments

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

Investment Type	Maturities	Fair Value
Federal National Mortgage Assn	3/30/2020	1,997,300
Total		\$1,997,300

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

Investment Type	Maturities	Fair Value
Federal Home Loan Mortgage Corp	2/28/2019	3,993,800
US Treasury	5/15/2019	1,982,180
Federal Home Loan Bank	11/15/2019	1,978,340
Federal Farm Credit Bank	12/19/2019	741,555
Federal National Mortgage Assn	3/30/2020	1,972,240
Total		\$10,668,115

Fair Value - Investments have been adjusted to reflect available fair values as of December 31 of 2018 and 2019 obtained from available financial industry valuation services. Values for publicly traded debt securities are sourced from reputable pricing vendors using models that are market-based measurements representing their good faith opinion on the exit value of a security in an orderly transaction under current market conditions. Such models take into account spread scales, benchmark quotes, and relevant trade data. 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.

Interest Rate Risk - In accordance with its investment policy, the District manages its exposure to declines in fair values by matching investment maturities to meet anticipated cash flow requirements. The policy limits investment maturities to less than 5-years from the date of the purchase, unless the maturities coincide as nearly as practicable with the expected use of the funds.

Credit Risk - The District's investment policy conforms with state law, which restricts investments of public funds to debt securities and obligations of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit, and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), bankers' acceptances, investment-grade general obligation debt of state and local governments and public authorities, and the Washington State Treasurer's Local Government Investment Pool (LGIP). The LGIP portfolio meets the requirements set forth in GASB 79 to report the investment at amortized cost. The reported value of the pool is the same as the fair value of the pool shares. There is no formal

withdrawal transaction limit, however, the LGIP requests a one-day notice for transaction sizes of ten million dollars or more. The LGIP is governed by the State Finance Committee and is administered by the State Treasurer. The District's investments in the Federal National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation were rated Aaa by Moody's Investor Services and AA+ by Standard & Poor's. The District has a third-party safekeeping agreement for investments through Wells Fargo Bank, N.A.

Concentration of Credit Risk - The District's investment policy limits investments at the time of purchase to a percentage of the total investment portfolio in the following manner:

- Direct obligations of the U.S. Government, up to 100%
- Washington State Treasurer's Local Government Investment Pool, up to 100%
- U.S. Government agency debt, up to 30% for any single agency
- Certificate of Deposit, up to 50% from any single bank provided they are PDPC approved

Custodial Credit Risk Deposits - For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District's deposits and certificates of deposit are held by public depositaries authorized by the PDPC and are not subject to custodial credit risk. State law requires public depositaries to fully collateralize their uninsured public deposits with approved third-party safekeeping agents and provides for independent oversight of this program.

Cash and Cash Equivalent Deposits – The District moves cash as necessary between accounts, LGIP and various bank revolving or holding accounts, to pay its obligations. The District's deposits are held by public depositaries authorized by the PDPC and are not subject to custodial credit risk. State law requires public depositaries to fully collateralize.

Note 4 - Other Charges and Other Credits

As of December 31, other charges consisted of the following:

Other Charges	2019	2018
Derivative Asset (Note 1)	\$3,899,210	\$2,539,134
White Creek Wind Project (Note 8)	4,579,468	5,157,868
Preliminary Surveys	80,373	125,855
Total	\$8,559,051	\$7,822,857

During the year ended December 31, 2019, the following changes occurred in other credits:

Other Credits & Other Liabilities	Balance			Balance Dec. 31, 2019
	Dec. 31, 2018	Increase	Decrease	
Unclaimed Property	\$37,411	\$6,638	\$6,505	\$37,544
Bio Fuel Deposit	169,908	27,949	-	197,857
Derivative Liability (Note 1)	4,770,996	3,703,061	4,770,996	3,703,061
Deferred Revenue	1,504,548	2,031,028	2,556,240	979,336
Finley CT Site Clean Up	154,971	-	119,014	35,957
Personal Leave and Benefits*	1,446,083	1,850,010	1,668,477	1,627,616
Total	\$8,083,917	\$7,618,686	\$9,121,232	\$6,581,371

* In addition to this amount, \$1,421,009 is reported as a current liability for personal leave and related benefits.

During the year ended December 31, 2018, the following changes occurred in other credits:

Other Credits & Other Liabilities	Balance			Balance Dec. 31, 2018
	Dec. 31, 2017	Increase	Decrease	
Unclaimed Property	\$37,125	\$8,616	\$8,330	\$37,411
Bio Fuel Deposit	148,968	20,940	-	169,908
Derivative Liability (Note 1)	1,122,842	4,770,996	1,122,842	4,770,996
Deferred Revenue	473,595	3,396,294	2,365,341	1,504,548
Finley CT Site Clean Up	189,119	-	34,148	154,971
Personal Leave and Benefits*	1,186,976	1,875,022	1,615,915	1,446,083
Total	\$3,158,625	\$10,071,868	\$5,146,576	\$8,083,917

* In addition to this amount, \$1,351,064 is reported as a current liability for personal leave and related benefits.

Note 5 - Long-Term Debt

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

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2010 Revenue Build America Bonds, due in annual installments of \$1,645,000 - \$2,250,000 beginning November 1, 2022 through November 1, 2030; interest at 5.86% - 6.546%; Original issue amount: \$17,345,000	\$17,345,000	\$ -	\$ -	\$17,345,000	\$ -
2011 Revenue and Refunding Bonds, due in annual installments of \$460,000 - \$4,135,000 through November 1, 2035; interest at 2.0% - 5.0% Original issue amount: \$38,545,000	13,520,000	-	3,750,000	9,770,000	3,940,000
2016 Revenue and Refunding Bonds, due in annual installments of \$790,000 - \$1,560,000 beginning November 1, 2023 through November 1, 2041; interest at 4.0% - 5.0%; Original issue amount: \$22,470,000	22,470,000	-	-	22,470,000	-
<i>Subtotal</i>	53,335,000	-	3,750,000	49,585,000	3,940,000
Plus: Unamortized premium	3,869,777	-	417,238	3,452,539	
Total Long-Term Debt	\$57,204,777	\$0	\$4,167,238	\$53,037,539	\$3,940,000

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

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2010 Revenue Build America Bonds, due in annual installments of \$1,645,000 - \$2,250,000 beginning November 1, 2022 through November 1, 2030; interest at 5.86% - 6.546%; Original issue amount: \$17,345,000	\$17,345,000	\$ -	\$ -	\$17,345,000	\$ -
2011 Revenue and Refunding Bonds, due in annual installments of \$460,000 - \$4,135,000 through November 1, 2035; interest at 2.0% - 5.0% Original issue amount: \$38,545,000	17,090,000	-	3,570,000	13,520,000	3,750,000
2016 Revenue and Refunding Bonds, due in annual installments of \$790,000 - \$1,560,000 beginning November 1, 2023 through November 1, 2041; interest at 4.0% - 5.0%; Original issue amount: \$22,470,000	22,470,000	-	-	22,470,000	-
<i>Subtotal</i>	56,905,000	-	3,570,000	53,335,000	3,750,000
Plus: Unamortized premium	4,336,311	-	466,534	3,869,777	
Total Long-Term Debt	\$61,241,311	\$0	\$4,036,534	\$57,204,777	\$3,750,000

Future debt service requirements on these bonds are as follows:

Year	Principal	Interest	Total
2020	3,940,000	2,583,987	6,523,987
2021	4,135,000	2,386,987	6,521,987
2022	3,340,000	2,180,237	5,520,237
2023	2,500,000	1,999,090	4,499,090
2024	2,630,000	1,867,284	4,497,284
2025-2029	15,555,000	6,928,642	22,483,642
2030-2034	7,975,000	3,071,585	11,046,585
2035-2039	6,465,000	1,722,950	8,187,950
2040	3,045,000	230,250	3,275,250
Total	\$49,585,000	\$22,971,012	\$72,556,012

In March 2010, the District issued \$17,345,000 of taxable Electric Revenue Build America Bonds. The proceeds were used to fund capital projects. The U.S. Treasury subsidizes a portion (32.6% after sequestration) of the interest debt service payments which it pays directly to the Fiscal Paying Agent.

In October 2011, the District issued \$38,545,000 of Electric Revenue and Refunding Bonds, Series 2011. The bond proceeds were used to fund \$10 million of improvements and replacements in the District’s electric utility system and to refund all of the 2001A bonds maturing on or after November 1, 2011, and all of the 2002 bonds maturing on or after November 1, 2012. The portion of bond proceeds for the refunding was placed in an irrevocable trust for future debt service on the refunded bonds.

In September 2016, the District issued \$22,470,000 of Electric Revenue and Refunding Bonds, Series 2016. The bond proceeds were used to fund \$15.1 million of improvements and replacements of the District’s electric utility system and to refund the 2011 bonds maturing on or after November 1, 2023. The portion of bond proceeds for the refunding was placed in an irrevocable trust for future debt service on the refunded bonds.

These issuances are subject to certain bond reserve requirements satisfied by bond insurance and a bond reserve fund of \$1,107,865.

In prior years, the District defeased certain electric revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future certain debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District’s financial statements. At December 31, 2019, \$9,335,000 of bonds outstanding are considered defeased.

<u>Defeased Bonds</u>	<u>Principal</u>	<u>Call Date</u>
2011	\$9,335,000	11/1/2021

In March 2008, the District established a \$10 million revolving line of credit, the Electric System Revenue Note, 2008, with Bank of America that was extended several times and expired December 31, 2018.

In late 2018, a new \$10 million line of credit was entered into with Bank of America for a three-year term expiring December 31, 2021. The line of credit was established in support of District financial policies that require additional liquidity be maintained above minimum cash and investment reserve levels for the purpose of meeting unforeseen short-term cash needs. Specifically, the line of credit can be used in support of general District operations or for irrevocable letters of credit as may be required to satisfy collateral posting requirements under contracts and agreements within the ordinary course of business. Draws on the Note will bear interest based on a pricing grid and formula using the bank's prime rate or the LIBOR rate. This Note is a special obligation of the District payable solely out of a special fund and has a lien on revenues junior to the payment of operating expenses of the electric system and outstanding electric system bonds. No draws on the line of credit have been made.

