



Report of Independent Auditors and  
Combined Financial Statements  
with Supplementary Information for

**Public Utility District No. 1 of  
Klickitat County**

December 31, 2015 and 2014

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

The Board of Commissioners  
Public Utility District No. 1 of Klickitat County

### **Report on Financial Statements**

We have audited the accompanying combined financial statements of Public Utility District No. 1 of Klickitat County (the District), which comprise the combined statements of net position as of December 31, 2015 and 2014 and the related combined statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

## REPORT OF INDEPENDENT AUDITORS (continued)

### ***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2015 and 2014 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 15 to the financial statements, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective January 1, 2014. The beginning of year net position has been adjusted for this change. Our opinion is not modified with respect to this matter.

### ***Other Matter***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability and the schedule of contributions be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined 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.

*Miss Adams LLP*

Portland, Oregon  
August 30, 2016

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY -  
MCAG No. 1785  
DIRECTORY OF OFFICIALS**

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<u>Office</u>	<u>Official</u>	<u>Term</u>	<u>Term Expiration</u>
Board of Commissioners			
President	Ray A. Mosbrucker	6 years	December 2016
Vice President	Randy L. Knowles	6 years	December 2018
Secretary	Dan G. Gunkel	6 years	December 2020
Appointed Officials			
General Manager	James R. Smith	1313 S. Columbus Goldendale, WA 98620	
Attorney	Pacifica Law Group LLP	1191 2nd Avenue, Suite 2000 Seattle, WA 98101	

# **PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY – MCAG No. 1785 MANAGEMENT’S DISCUSSION AND ANALYSIS**

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This section provides an overview and analysis of key data presented in the basic combined financial statements for the years ended December 31, 2015 and 2014, with additional comparative data for 2013. Information within this section should be read in conjunction with the basic combined financial statements and accompanying notes.

## **About Public Utility District No. 1 of Klickitat County**

Public Utility District No. 1 of Klickitat County (the District) consists of the electric system, nine water systems, and five wastewater systems. The District also operates two additional water and wastewater systems that are owned by other public entities. The District’s service area covers approximately 1,680 square miles in Klickitat County. The District also serves small areas in the surrounding counties of Yakima, Skamania, and Benton. As of December 31, 2015, the District had 12,545 electric, 1,184 water and 1,203 wastewater customers. The District’s electric wholesale activities and transmission business line are significant parts of the District’s electric system business. Wholesale revenues are generated from the sale of the output from the 26 MW H.W. Hill Methane Facility (Landfill Gas II Project), and from the White Creek Wind I power purchase contract, which the District owns 13% of the generated output from this 205 MW project. The transmission business line is comprised of 230 kV transmission lines and substations that carry renewable generation by others to the BPA transmission system.

## **Overview of the Combined Financial Statements**

The financial statements of the District report the self-supporting, proprietary activities of the District funded primarily by the sale of power, water and wastewater services. The District reports these business-type activities using the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). The accrual accounting method recognizes all revenues and expenses incurred during the year, regardless of when cash is received or paid.

The basic financial statements, presented in a comparative format for the years ended December 31, 2015 and 2014 are comprised of:

**Statement of Net Position:** This statement presents information on the District’s assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position, and provides information regarding the nature and amount of resource investment (assets) and obligations incurred in the pursuit of such resources. The statement also provides a vehicle for evaluating the capital structure as well as assessing the liquidity and financial flexibility of the District.

**Statement of Revenues, Expenses, and Changes in Net Position:** This statement reflects the transactions and activities that have increased or decreased the District’s total economic resources during the period. Revenues and expenses are classified as operating or non-operating based on the type of transaction. The statement may also be used as a partial determinant of creditworthiness.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
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MANAGEMENT’S DISCUSSION AND ANALYSIS**

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**Statement of Cash Flows:** The Statement of Cash Flows provides information concerning the sources and uses of cash during the reporting period resulting from operating, financing, and investing activities. This information provides insight into the District’s ability to generate net cash flows to meet obligations as they become due and is an important indicator of the District’s liquidity and financial strength.

The Notes to Financial Statements presented at the end of the basic financial statements provide additional information that is essential to a full understanding of the financial statements as described above including significant accounting policies, commitments, obligations, risks, contingencies, and other financial matters of the District.