Note 6 - Pension Plans

The following table represents the aggregate pension amounts for all plans for the year 2019 and 2018:

Aggregate Pension Amounts - All Plans		
	2019	2018
Pension liability	\$5,017,752	\$6,852,561
Deferred outflows of resources	\$1,300,658	\$1,180,507
Deferred inflows of resources	\$3,204,807	\$2,930,225
Pension expense/(credit) PERS	\$110,330	(\$10,030)
Pension expense Fiduciary Trusts	\$239,421	\$232,755

State Sponsored Pension Plans

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

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

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

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 2 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 5 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 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1: January – June 2019

<u>Actual Contribution Rates:</u>	<u>Employer</u>	<u>Employee</u>
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%

PERS Plan 1: July – December 2019

<u>Actual Contribution Rates:</u>	<u>Employer</u>	<u>Employee</u>
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 1: January – August 2018

<u>Actual Contribution Rates:</u>	<u>Employer</u>	<u>Employee</u>
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

PERS Plan 1: September – December 2018

<u>Actual Contribution Rates:</u>	<u>Employer</u>	<u>Employee</u>
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2 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 5 years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 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 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service 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 3 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 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 years of service if 12 months of that service are earned after age 44.

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

Contributions - The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3: January – June 2019

<u>Actual Contribution Rates:</u>	<u>Employer 2/3</u>	<u>Employee 2</u>
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.41%

PERS Plan 2/3: July – December 2019

<u>Actual Contribution Rates:</u>	<u>Employer 2/3</u>	<u>Employee 2</u>
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.86%	7.90%

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 2/3: January – August 2018

<u>Actual Contribution Rates:</u>	<u>Employer 2/3</u>	<u>Employee 2</u>
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%

PERS Plan 2/3: September – December 2018

<u>Actual Contribution Rates:</u>	<u>Employer 2/3</u>	<u>Employee 2</u>
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.41%

Both the District and its employees made the required contributions during fiscal years 2019 and 2018. The District's required employer contributions for the years ended December 31 as follows:

	<u>2019</u>	<u>2018</u>
PERS Plan 1	\$0	\$0
PERS Plan 1 UAAL	\$699,574	\$689,118
PERS Plan 2/3	<u>\$1,091,135</u>	<u>\$1,021,040</u>
Total	\$1,790,709	\$1,710,158

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2018 and 2017 actuarial valuation reports. The TPL was calculated as of the valuation dates and rolled forward to the measurement dates of June 30, 2019 and June 30, 2018. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019 and June 30, 2017 to June 30, 2018 for the respective fiscal years, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.5% salary inflation
- **Salary increases:** In addition to the base 3.5% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning members are assumed to receive additional mortality improvements in each future year throughout their lifetimes.

There were changes in methods and assumptions since the last valuation. For 2019:

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

There were changes in methods and assumptions since the last valuation. For 2018:

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 for fiscal years 2019 and 2018. To determine that rate, an asset sufficiency test included an assumed 7.5 percent for 2019 and 2018 long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4 percent for 2019 and 2018 future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent for 2019 and 2018 was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on DRS pension plan investments of 7.4 percent for 2019 and 2018 was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>% Long-Term Expected Real Rate of Return Arithmetic</u>
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	<u>23%</u>	9.30%
	100%	

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, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>% Long-Term Expected Real Rate of Return Arithmetic</u>
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	<u>23%</u>	9.30%
	100%	

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability/(asset) calculated using the discount rate of 7.4 percent for 2019 and 2018, 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 or 1-percentage point higher than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
2019	(6.4%)	(7.4%)	(8.4%)
PERS 1	\$4,738,559	\$3,783,829	\$2,955,475
PERS 2/3	\$9,463,694	\$1,233,923	(\$5,519,149)
2018	(6.4%)	(7.4%)	(8.4%)
PERS 1	\$5,644,624	\$4,593,093	\$3,682,254
PERS 2/3	\$10,334,861	\$2,259,468	(\$4,361,452)

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

At December 31, 2019 and 2018, the District reported a total pension liability of \$5,017,752 and \$6,852,561 respectively for its proportionate share of the net pension liabilities as follows:

	2019 Liability	2018 Liability
PERS 1	\$3,783,829	\$4,593,093
PERS 2/3	\$1,233,923	\$2,259,468

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

	Proportionate Share 12/31/19	Proportionate Share 12/31/18	Change in Proportion
PERS 1	0.098400%	0.102845%	(0.004445%)
PERS 2/3	0.127033%	0.132333%	(0.005300%)

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

The collective net pension liability (asset) was measured as of June 30, 2019 and 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018 and 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

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

2019	Pension Expense/(Credit)	2018	Pension Expense/(Credit)
PERS 1	(\$33,433)	PERS 1	\$125,184
PERS 2/3	<u>\$143,763</u>	PERS 2/3	<u>(\$135,213)</u>
Total	\$110,330	Total	(\$10,029)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 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	
	2019	2018	2019	2018
Net difference between projected and actual investment earnings on pension plan investments	-	-	\$252,792	\$182,527
Contributions subsequent to the measurement date	344,718	350,709	-	-
TOTAL	\$344,718	\$350,709	\$252,792	\$182,527

PERS 2/3	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2019	2018	2019	2018
Differences between expected and actual experience	\$353,521	\$276,952	\$265,286	\$395,591
Net difference between projected and actual investment earnings on pension plan investments	-	-	1,796,088	1,386,514
Changes of assumptions	31,597	26,432	517,713	643,026
Changes in proportion and differences between contributions and proportionate share of contributions	-	9,203	372,928	322,567
Contributions subsequent to the measurement date	570,822	517,211	-	-
TOTAL	\$955,940	\$829,798	\$2,952,015	\$2,747,698
TOTAL ALL PLANS	\$1,300,658	\$1,180,507	\$3,204,807	\$2,930,225

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, 2020. 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	PERS 2/3
2020	(\$55,805)	(\$631,100)
2021	(\$132,186)	(990,801)
2022	(\$47,172)	(477,800)
2023	(\$17,629)	(287,780)
2024	-	(155,893)
Thereafter	-	(23,523)
Total	(\$252,792)	(\$2,566,897)

Benton PUD Fiduciary Pension Trust Funds

The District's Fiduciary Pension Trust Funds, 401(a) and 457(b), known here after as the Plans; are single-employer defined contribution plans that account for the assets of employee retirement income and other deferred benefits sponsored by the District, also serves as trustee, and administered by ICMA-RC. Participation in the Plans is voluntary. The District's Commission established an employer-appointed committee, Retirement Benefits Committee (RBC), with authority to administer, operate, and oversee the management of the Plans as noted in the Committee By-laws. The RBC has delegated authority to:

- Review and adopt Plan designs and changes to Plans,
- Select, retain or terminate record-keepers/plan administrators/consultants,
- Process and submit participant contributions,
- Write and ensure adherence to investment policy statements,
- Select, retain or terminate investment options,
- Negotiate fees and expenses for plan services and investments

Plan Description

The Plans provide pension benefits for all qualified District employees through a defined contribution plan authorized under Internal Revenue Code (IRC) sections 401(a) and 457(b). Qualified District employees include current full-time, non-represented employees with 30 or more hours per week, retirees, and those who have separated service but choose to keep their assets in the Plans. In a defined contribution plan, benefits depend solely on the amounts contributed to the plans plus investment earnings. The District's Commission has the power to alter, amend, or terminate the Plans. The RBC has delegated authorities to alter, amend as noted above. The 401(a) plan had 203 and 191 members at December 31, 2019 and 2018 respectively. The 457(b) plan had 229 and 211 members at December 31, 2019 and 2018 respectively. There are no forfeitures of member assets.

Contributions

Eligible active employees who participate may contribute between 0% up to the plan limit of pretax annual compensation, as defined in the Plans. The District is required to match employee contributions at a rate of 50% up to a maximum of 2% employer contribution. District contributions for each employee, and earnings allocated to the employee's account, are immediately fully vested.

In accordance with the IRC and plan agreement, participants in the 457(b) plan at age 50 are eligible to make catch-up contributions. Contribution rates are set by the Commission and may be amended at any time. The total employer contributions for all plans was \$239,421 for 2019 and \$232,755 for 2018. Pension expense for the Plans is reported within the balances on the Statement of Revenues, Expenses, and Changes in Net Position. Pension expense by plan by year is listed below.

Defined Contribution Pension Expense		
Plan	2019	2018
401(a)	\$202,519	\$201,145
457(b)	\$36,902	\$31,610
Total	\$239,421	\$232,755

Payment of Benefits

Payment of benefits are not allowed for plan members while in-service. Upon separation of service due to death, disability, retirement, or other reasons, a participant may elect to receive either a lump sum payment or periodic installments.

Notes Receivable from Participants

Commission Resolution 1943 authorized employee loan provisions only for the 457(b) plan. Employees are allowed one loan per calendar year up to a maximum of five loans. Loans may be for any purpose and are to be repaid in equal installments over a term not to exceed five years unless it was for used to purchase a principal residence (15-year term). Each loan incurs interest at prime plus 0.5% or FHA/VA rate depending on type of loan, the rate is locked when the loan is approved. The loan balance at December 31, 2019 and 2018 was \$178,743 and \$172,865 respectively.

Methods Used to Value Investments

The 401(a) and 457(b) plans investments are reported at fair value. 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 an asset. Level 1 inputs are quoted prices in active markets for identical assets.

Following is a description of the valuation techniques used for assets measured at fair value:

- **Stable value/cash management** – Stable value/cash management funds are composed primarily of insurance company and bank contracts but are not federally insured or guaranteed. These contracts are valued using net asset value, an estimate of fair value, and is not included within the fair value hierarchy.
- **Mutual funds** – Unit prices are quoted on a daily basis, on days when the New York Stock Exchange is open for business. The funds held by the Plan are deemed to be actively traded and transact at 100% of the unit value. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission.

These investments held in the 401(a) and 457(b) plans are valued using quoted market prices (Level 1 inputs).

- Self-directed brokerage accounts – Accounts primarily consist of mutual funds and common stocks that are valued on the basis of readily determinable market prices. These investments held in the 401(a) and 457(b) plans are valued using quoted market prices (Level 1 inputs).

Note 7- Health Benefit Plans

Health Benefit Plans

Health Reimbursement Arrangement (HRA VEBA)

The District, effective January 1, 2015, converted the employee incentive for voluntary participation in the employer provided wellness program to a monthly \$150 into an HRA. This payment is intended to help employees pay for qualified health care costs and insurance premiums upon retirement. Contributions are held in trust for the exclusive benefit of participants and beneficiaries. The plan is administered by Gallagher VEBA.

HealthInvest Health Reimbursement Arrangement (HealthInvest HRA)

The District, on October 23, 2018 adopted an HealthInvest HRA plan, with contributions effective January 1, 2019. This payment is intended to help employees pay for qualified insurance premiums only after an employee has separated service or upon retirement. Contributions are held in trust for the exclusive benefit of participants and beneficiaries. The plan is administered by Gallagher VEBA.

Note 8 - Long-Term Purchased Power Commitments

Bonneville Power Administration (BPA)

Contracts Effective October 2011-September 2028

The District has executed a Slice/Block Power Sales Agreement with BPA for the period commencing October 1, 2011 and expiring September 30, 2028. Compared to the previous agreement, the new Slice agreement has changes in operational flexibility and clarification of with-in hour capacity rights as shown below:

- The Slice Product is a system sale of power that includes requirements power, surplus power, and hourly scheduling rights, all of which are indexed to the variable output capability of the FCRPS resources that comprise the Slice System, and to the extent such capability is available to Power Services after System Obligations and Operating Constraints are met. These capabilities are accessed by the District through the Slice Computer Application, which will reasonably represent and calculate the capabilities available to BPA Power Services from such FCRPS resources after System Obligations and Operating Constraints are met, including energy production, peaking,

storage and ramping capability, and which the Slice Computer Application applies the District's Selected Slice Percentage to such capabilities.

- No ability to self-supply ancillary services such as operating reserves, energy imbalance, or dynamic scheduling.
- Slice schedules continue to be firm across the hour of delivery.
- The District's Slice percentage is 1.36792%.
- The monthly Block amounts range from 70 aMW to 156 aMW.

In conjunction with the new Slice/Block agreement, BPA implemented a Tiered Rates Methodology (TRM). Under the TRM and new agreements, BPA has implemented a cap on the amount of power that the District can purchase at the lowest cost-based rates (Tier 1). The cap is referred to in the contract as a Contract High Water Mark (CHWM). The District's CHWM is 204.3 aMW. The maximum amount of power the District can purchase in any federal fiscal year (FFY) is referred to as the Rate Period High Water Mark (RHWM), which adjusts the CHWM for changes in Federal System Capability. For FFY 2018 the RHWM was 198.0 aMW, for FFY 2019 it was 198.0, and FFY 2020 it is 200.2. BPA has a fiscal year of October through September. The amount of power the District can purchase in a FFY is the lesser of its Net Requirement (Forecast load less its share of Packwood) or RHWM and is the Tier 1 amount. This amount for FFY 2018 was 198.0, for FFY 2019 was 198.0, and FFY 2020 is 200.2.

The TRM provides for the determination of Tier One Cost Allocators (TOCA) to determine monthly charges. The TOCA is determined by dividing the Tier 1 amount by the sum of all BPA customers' RHWM. For FFY 2018, this value for the District was 2.852%; for FFY 2019, this value was 2.852%, and FFY 2020 is 2.850. The TOCA is multiplied by BPA's monthly Composite Charge to determine that portion of the District's monthly BPA power bill that represents BPA's costs. The nonslice TOCA is the TOCA minus the slice percentage resulting in a FFY 2018 value of 1.483%, FFY 2019 value of 1.483% and FFY 2020 value of 1.482%. The nonslice TOCA is multiplied by BPA's nonslice charge to determine that portion of the District's monthly BPA power bill that represent several BPA revenues, primarily their wholesale sales.

BPA has put in place a Power Cost Recovery Adjustment Clause (Power CRAC) that applies to the District's Block purchases. The Power CRAC will trigger if BPA's forecasted Accumulated Calibrated Net Revenues (ACNR) were lower than a calculated amount. For FFY 2019 and 2020, ACNR represents the power net revenues, modified by certain items, as accumulated since FFY 2018. The amount of the Power CRAC would have been determined by the amount ACNR is forecasted to be less than certain values and is capped at \$300 million per year. For FFY 2019, the trigger is based on BPA Power function cash reserves for risk levels. If these levels drop below zero, the CRAC could trigger. It is still capped at \$300 million per year. If triggered, the CRAC amount would be converted to a percentage and would increase the Block rates charged to the District. The \$300 million per year cap would then be increased if BPA triggered a National Marine Fisheries Service FCRPS BiOp (NFB) adjustment. The NFB adjustment would have been triggered if a court ordered additional expenditures for Fish and Wildlife mitigation, an Endangered Species Act (ESA) litigation settlement occurred which resulted in higher costs, a new, more

expensive, Biological Opinion (BiOp) was implemented, or BPA committed to implement a recovery plan under the ESA. The NFB adjustment would have started at the beginning of a fiscal year, or during the fiscal year if an emergency was declared. The CRAC did not trigger for FFY 2018, 2019, or 2020.

The rates contain a Power Reserves Distribution Clause (RDC), which will operate similar to the CRAC but will lower the Block rates charged to the District. At the beginning of each FFY, the RDC will trigger when Power ACNR exceeds the Power RDC threshold, measured in Power ACNR, and BPA ACNR exceeds the BPA RDC threshold, measured in BPA ACNR. In FFY 2019 and 2020, the cap is \$500 million. The RDC did not trigger for FFY's 2018, 2019, or 2020.

The rates contain a Power Financial Reserves Policy Surcharge (Power FRP), which will operate opposite to the RDC and will increase the Block rates charged to the District. At the beginning of each FFY, the Power FRP will trigger when Power ACNR is less than the Power FRP threshold for that applicable year by \$5 million. If the Power FRP is triggered, the rate increase will go into effect for the period of December 1 through September 30 of the applicable year. In FFY 2020, the Power FRP was triggered and the cap is \$30 million. The District's share of the surcharge for FFY 2020 will be \$614,986 of which \$65,574 was incurred in calendar year 2019. There was no Power FRP prior to 2019.

The rates also contain a spill surcharge created to recover the costs associated with increased spill at the dams as a result of a ruling issued Spring 2017 by the U.S. District Court for the District of Oregon. The court order increased spill at eight Federal Columbia River Power System dams on the lower Columbia and Snake rivers for the 2018 spring fish passage season. The surcharge is in addition to power rates and was implemented once sufficient information was available regarding planned annual spill levels. The District's share of the surcharge for FY 2019 was \$0 and FY 2018 was \$207,615.

To obtain needed transmission services, the District entered into a service agreement with BPA for point-to-point transmission services commencing May 31, 1997 and terminating on the earlier of September 30, 2031, or the date of termination established pursuant to BPA's Open Access Transmission Tariff. Effective October 1, 2000, the District obtained transmission demand of 468 MW. It was reduced to 428 MW on October 1, 2003 and 423 MW on October 1, 2005. This service level exceeds requirements needed to meet projected retail loads.

The District, along with over 80% of BPA's Consumer Owned Utility (COU) customers and the region's IOUs entered into an agreement to settle the amount of the residential exchange benefits paid by BPA to the IOUs. The settlement included a provision for BPA to continue to provide COU's a discount on BPA power bills through FFY 2019 which concluded on September 30, 2019. For the FFY 2018 period, the discount for the District was \$183,247/month, and for FFY 2019, the discount was \$183,247/month.

BPA Prepay Program

BPA developed a Prepay Program to help fund hydro system infrastructure and as a means to allow customers to prepay for the future delivery of power consistent with the existing power supply agreements, except that payment provisions would be revised to reflect the prepayment. The District submitted an offer for one block in the amount of \$6.8 million that was accepted and, in return, would receive a total of \$9.3 million in credits resulting in net present value savings of \$1.1 million. The District made a lump-sum up-front payment in March 2013 and began receiving a \$50,000 credit each month on its power bill beginning April 2013 and continues until September 2028.

Energy Northwest

The District, Energy Northwest, and BPA have entered into separate agreements with respect to certain Energy Northwest projects. Under these agreements, the District has purchased 4.965%, 5.350%, and 4.295% capability of Project No. 1, Columbia Generating Station, and Energy Northwest's 70% share of Project No. 3, respectively. All project participants, including the District, have assigned their respective rights to the capability of these projects to BPA under contracts referred to as net-billing agreements. Project participants are obligated to pay Energy Northwest their pro rata share of total project costs, and BPA in turn is obligated to pay the participants identical amounts by reducing amounts due to BPA under power sales agreements. The net-billing agreements provide that participants and BPA are obligated to make such payments whether or not the projects are completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction, or curtailment of the projects' output.

BPA and Energy Northwest received a favorable private letter ruling from the IRS allowing for direct-pay agreements effective June 2006. The ruling assures that the proposed direct-pay agreements do not adversely affect the existing federal income tax-exemption on the BPA-backed bonds issued by Energy Northwest for three nuclear projects. Under the direct-pay agreements, BPA pays amounts directly to Energy Northwest to cover the costs of the projects. This enables Energy Northwest to reduce to zero the amounts it bills to project participants and also reduces to zero the amount of net-billing credits BPA provides. The direct-pay agreements improve BPA's cash flows and provide an opportunity for rate relief for the region. The District began participation in the direct-pay program in June 2006.

Additionally, the District entered into a Nine Canyon Wind Project Power Purchase Agreement with Energy Northwest for the purchase of 3 MW of the project generating capacity (1 aMW) of Phase I through July 1, 2023. The project reached commercial operation in late 2002. The District on October 30, 2006, signed an Amended and Restated Agreement with ENW and the other purchasers, which extended the term of the Agreement through July 1, 2030 (with rights to extend the agreement for 5-year terms) and provided the District with 6 MW (2 aMW) from the Phase III expansion (see Note 12).

Packwood Lake Hydroelectric Project (Packwood)

The District is a 14% participant in Energy Northwest's 27 MW Packwood Project, located in the Cascade

Mountains south of Mount Rainier. The Packwood Agreement with Energy Northwest obligates participants to pay annual costs and receive excess revenues. 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. No distributions were made in 2019 or 2018.

Frederickson Plant

In March 2001, the District entered into a 20-year agreement with Frederickson Power LP for the purchase of 50 MW of contract capacity beginning September 2002 from the 249 MW Frederickson 1 Generating Station combined-cycle natural gas fired combustion turbine plant near Tacoma, Washington. The agreement includes firm gas transportation from the Canadian border to the plant. Power deliveries and variable energy charges are based on a deemed heat rate of 7,100 British thermal units (Btu) per kilowatt-hour (kWh). Up to 40% of the contract capacity may be displaced regardless of the dispatch decisions of other purchasers. Power costs include a capacity charge and fixed and variable operation and maintenance charges indexed to performance and escalation factors. The District receives fuel management services for the Frederickson Plant from The Energy Authority (TEA).

Lakeview Light and Power (LL&P) Wind Energy, Inc.

In April 2007, the District entered into a 20-year Energy and Environmental Attributes Purchase Agreement with LL&P to purchase 3 MW of capacity (1 aMW) at the White Creek Wind Project. This project is a wind generation facility with capacity of 204.7 MW. It is located in Klickitat County and was declared to be in commercial operation in November 2007. The purchase is part of the District's strategy for meeting renewable resource requirements of the Energy Independence Act (EIA) (see Note 12). The District pays for only the energy and associated environmental attributes generated by the project.

White Creek Wind Project

In September 2008, the District entered into an Assignment Agreement with Klickitat PUD under which Klickitat PUD assigned the District a 3% share of its Energy Purchase Agreement with White Creek Wind I, LLC for \$11.1 million. The purchase is part of the District's strategy for meeting renewable resource requirements of EIA (see Note 12). The purchase cost is being amortized on a straight-line basis over a 19-year term. In both 2019 and 2018, power supply expense includes \$578,400 each year in amortization of the purchase cost. This 3% share of the 204.7 MW project represents 6.14 MW (2 aMW).

BioFuels Washington, LLC Project/Emerald City Renewables LLC

In February 2013, the District entered into a contract with BioFuels Washington, LLC of Encinitas, CA, to purchase 33,000 Renewable Energy Credits (REC) annually, with a contract term of March 1, 2013, through March 31, 2026, with delivery beginning January 1, 2016. This REC purchase counts toward the District's compliance with the EIA target of 9% renewable energy that began in 2016.

Subsequently, on September 18, 2013, the State of Washington Department of Commerce issued an advisory opinion stating that electricity generated by the BioFuels Washington facility qualifies as distributed generation under RCW 19.285.040(2)(b). For purposes of the compliance with EIA, the Renewable Energy Credits purchased from BioFuels will count double. Therefore, for compliance purposes, this contract provides 66,000 RECs annually toward the District's 9% renewable energy target.

In October 2015, the District consented to the assignment of contracts of the facility to Emerald City Renewables LLC. There were no changes to the District's rights or obligations.

Idaho Wind Partners

In December 2014, the District entered into contracts with Payne's Ferry Wind Park, LLC and Yahoo Creek Wind Park, LLC, which are owned by Idaho Wind Partners, to purchase RECs with a contract term starting in 2015 through 2024. This REC purchase counts toward the District's compliance with the EIA target of 9% renewable energy that began in 2016. In 2019, the District received 34,843 RECs and in 2018, the District received 36,811 RECs.

3Degrees Group, Inc.

In September 2018, the District entered into a contract with 3Degrees Group, Inc. of San Francisco CA, to purchase 60,000 firm RECs annually, with a contract term of April 1, 2019 through April 15, 2028, with delivery beginning no earlier than April 1, 2019. In 2019, the District received 29,745 RECs. This REC purchase counts toward the District's compliance with the EIA target of 15% renewable energy beginning in 2020.

RPS Advisors

In September 2019, the District entered into a contract with RPS Advisors of Denver CO, to purchase 40,000 firm RECs annually, with a contract term of January 1, 2020 through April 15, 2030, with delivery beginning no earlier than January 1, 2020. This REC purchase counts toward the District's compliance with the EIA target of 15% renewable energy beginning in 2020.

Other Power Supply Contracts and Purchases

The District entered into a Resource Management Agreement (RMA) with TEA on July 1, 2006, to provide scheduling, dispatching, fuel management, and other power management services. The agreement was restated and extended in 2009 and continues until terminated by either party. The District and TEA have the right to terminate the agreement upon 1 years written notice. The agreement also provides for annual consulting task orders to provide for a variety of power management services. Under the agreement, TEA is authorized to trade real time, day-ahead transactions, and forward transactions as principal on behalf of the District. TEA is currently not trading forward transactions as principal. This arrangement allows a financial benefit to the District with TEA trading in aggregated larger power blocks and passing the resulting transaction pricing on to the District. It also provides the advantages of simplified settlement, lower operational and settlement risk, and rigorous documentation

and equitable allocation of pricing for like transactions across PUDs. In December 2008, the RMA was amended to allow these transactions to be traded utilizing TEA's credit and contracts as discussed in Note 1(i).

As discussed in Note 1(i), the District entered into other power supply contracts and purchases as follows:

- At December 31, 2019, the District had entered into various short-term financial forward sales and purchase contracts committing the District through September 2022. Financial forward contracts for electricity and gas had a net positive fair value of \$196,149 at December 31, 2019 and are reflected in the financial statements as deferred inflows of resources and deferred outflows of resources.
- At December 31, 2018, the District had entered into various short-term financial forward sales and purchase contracts committing the District through September 2020. Financial forward contracts for electricity and gas had a net negative fair value of \$2,231,862 at December 31, 2018, and are reflected in the financial statements as deferred inflows of resources and deferred outflows of resources.

Note 9 - Self-Insurance

In the normal course of business, the District is exposed to various risks of loss related to liability claims, property damage, and employee health and welfare programs. The District participates in the following self-insurance programs to protect against such losses.

Public Utility Risk Management Services Self-Insurance Fund

The District is a member of the Public Utility Risk Management Services (PURMS) Self-Insurance Fund. PURMS is a public entity risk pool organized on December 30, 1976, in the State of Washington under RCW 54.16.200 and interlocal governmental agreements. It currently operates under RCW 48.62. Its members include 18 public utility districts and one non-profit mutual corporation. The objectives of PURMS are to formulate, develop, and administer a program of self-insurance in order to obtain lower costs for the various coverages provided to its members and to develop a comprehensive loss control program.

The risks shared by the members are defined in the Self-Insurance Agreement (SIA). The fund consists of three pools for liability, property, and health and welfare coverage. The pools operate independently of one another. All members do not participate in all pools. The District does not participate in the health and welfare pool.

The pools are governed by a Board of Directors which consists of one designated representative from each participating member. The Administrator and an elected Administrative Committee are responsible for conducting the business affairs of the Pool.

PURMS engages an independent qualified actuary on an annual basis to determine the claim financing levels, liabilities for unpaid claims, and claims adjustment expenses for the Liability Pool and the Property Pool. A copy of these reports is provided to the Washington State Risk Manager and to the Washington State Auditor's Office. Audit reports for the Trust are available from the Washington State Auditor's Office (Report Nos. 1024488 and 1024489 for fiscal year 2018 and 1022049 and 1022326 for fiscal year 2017).

The pools are fully funded by its current and former members. Members that withdraw from PURMS are responsible for their share of contributions to the pools for any unresolved, unreported, and in-process claims for the period they were signatory to the SIA. Claims are filed by members with the Administrator, Pacific Underwriters, Seattle, WA, which serves by contract as the fund's Administrator and provides claims adjustment and loss prevention services.

Settled claims have not exceeded insurance coverage in any of the past 3 fiscal years.

Liability Risk Pool

The liability pool has a \$1 million liability coverage limit per occurrence. In addition, the fund maintains \$35 million of excess general liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$50 million is also maintained over the first layer of \$35 million. The fund maintains \$35 million in directors and officers liability coverage with a retention level of \$500,000. The fund also maintains \$10 million in cyber security liability coverage with a retention level of \$500,000. The deductible is \$250.

The liability pool reserve balance is \$3.45 million. Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop to \$500,000 less than the designated level. The minimum reserve balance may be increased above \$3.45 million through member assessments to meet legal funding requirements based on annual actuarial reviews.

Property Risk Pool

The majority of the property in the property pool has a self-insured retention of \$250,000 per property loss. Certain classes of property have higher retention requirements up to \$750,000. In addition, the fund purchases \$200 million of excess insurance over the \$250,000 (or higher) retention level. The deductible varies but for most classes of property it is \$250.

The designated property pool reserve balance is \$750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below \$500,000. The minimum reserve balance may be increased above \$750,000 through member assessments to meet legal funding requirements based on annual actuarial reviews.

Central Washington Public Utilities Unified Insurance Program Trust

The District is a member of the Central Washington Public Utilities Unified Insurance Program Trust (Trust). The Trust was organized October 1, 1982, pursuant to the provisions of RCW Title 54 and interlocal governmental agreements. The Trust's general objectives are to provide a central fund for the collection and disbursement of employee benefit premiums and claims involving medical, dental, life, and long-term disability coverage. The Trust is administered by a Board of Trustees consisting of an appointed Trustee and Alternate Trustee from each of the seven member Districts. The Trustees are authorized to negotiate, obtain, maintain insurance policies, and authorize disbursements made from the Trust to Third-Party Administrators or other entities. Effective August 1, 2002, the Trust established a self-insured medical plan. Effective January 1, 2009, the Trust established a self-insured dental plan. Both plans are approved by the State Risk Office. The audit reports for the Trust are available from the Washington State Auditor's Office (Report Nos. 1024385 and 1024387 for fiscal year 2018 and 1021910 for fiscal year 2017).

Unemployment Claims

The District pays unemployment claims on a reimbursement basis with claims administered by the Washington State Department of Employment Security.

Short-Term Disability Insurance

The District self-pays short-term disability benefits through a 70% salary continuation program from the 41st consecutive scheduled hour of inability to work until the employee either recovers and returns to work or completes the waiting period required for long-term disability insurance eligibility, whichever is earlier. Certification of illness or injury by a licensed, competent medical authority is required. The District utilizes a Third-Party Administrator who provides medical oversight and advice-to-pay for disability claims.

Note 10 – Associated Organizations

Participation in Northwest Open Access Network, Inc. (NoaNet)

The District, along with nine other Washington State public entities, 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.

As a member of NoaNet and as allowed by RCW 54.16, the District can guarantee certain portions of NoaNet debt based on its proportionate membership share of 20.72%. The District had no guarantees as of December 31, 2019 or 2018. NoaNet reserves the right to assess members to cover deficits from operations. There have been no member assessments since 2011.

In February 2019, the District's Commission approved a line of credit (LOC) to NoaNet up to \$200,000. The LOC is bridge financing for capital projects associated with revenue generating opportunities until traditional financing can be established. Repayment of the LOC will begin July 2020 with quarterly installments until July 2025 unless paid off earlier. The first draw on the LOC was in October, totaling \$85,256. As of December 31, 2019, the LOC balance was \$85,256.

NoaNet recorded a decrease in net position of \$4,803,789 (unaudited) for 2019 and a decrease of \$8,817,425 (audited) for 2018. In accordance with GAAP a proportionate share of these gains/losses has not been recorded by the District.

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

Participation in National Information Solutions Cooperative (NISC)

NISC is an information technology company that develops and supports software and hardware solutions for Member-Owners who are primarily utility cooperatives and telecommunications companies across the nation. NISC is an industry leader providing advanced, integrated IT solutions for consumer and subscriber billing, accounting, engineering & operations, as well as many other leading-edge IT solutions.

NISC was formed July 2000 as a consolidation of Central Area Data Processing Cooperative (CADP) and North Central Data Cooperative (NCDC). Both predecessor organizations were formed in the mid 1960s and had a history of serving energy and telecommunications cooperatives with information processing services and accounting and billing software. NISC has 828 energy and telecommunications Members in all 50 states, American Samoa, Palau, and Canada.

The membership interest in NISC is stated at cost, plus patronage capital credits issued, less distributions received, which as of December 31, 2019 and 2018 was \$84,469 and \$65,938 respectively. This amount is reported in the Other Receivables balance on the Statement of Net Position.

Financial statements for NISC may be obtained by writing to: NISC, One Innovation Circle, Lake Saint Louis, MO 63367.

Note 11 - Telecommunications Services

The District has 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. The District regularly reviews its product offerings and makes adjustments as needed. In 2017, the District began offering an Access Internet service option.

Broadband operations and capital activity for the years ended December 31, 2019 and 2018, follows:

Broadband	2019	2018
Operating Revenues		
Ethernet	\$1,510,010	\$1,413,642
TDM	36,000	36,500
Internet Transport Service	46,748	48,551
Fixed Wireless	33,898	43,098
Access Internet	271,803	177,167
Other Revenue	577,844	531,491
Total Operating Revenues	\$2,476,303	\$2,250,449
Operating Expenses		
General Expenses	\$1,012,676	\$848,046
Other Maintenance	49,204	88,943
NoaNet Maintenance Expense	-	-
<i>Subtotal before depreciation</i>	<i>1,061,880</i>	<i>936,989</i>
Depreciation	817,881	795,002
Total Operating Expenses	\$1,879,761	\$1,731,991
Nonoperating Expenses	\$4,813	\$9,588
Capital Investment (Annual)	\$1,071,011	\$1,287,690
Capital Investment (Cumulative)	\$24,118,983	\$23,047,972

The above amounts are included in summarized line items on the Statement of Net Position and Statement of Revenues, Expenditures, and Changes in Net Position

Note 12 - Other Commitments and Contingent Liabilities

Energy Northwest - Nine Canyon Wind Project

The Nine Canyon Wind Energy Project is owned and operated by Energy Northwest. The District, along with nine other public utilities, is a participant in Phases I and III of the Project. Under its Power Purchase Agreement, the District is obligated to pay its percentage share of the annual debt service of each project Phase and the operation and maintenance costs of the project in return for its percentage share of project output, whether or not the project is operating or capable of operating. Under the agreement, the District is obligated to pay an amended percentage share effective May 2008 when Phase III achieved commercial operation. Under a step-up provision, the District could be required to

pay up to a maximum of 125% of its percentage share in the event of default by another purchaser. The Agreement limits Energy Northwest’s total annual operation and maintenance cost to \$4 million prior to Phase III Commercial Operation and to \$7 million post Phase III Commercial Operation. These limits will change annually based on certain inflation indexes.

The agreement terminates July 1, 2030. The District’s applicable percentage share obligations are:

Allocation of Cost	District % Share	District % Share under Step-up Provision
Debt Service - Phase I	6.25%	7.81%
Debt Service - Phase III	18.63%	23.29%
O&M Costs - Prior to Phase III Commercial Operation	4.72%	5.90%
O&M Costs - Post Phase III Commercial Operation	9.39%	11.74%

Energy Independence Act (Initiative 937)

With the passage of Initiative 937 by Washington voters in November 2006, all electric utilities with more than 25,000 customers are required to purchase renewable energy in gradually increasing percentages of 3%, 9%, and 15% of retail load, and to establish and meet a minimum biennial energy conservation target. As of December 31, 2019, the District had renewable energy contracts in place that satisfy the Initiative’s renewable target of 15% by 2020. Total incremental expenses for qualifying renewable resources plus the cost of renewable energy credits are limited to 4% of the annual retail revenue requirement.

In 2018, the Commission established the minimum Biennial Conservation Target for 2018–2019 of 2.25 aMW. The District exceeded the goal with approximately 3.62 aMW. Conservation programs are open to all on a nondiscriminatory basis.

In 2019, the Commission established the minimum Biennial Conservation Target for 2020–2021 of 1.71 aMW.

Operating Leases

The District leases electrical testing equipment on an annual basis. The annual rental cost was \$27,910 for 2019 and \$27,910 for 2018.

The District has entered into an agreement to lease a parcel of land upon which the District constructed the Finley CT in 2001. The initial agreement was for the period of June 1, 2001, to June 1, 2021. In 2018, the agreement was mutually renegotiated and the lease was canceled.

The annual rental cost for the land was \$48,649 for 2018.

Note 13 – Subsequent Event

Subsequent to year end, an outbreak of a novel coronavirus (COVID-19) occurred in the United States, along with various other countries globally. In March 2020, the State of Washington was declared an area of major disaster due to the rapid circulation of COVID-19. Drastic federal, state, and local measures were taken to slow the spread of the virus throughout the community, which are generally expected to negatively affect the District's operations and potentially customer revenue. Due to the nature and timing of these events, the scope, duration, and intensity of the impact are not currently known or quantifiable.

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 1
As of June 30, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.098400%	0.102845%	0.108446%	0.111198%	0.114841%	0.115142%
Employer's proportionate share of the net pension liability	\$3,783,829	\$4,593,093	\$5,145,847	\$5,971,856	\$6,007,252	\$5,800,332
Employer's covered payroll	\$13,806,690	\$13,682,851	\$13,503,725	\$13,093,469	\$12,546,922	\$12,460,407
Employer's proportionate share of the net pension liability as a percentage of covered payroll	27%	34%	38%	46%	48%	47%
Plan fiduciary net position as a percentage of the total pension liability	67%	63%	61%	57%	59%	61%

Notes to Schedule:

There are no factors at year-end that significantly affect trends in the amounts reported above.
The ten year information will be provided as it is available.

Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 2/3
As of June 30, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.127033%	0.132333%	0.136394%	0.139973%	0.145674%	0.143243%
Employer's proportionate share of the net pension liability	\$1,233,922	\$2,259,468	\$4,739,040	\$7,047,530	\$5,205,015	\$2,895,458
Employer's covered payroll	\$13,806,690	\$13,682,851	\$13,371,937	\$12,986,531	\$12,446,584	\$12,271,821
Employer's proportionate share of the net pension liability as a percentage of covered payroll	9%	17%	35%	54%	42%	24%
Plan fiduciary net position as a percentage of the total pension liability	98%	96%	91%	86%	89%	93%

Notes to Schedule:

There are no factors at year-end that significantly affect trends in the amounts reported above. The ten year information will be provided as it is available.

Schedule of Employer Contributions

PERS Plan 1
As of December 31, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$699,574	\$689,118	\$678,004	\$636,516	\$571,651	\$514,217
Contributions in relation to the statutorily or contractually required contributions	<u>(699,574)</u>	<u>(689,118)</u>	<u>(678,004)</u>	<u>(636,516)</u>	<u>(571,651)</u>	<u>(514,217)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered employer payroll	\$14,139,528	\$13,617,368	\$13,751,364	\$13,204,856	\$12,895,713	\$12,475,479
Contributions as a percentage of covered payroll	5%	5%	5%	5%	4%	4%

Notes to Schedule:

There are no factors at year-end that significantly affect trends in the amounts reported above. The ten year information will be provided as it is available.

Schedule of Employer Contributions

PERS Plan 2/3
As of December 31, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$1,091,135	\$1,021,040	\$936,046	\$815,729	\$720,845	\$612,316
Contributions in relation to the statutorily or contractually required contributions	<u>(1,091,135)</u>	<u>(1,021,040)</u>	<u>(936,046)</u>	<u>(815,729)</u>	<u>(720,845)</u>	<u>(612,316)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered employer payroll	\$14,139,528	\$13,617,368	\$13,675,514	\$13,096,369	\$12,790,442	\$12,335,880
Contributions as a percentage of covered payroll	8%	7%	7%	6%	6%	5%

Notes to Schedule:

There are no factors at year-end that significantly affect trends in the amounts reported above. The ten year information will be provided as it is available.



Low-Income Discount Program

2019

Added low-income discounts
for Veterans/Active Military



Statistical Section

2019

Your Trusted Energy Partner



School Programs
Salmon Power

2019

Coordinated with Benton Conservation District to provide to 59 classrooms, up from 42 in 2018

Statistical Section

Comprehensive Annual Financial Report

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

REVENUE CAPACITY

These schedules contain information to help the reader assess the District's most significant revenue source, electric sales.

DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the ability of the District to issue additional debt in the future.

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

OPERATING INFORMATION

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the years ended December 31 (unaudited)

	2019	2018	2017	2016
OPERATING REVENUES				
Sales of Electric Energy - Retail	\$134,197,389	\$129,792,002	\$130,811,427	\$120,438,526
Secondary Market Sales	22,649,145	24,618,712	14,542,756	14,808,281
Transmission of Power for Others	1,483,740	1,450,552	1,284,536	915,169
Broadband Revenue	2,476,304	2,250,450	2,164,500	2,046,068
Other Revenue	1,690,615	1,756,987	1,338,933	1,653,580
<i>Total Operating Revenues</i>	<u>162,497,193</u>	<u>159,868,703</u>	<u>150,142,152</u>	<u>139,861,624</u>
OPERATING EXPENSES				
Purchased Power	101,774,951	92,569,841	83,025,012	80,889,012
Purchased Transmission & Ancillary Services	13,828,577	13,621,653	13,205,172	12,997,169
Conservation Program	377,443	(20,404)	544,381	307,113
Transmission Operations & Maintenance	129,425	163,952	199,419	260,519
Distribution Operations & Maintenance	9,923,012	9,645,034	9,799,347	9,029,751
Broadband Expense	1,061,880	936,989	844,688	931,789
Customer Accounting, Collection & Information	4,328,333	4,267,684	3,735,098	3,411,338
Administrative & General	6,798,593	6,660,053	7,181,596	6,331,749
Taxes	14,216,802	13,812,993	14,018,894	12,630,500
Depreciation	10,183,035	9,854,391	10,177,574	12,630,490
<i>Total Operating Expenses</i>	<u>162,622,051</u>	<u>151,512,186</u>	<u>142,731,181</u>	<u>139,419,430</u>
OPERATING INCOME/(LOSS)	(124,858)	8,356,517	7,410,971	442,194
NONOPERATING REVENUES & EXPENSES				
Interest & Other Nonoperating Income	1,440,172	1,591,005	1,167,737	647,361
Interest Expense & Other Nonoperating Expense	(2,484,359)	(2,832,268)	(2,910,007)	(2,664,442)
Debt Premium Amortization & Loss on Defeased Debt ⁽¹⁾	407,817	453,711	492,959	143,522
Unrealized Gain/(Loss) on Investments	14,260	51,590	(33,130)	(4,170)
Assessments to Joint Venture	-	-	-	-
<i>Total Nonoperating Revenues & Expenses</i>	<u>(622,110)</u>	<u>(735,962)</u>	<u>(1,282,441)</u>	<u>(1,877,729)</u>
INCOME/(LOSS) BEFORE CONTRIBUTIONS	(746,968)	7,620,555	6,128,530	(1,435,535)
CAPITAL CONTRIBUTIONS	2,455,560.00	2,124,000.00	1,990,641.00	1,164,819.00
CHANGE IN NET POSITION	1,708,592	9,744,555	8,119,171	(\$270,716)

NET POSITION

For the years ended December 31 (unaudited)

	2019	2018	2017	2016
Net Investment in Capital Assets	\$89,870,583	\$74,961,846	\$64,407,047	\$58,672,489
Restricted for Debt Service	1,107,865	1,107,865	1,107,865	1,107,865
Unrestricted ⁽²⁾	44,629,722	57,829,867	58,640,111	56,255,498
Total Net Position	\$135,608,170	\$133,899,578	\$124,155,023	\$116,035,852

(1) Governmental Accounting Standards Board Statement No. 65 was implemented effective 2012 classifying debt issuance costs as expense when incurred. 2011 was restated for comparative purposes in the financial statements.

(2) Governmental Accounting Standards Board Statement No. 65 was implemented effective 2012 classifying debt issuance costs as expense when incurred. 2010 was restated for comparative purposes and the cumulative effect of \$(703,941) for prior years has been applied to the Unrestricted balance.

(3) Governmental Accounting Standards Board Statement No. 68 was implemented effective 2015 recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses relating to pension liabilities. The cumulative effect on net pension for 2014 was \$12,217,716.

2015	2014 restated ⁽³⁾	2013	2012	2011 restated	2010 restated
\$116,820,422	\$117,641,940	\$115,079,778	\$110,799,843	\$105,228,051	\$94,137,792
17,678,932	23,325,872	18,232,140	14,048,971	25,773,429	30,122,467
690,639	632,528	776,957	797,837	397,063	230,978
2,024,661	2,191,287	1,980,605	1,620,054	1,617,919	1,181,892
1,670,466	1,472,425	1,249,791	1,879,829	1,424,566	1,403,220
138,885,120	145,264,052	137,319,271	129,146,534	134,441,028	127,076,349
82,340,739	84,714,618	77,877,737	68,652,534	75,475,402	78,768,878
12,816,306	12,925,752	11,677,803	11,260,088	10,276,334	9,315,582
417,113	89,940	1,315,642	405,589	808,494	1,795,846
81,305	81,220	82,066	12,684	17,575	26,909
9,051,462	8,540,568	8,092,079	8,191,232	7,499,422	7,163,781
1,022,025	982,869	890,521	696,415	674,581	712,433
3,794,832	3,788,799	4,026,839	3,954,421	3,388,582	3,773,740
7,229,048	6,909,615	6,444,642	6,276,795	5,384,210	5,396,629
12,263,706	12,394,110	12,144,846	11,814,545	10,890,913	9,513,213
13,207,539	12,894,915	12,671,992	11,642,052	10,769,424	9,751,161
142,224,075	143,322,406	135,224,167	122,906,355	125,184,937	126,218,172
(3,338,955)	1,941,646	2,095,104	6,240,179	9,256,091	858,177
748,220	525,553	612,901	668,774	602,075	488,924
(2,756,755)	(2,844,753)	(2,913,078)	(3,001,895)	(2,958,273)	(2,703,991)
419,819	445,518	459,652	459,198	(237,799)	(674,641)
24,568	173,722	(241,104)	19,862	-	-
-	-	-	-	(70,300)	(129,550)
(1,564,148)	(1,699,960)	(2,081,629)	(1,854,061)	(2,664,297)	(3,019,258)
(4,903,103)	241,686	13,475	4,386,118	6,591,794	(2,161,081)
2,471,250.00	3,834,420.00	2,706,410.95	2,368,597.00	1,394,437.50	1,271,831.00
(\$2,431,853)	4,076,106	2,719,886	6,754,715	7,986,232	(\$889,250)

2015	2014 ⁽³⁾	2013	2012	2011	2010
\$68,039,579	\$65,363,895	\$62,492,766	\$58,085,620	\$59,836,918	\$61,389,146
1,083,997	140,017	140,017	140,017	140,017	706,157
47,182,992	53,234,509	64,247,248	65,934,508	57,428,495	47,323,895
\$116,306,568	\$118,738,421	\$126,880,031	\$124,160,145	\$117,405,430	\$109,419,198

REVENUES AND CONSUMPTION BY CUSTOMER CLASS

For the years ended December 31 (unaudited)

	2019	2018	2017	2016
AVERAGE NUMBER OF CUSTOMERS				
Residential	45,319	44,550	43,870	43,157
General Service	6,041	5,937	5,919	5,840
Industrial	5	5	5	5
Irrigation	979	983	987	790
Miscellaneous	2,237	2,269	2,330	1,850
<i>Total</i>	<u>54,581</u>	<u>53,744</u>	<u>53,111</u>	<u>51,642</u>
RETAIL ELECTRIC SALES (IN THOUSANDS) ⁽¹⁾				
Residential	\$63,799	\$59,461	\$62,861	\$53,643
General Service	\$37,480	37,236	36,690	34,223
Industrial	\$3,394	3,438	3,440	3,214
Irrigation	\$22,343	23,517	21,825	22,348
Miscellaneous	\$675	678	673	656
<i>Total</i>	<u>\$127,691</u>	<u>\$124,330</u>	<u>\$125,489</u>	<u>\$114,084</u>
RETAIL ELECTRIC SALES IN MWh				
Residential	751,107	697,107	759,634	661,742
General Service	545,081	546,595	545,884	525,603
Industrial	64,318	65,997	67,084	64,612
Irrigation	399,178	424,610	405,805	435,186
Miscellaneous	6,486	6,540	6,691	6,935
<i>Total</i>	<u>1,766,170</u>	<u>1,740,849</u>	<u>1,785,098</u>	<u>1,694,078</u>
AVERAGE REVENUE PER kWh (CENTS) ⁽¹⁾				
Residential	8.49	8.53	8.28	8.11
General Service	6.88	6.81	6.72	6.51
Industrial	5.28	5.21	5.13	4.97
Irrigation	5.60	5.54	5.38	5.14
Miscellaneous	10.41	10.37	10.05	9.46
<i>Average - All Classes</i>	<u>7.23</u>	<u>7.14</u>	<u>7.03</u>	<u>6.73</u>

(1) Includes total retail revenue (per kWh charge and base charge); excludes city utility occupation tax, bad debt expense, and accrued unbilled revenue.

	2015	2014	2013	2012	2011	2010
	42,375	41,758	41,322	40,645	40,201	39,687
	5,737	5,643	5,572	5,499	5,421	5,356
	3	3	3	3	3	3
	794	788	772	721	722	736
	1,853	1,861	1,852	1,842	1,850	1,834
	50,762	50,053	49,521	48,710	48,197	47,616
	\$51,402	\$52,862	\$52,924	\$50,678	\$49,258	\$43,707
	33,706	33,829	32,959	32,416	29,864	27,575
	3,051	3,250	3,176	3,223	2,780	2,167
	22,283	22,794	19,630	18,817	17,602	15,642
	616	616	622	821	790	762
	\$111,058	\$113,351	\$109,311	\$105,955	\$100,294	\$89,853
	665,505	696,804	697,887	668,018	687,953	654,775
	530,283	533,008	519,493	512,797	503,471	503,037
	66,942	71,869	69,803	70,575	65,411	55,365
	468,202	472,643	402,619	385,738	381,999	371,321
	7,090	6,998	6,972	8,148	9,528	8,304
	1,738,022	1,781,322	1,696,774	1,645,276	1,648,362	1,592,802
	7.72	7.59	7.58	7.59	7.16	6.68
	6.36	6.35	6.34	6.32	5.93	5.48
	4.56	4.52	4.55	4.57	4.25	3.91
	4.76	4.82	4.88	4.88	4.61	4.21
	8.69	8.81	8.92	10.08	8.29	9.17
	6.39	6.36	6.44	6.44	6.08	5.64

RETAIL RATES ⁽¹⁾

For the years ended December 31 (unaudited)

	2019	2018	2017	2016
Residential				
Daily System Charge ⁽²⁾	\$0.63	\$0.62	\$0.62	\$0.55
Monthly Base Charge (single phase)	-	-	-	-
Energy Charge (cents/kWh)	7.39	7.18	7.18	7.18
Small General Service				
Daily System Charge ⁽²⁾ (Single-Phase)	\$0.55	\$0.54	\$0.54	\$0.46
Daily System Charge ⁽²⁾ (Multi-Phase)	\$0.82	\$0.80	\$0.80	\$0.68
Monthly Base Charge (single phase)	-	-	-	-
Energy Charge Effective 2010 (cents/kwh)	6.63	6.44	6.44	6.44
Medium General Service				
Daily System Charge ⁽²⁾ (All Phases)	\$1.61	-	-	-
Daily System Charge ⁽²⁾ (Single-Phase)	-	\$1.08	\$1.08	\$0.92
Daily System Charge ⁽²⁾ (Multi-Phase)	-	\$1.61	\$1.61	\$1.38
Monthly Base Charge (single phase)	-	-	-	-
Energy Charge (cents/kwh)				
Summer (Effective 2011)	5.24	5.09	5.09	5.09
Winter (Effective 2011)	6.14	5.97	5.97	5.97
Summer (Prior to 2011)				
First 20,000 kwh	-	-	-	-
Over 20,000 kwh	-	-	-	-
Winter (Prior to 2011)				
First 20,000 kwh	-	-	-	-
Over 20,000 kwh	-	-	-	-
Demand Charge	\$9.82	\$9.55	\$9.55	\$8.77
Large General Service				
Daily System Charge ⁽²⁾ (Multi-Phase)	\$2.01	\$1.96	\$1.96	\$1.38
Monthly Base Charge (multi phase)	-	-	-	-
Energy Charge - Non Time of Use (cents/kwh)				
Summer (Effective 2010)	4.23	4.11	4.11	4.11
Winter (Effective 2010)	5.06	4.92	4.92	4.92
Demand Charge	\$8.15	\$7.93	\$7.93	\$7.45

(1) These rates represent the typical customer. Other monthly charges may apply. Other rate schedules also in effect are small irrigation, large irrigation, industrial, and miscellaneous.

(2) The Daily System Charge was effective 9/1/2015 and replaced the Monthly Base Charge. The rate is per day and applied to the number of days in the billing period.

	2015	2014	2013	2012	2011	2010
	\$0.52	-	-	-	-	-
	-	\$11.05	\$11.05	\$11.05	\$10.50	\$9.20
	6.84	6.84	6.84	6.84	6.49	6.05
	\$0.44	-	-	-	-	-
	\$0.65	-	-	-	-	-
	-	\$11.95	\$11.95	\$11.95	\$11.45	\$11.45
	6.14	6.14	6.14	6.14	5.88	5.47
	\$0.88	-	-	-	-	-
	\$1.32	-	-	-	-	-
	-	\$17.55	\$17.55	\$17.55	\$16.30	\$14.25
	4.85	4.85	4.85	4.85	4.51	-
	5.69	5.69	5.69	5.69	5.29	-
	-	-	-	-	-	4.45
	-	-	-	-	-	3.55
	-	-	-	-	-	5.29
	-	-	-	-	-	4.19
	\$8.36	\$8.36	\$8.36	\$8.36	\$7.77	\$7.13
	\$1.32	-	-	-	-	-
	-	\$26.10	\$26.10	\$26.10	\$24.15	\$18.60
	3.92	3.89	3.89	3.89	3.59	3.31
	4.69	4.65	4.65	4.65	4.30	3.97
	\$7.10	\$7.00	\$7.00	\$7.00	\$6.48	\$5.99

PRINCIPAL RATEPAYERS

For the years ended December 31 (unaudited)

2019

Ratepayer's Rate Class ⁽¹⁾	Rank	Retail Sales ⁽²⁾	Percentage of Total Retail Electric Sales	kWh	aMW	Percentage of Total kWh
Large Irrigation Customer 1	1	\$10,084,968	7.9%	175,990,799	20.1	10.0%
Large Irrigation Customer 2	2	3,712,763	2.9%	66,152,277	7.6	3.7%
Large Industrial Customer 1	3	3,401,989	2.7%	64,427,858	7.4	3.6%
Large Irrigation Customer 3	4	3,220,506	2.5%	52,863,080	6.0	3.0%
Large Irrigation Customer 4	5	1,998,730	1.6%	36,039,765	4.1	2.0%
Large General Customer 1	6	1,881,234	1.5%	26,392,093	3.0	1.5%
Large Irrigation Customer 5	7	1,799,279	1.4%	31,077,175	3.5	1.8%
Large General Customer 2	8	1,782,865	1.4%	25,676,039	2.9	1.5%
Large Irrigation Customer 6	9	1,177,032	0.9%	22,701,025	2.6	1.3%
Large General Customer 3	10	1,069,906	0.8%	17,409,219	2.0	1.0%
Large General Customer 4	-	-	-	-	-	-
		\$30,129,272	23.6%	518,729,330	59.2	29.4%
Total All Ratepayers		\$127,691,549		1,766,170,550		

(1) To preserve confidentiality, individual ratepayer names are not disclosed.

(2) Retail sales are before bad debt expense and unbilled revenue.

2010

Rank	Retail Sales ⁽²⁾	Percentage of Total Retail Electric Sales	kWh	aMW	Percentage of Total kWh
1	\$6,857,773	7.3%	170,113,709	19.4	10.7%
2	2,278,957	2.4%	55,909,635	6.4	3.5%
3	2,167,117	2.3%	55,364,660	6.3	3.5%
4	1,364,652	1.4%	36,104,330	4.1	2.3%
5	1,378,383	1.5%	22,382,685	3.9	1.4%
7	1,284,018	1.4%	34,139,537	2.6	2.1%
6	1,136,981	1.2%	29,153,937	3.3	1.8%
8	1,134,779	1.2%	21,472,216	2.5	1.3%
9	823,472	0.9%	21,084,000	2.4	1.3%
-	-	-	-	-	-
10	891,784	0.9%	17,423,557	2.0	1.1%
	\$19,317,916	20.5%	463,148,266	52.9	29.1%
	\$94,137,792		1,592,802,051		

RATIOS OF OUTSTANDING DEBT

For the years ended December 31 (unaudited)

	2019	2018	2017	2016
Revenue Bonds	\$49,585,000	\$53,335,000	\$56,905,000	\$59,950,000
Unamortized Premium & Discount	3,452,539	3,869,777	4,336,311	4,845,315
Total Outstanding Revenue Debt	\$53,037,539	\$57,204,777	\$61,241,311	\$64,795,315
Total Revenue Debt to Operating Revenues	33%	36%	41%	46%
Total Revenue Debt to Total Assets	24%	25%	28%	30%
Total Revenue Debt per Ratepayer	\$972	\$1,064	\$1,153	\$1,255

DEBT MARGIN INFORMATION ⁽¹⁾

For the year ended December 31, 2019 (unaudited)

Net Revenues January 2019 - December 2019 ⁽²⁾	\$22,994,646
Maximum Future Annual Debt Service (2020)	\$6,523,987
Maximum Allowable Annual Debt Service per Bond Covenants ⁽²⁾	\$18,395,717
Allowable Additional Annual Debt Service	\$11,871,730

(1) As a proprietary fund, the District does not have a legal debt limitation. However, the District's bond resolutions establish restrictions on the issuance of additional debt based on a defined formula.

(2) The bond covenants state that new parity bonds may be issued if the amount of net revenue for any twelve consecutive months in the prior 24 month period divided by the maximum annual debt service in any future year is not less than 125%.

(3) With implementation of GASB 65 in 2012, bond issuance costs are expensed in the year incurred. The District restated 2011 for comparative purposes to match the financial statements. In addition, prior to 2011, the unamortized loss on defeasance is included in Total Outstanding Revenue Debt.

2015	2014 restated	2013	2012	2011⁽³⁾	2010
\$49,735,000	\$53,600,000	\$56,635,000	\$59,575,000	\$62,330,000	\$59,165,000
3,099,629	3,572,728	4,072,098	4,597,935	5,134,338	452,684
\$52,834,629	\$57,172,728	\$60,707,098	\$64,172,935	\$67,464,338	\$59,617,684
38%	39%	44%	50%	50%	47%
26%	27%	29%	31%	34%	32%
\$1,041	\$1,142	\$1,226	\$1,317	\$1,400	\$1,252

DEBT SERVICE COVERAGE

For the years ended December 31 (unaudited)

	2019	2018	2017	2016
DEBT SERVICE CALCULATION				
Change in Net Position	\$1,708,592	\$9,744,554	\$8,119,171	(\$270,716)
Adjustments to (from) Change in Net Position				
Depreciation	10,183,035	9,854,391	10,177,574	12,630,490
Prepaid Power ⁽¹⁾	1,017,144	1,017,144	1,017,144	1,017,144
Interest Expense	2,484,359	2,832,268	2,910,007	2,664,442
Debt Discount/Premium Amortization & Bond Issue Costs	(407,817)	(453,711)	(492,959)	(143,522)
GASB 68 Pension noncash entry	(1,292,772)	(1,371,215)	(593,733)	(308,366)
Transfer (to) from Rate Stabilization	-	-	-	-
REVENUE AVAILABLE FOR DEBT SERVICE	\$13,692,541	\$21,623,431	\$21,137,204	\$15,589,472
DEBT SERVICE	\$6,521,487	\$6,519,987	\$6,226,648	\$5,351,412
DEBT SERVICE COVERAGE RATIO	2.10	3.32	3.39	2.91

(1) White Creek Wind Project amortization and Bonneville Power Administration prepaid power.

2015	2014 restated	2013	2012	2011	2010
(\$2,431,853)	\$4,076,106	\$2,719,886	\$6,754,715	\$7,986,232	(\$889,251)
13,207,539	12,894,915	12,671,992	11,642,052	10,769,424	9,751,161
1,017,144	1,017,144	907,457	578,400	578,400	578,400
2,756,755	2,844,753	2,913,078	3,001,895	2,958,273	2,683,991
(419,819)	(445,518)	(459,652)	(459,198)	237,799	674,641
(157,447)	(245,062)	-	-	(2,369,920)	-
\$13,972,319	\$20,142,338	\$18,752,761	\$21,517,864	\$20,160,208	\$12,798,942
\$4,767,944	\$5,966,784	\$5,965,509	\$5,969,064	\$5,002,221	\$5,445,961
2.93	3.38	3.14	3.60	4.03	2.35

PRINCIPAL EMPLOYERS - TRI-CITIES METROPOLITAN STATISTICAL AREA

For the years ended December 31 (unaudited)

					2019
Employer	Product/Service	Employees	Rank	Percentage of Total MSA Nonfarm Employment	
Battelle/Pacific NW National Laboratory	Research/National Laboratory	4,700	1	3.9%	
Kadlec Medical Center	Health Care	3,674	2	3.1%	
Kennewick School District	Education	3,000	3	2.5%	
ConAgra/Lamb Weston Inc.	Food Processing	3,000	4	2.5%	
Washington River Protection Solutions	Environmental Remediation	2,971	5	2.5%	
Pasco School District	Education	2,288	6	1.9%	
Mission Support Alliance, LLC	Support Services Hanford	2,240	7	1.9%	
Richland School District	Education	1,900	8	1.6%	
CH2MHill Hanford Group Inc./CHG	Environmental Engineering	1,688	9	1.4%	
Bechtel National, Inc.	Engineering & Construction	1,450	10	1.2%	
Fluor Hanford Inc./URS	Environmental Engineering	-	-	-	
Total		26,911		22.5%	

Source: Tri-City Development Council

2010

Employees	Rank	Percentage of Total MSA Nonfarm Employment
4,485	1	4.4%
2,175	6	2.1%
1,750	8	1.7%
3,057	4	3.0%
1,686	9	1.6%
1,900	7	1.9%
1,478	10	1.4%
-	-	-
3,260	3	3.2%
2,850	5	2.8%
3,500	2	3.4%
26,141		25.5%

DEMOGRAPHIC STATISTICS

For the years ended December 31 (unaudited)

	2019	2018	2017	2016
Population ⁽¹⁾				
Tri-Cities Metropolitan Statistical Area	296,480	289,960	283,830	279,170
Benton County	201,800	197,420	193,500	190,500
City of Kennewick	83,670	81,850	80,280	79,120
Prosser	6,145	6,125	5,965	5,940
Benton City	3,520	3,405	3,360	3,325
Total Personal Income - Benton County (000's) ⁽²⁾	N/A	\$9,582,003	\$9,135,505	\$8,757,495
Per Capita Income - Benton County ⁽²⁾	N/A	\$47,465	\$46,034	\$45,223
Unemployment Rate - Benton County ⁽³⁾	5.4%	5.8%	6.1%	7.0%
Building Permits Issued ⁽⁴⁾				
Kennewick	2,203	2,409	2,064	2,211
Benton County (Unincorporated)	895	1,014	997	919
Taxable Retail Sales - All of Benton County ⁽⁵⁾	N/A	\$4,166,770,833	\$3,905,643,498	\$3,789,869,697

(1) Source: Washington State Office of Financial Management. 2010 was restated with census numbers.

(2) Source: U.S. Bureau of Economic Analysis. 2010-2017 revised estimates from BEA in 2019.

(3) Source: December 2019 Unemployment Rates, Washington Employment Security Department

(4) Source: City of Kennewick and Benton County Building Departments

(5) Source: Washington State Department of Revenue

	2015	2014	2013	2012	2011	2010
	275,740	273,100	268,200	262,500	258,400	253,340
	188,590	186,500	183,400	180,000	177,900	175,177
	78,290	77,700	76,410	75,160	74,665	73,917
	5,845	5,815	5,810	5,785	5,780	5,714
	3,285	3,255	3,240	3,295	3,145	3,038
	\$8,477,885	\$7,778,521	\$7,490,609	\$7,564,035	\$7,650,558	\$7,232,912
	\$44,546	\$41,698	\$40,631	\$41,472	\$42,402	\$40,988
	7.1%	7.7%	7.9%	9.0%	9.2%	7.1%
	2,005	2,054	1,989	1,918	2,123	2,161
	784	713	728	588	711	753
	\$3,612,773,217	\$3,284,581,847	\$3,189,855,069	\$2,937,655,298	\$2,959,959,724	\$2,731,890,939

OPERATING INDICATORS

For the years ended December 31 (unaudited)

	2019	2018	2017	2016
Operating Expenses / Revenues	100.1%	94.8%	95.1%	99.7%
Total Electric Sales in MWh				
Retail Sales	1,766,171	1,740,849	1,785,098	1,694,078
Secondary Market Sales	421,597	558,160	609,721	576,289
Total MWh Sales	2,187,768	2,299,009	2,394,819	2,270,367
Average Annual kWh per Customer				
Residential	16,574	15,648	17,316	15,333
General Service	90,230	92,066	92,226	90,004
Industrial	12,863,616	13,199,344	13,416,822	12,922,400
Irrigation	407,741	431,954	411,150	550,578
Miscellaneous	2,900	2,882	2,872	3,749
Average Annual kWh per Customer - All Classes	32,359	32,392	33,611	32,804
Average Revenue per Customer				
Residential	\$1,408	\$1,335	\$1,433	\$1,243
General Service	6,204	6,272	6,199	5,860
Industrial	678,881	687,644	687,927	642,800
Irrigation	22,822	23,924	22,112	28,274
Miscellaneous	302	299	289	355
Average Revenue per Customer - All Classes	\$2,339	\$2,313	\$2,363	\$2,209
Additions to Electric Plant, excluding work-in-progress	\$18,484,322	\$14,307,247	\$14,248,483	\$12,707,389
Net Electric Utility Plant	\$142,948,756	\$132,197,835	\$125,666,747	\$123,470,148
Capitalized Payroll	\$2,851,731	\$2,456,252	\$2,435,631	\$3,213,042
Total Payroll Expense	\$14,566,651	\$14,008,828	\$13,864,893	\$13,630,457
Full Time Equivalent Employees ⁽¹⁾	150	149	152	153
Cooling Degree Days ⁽²⁾	1,112	1,221	1,347	1,099
Heating Degree Days ⁽²⁾	5,655	4,668	5,618	4,392
Annual Precipitation (inches) ⁽²⁾	9.31	6.43	8.60	7.66
Peak Load (MW's) ⁽³⁾	407	419	426	425

(1) Includes regular and temporary employees. In 2017, all years employee counts were reduced to account for shared employees billed to other governments.

(2) Source: Hanford Meteorological Station

Heating degree days are indicators of household energy consumption for space heating. When the average outdoor temperature is less than 65 degrees Fahrenheit, most buildings require heat to maintain a temperature of 70 degrees inside. Similarly, when the average outdoor temperature is 65 degrees or more, most buildings require air-conditioning to maintain a temperature of 70 degrees inside.

(3) Source: The Energy Authority, Inc.

2015	2014 restated	2013	2012	2011	2010
102.4%	98.7%	98.5%	95.2%	93.1%	99.3%
1,738,022	1,781,322	1,696,774	1,645,277	1,648,362	1,592,802
662,886	717,847	580,417	687,098	929,688	693,299
2,400,908	2,499,169	2,277,191	2,332,375	2,578,050	2,286,101
15,692	16,687	16,889	16,435	17,113	16,498
92,432	94,455	93,233	93,253	92,874	93,920
22,313,962	23,956,495	23,267,593	23,525,055	21,803,603	18,454,887
589,675	599,801	521,528	535,005	529,085	504,513
3,826	3,760	3,764	4,423	5,150	4,528
34,239	35,589	34,264	33,777	34,201	33,451
\$1,213	\$1,266	\$1,281	\$1,247	\$1,225	\$1,101
5,875	5,995	5,915	5,895	5,509	5,148
1,016,944	1,083,292	1,058,609	1,074,442	926,683	722,372
28,065	28,926	25,428	26,098	24,380	21,253
332	331	336	446	427	415
\$2,188	\$2,265	\$2,207	\$2,175	\$2,081	\$1,887
\$10,795,807	\$14,325,929	\$14,261,262	\$11,658,180	\$16,575,853	\$17,203,386
\$120,791,227	\$122,400,363	\$123,009,752	\$122,002,258	\$121,789,048	\$120,302,889
\$2,201,618	\$2,289,991	\$2,344,440	\$2,550,126	\$2,858,449	\$2,677,911
\$12,967,615	\$12,674,072	\$12,573,298	\$12,401,390	\$11,637,285	\$11,672,710
152	152	153	150	152	154
1,534	1,426	1,318	1,057	884	870
4,228	4,611	5,320	4,940	5,466	4,896
6.48	6.53	5.38	8.18	4.45	10.19
429	431	415	394	380	392



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A Way to Pre-Pay

2019

159 customers signed up
for Pay As You Go



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Public Utility District No. 1 of Benton County, Washington
for the fiscal years ended December 31, 2019 and 2018