**Condensed Comparative Financial Information**

**Combined statements of net position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
		<i>as restated</i>	
Capital assets	\$ 213,780,010	\$ 217,168,640	\$ 220,650,478
Current, restricted, and other assets and deferred outflow of resources	<u>76,061,472</u>	<u>54,745,275</u>	<u>56,991,140</u>
 Total assets and deferred outflows of resources	 <u><u>\$ 289,841,482</u></u>	 <u><u>\$ 271,913,915</u></u>	 <u><u>\$ 277,641,618</u></u>
 Long-term liabilities and deferred inflow of resources	 \$ 184,918,394	 \$ 168,979,008	 \$ 166,573,614
Current liabilities	<u>10,300,901</u>	<u>9,555,967</u>	<u>10,519,075</u>
 Total liabilities and deferred inflow of resources	 <u>195,219,295</u>	 <u>178,534,975</u>	 <u>177,092,689</u>
 Net investment in capital assets	 75,249,720	 83,867,975	 83,917,588
Restricted - bond funds	10,698,073	12,178,945	12,164,533
Unrestricted	<u>8,674,394</u>	<u>(2,667,980)</u>	<u>4,466,808</u>
 Total net position	 <u>94,622,187</u>	 <u>93,378,940</u>	 <u>100,548,929</u>
 Total liabilities, deferred inflow of resources and net position	 <u><u>\$ 289,841,482</u></u>	 <u><u>\$ 271,913,915</u></u>	 <u><u>\$ 277,641,618</u></u>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
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MANAGEMENT’S DISCUSSION AND ANALYSIS**

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**Financial Highlights – 2015**

- The District issued \$49,235,000 of Electric System Tax-Exempt Revenue and Refunding Bonds and \$32,035,000 of Electric System Taxable Revenue Refunding Bonds on September 10, 2015. The purpose of the bond issue was to finance and reimburse the District for costs related to capital improvements to the Electric System and to defease and refund a portion of the District’s outstanding 2006 Electric System Bond obligation. The net Tax-Exempt Interest Rate was 4.232389% and Taxable Interest Rate 3.53308%.
- \$10,000,000 of the 2015 Bond proceeds is available to fund planned Electric System capital improvements.
- Related to the 2015 Bond Issue and the District’s outstanding parity debt, Fitch Rating Agency maintained its A- rating and Moody’s Investors Services maintained its A2 rating of the District.
- The District incurred \$649,527 of bond issuance costs in 2015. An election was made, with the approval of the District’s Board of Commissioners, to apply Regulatory Accounting policies and procedures to the bond issuance costs, which will equally expense the costs annually over the term of the debt.
- Following a public rate hearing, the Board of Commissioners raised electrical rates 9% in all retail categories effective June 1, 2015.
- District Management met with each local community where it provides water and wastewater services to review annual operations, financial performance, and projected future projects. Following a public rate hearing, water and wastewater rates were raised for 10 of the 14 systems owned by the District effective June 1, 2015. The increases ranged from 1% to 5%.
- The District’s Wholesale Generation business line experienced a steady decline in energy market power prices during 2015, which resulted in a drop in wholesale generation revenue by 11% from 2014.
- Since 2012, the District has utilized The Energy Authority (TEA) to manage its day-to-day marketing and purchasing functions and to evaluate the District’s Risk Management hedging strategies and power sale contracts. The District continues to focus on maximizing the value of our day-ahead and month-ahead surplus and deficits, and on incorporating prior year experience and best practices.
- The District receives transmission revenues for providing transmission services for the White Creek Wind I, Harvest Wind, Tuolumne, Windy Flats, Linden Farms and Windy Point wind projects, and from the Goldendale Energy Center, a 248 MW natural gas-fired combined cycle combustion turbine electric generating facility owned and operated by Puget Sound Energy. The revenue received from this line in 2015 was \$5,338,028.



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- During 2015, there was an equipment failure of a crane located at the McNary Dam Fish-Bypass Generation Project, which resulted in significant damage to the 10MW turbine generator. Repairs commenced immediately and will continue into 2016. The District has a 50% ownership share of the McNary Generation Project.
- A federal U.S. Department of Agriculture (USDA) grant and loan for \$650,000 and \$200,000, respectively, was obtained to fund the infrastructure of the Bickleton Water System. Additional grant funds were also obtained from the Klickitat County Landfill Improvement Fund.
- The District, as a subrecipient of Klickitat County, was awarded a Community Development Block Grant (CDBG) in the amount of \$750,000 to apply towards the \$896,000 water project planned for the Wishram Water System.
- The Board of Commissioners approved changes to the District’s Electric System Financial Policy (Policy Bulletin No. 9) at its June 23, 2015 Board Meeting. Policy guideline for Days Cash on Hand was set to 160 and Debt Service Coverage Ratio to 1.5.
- The District’s \$2.5 million Credit Facility Agreement with an FDIC-insured financial institution was extended to August 1, 2017.

**Financial Highlights - 2014**

- For the year ended December 31, 2014, the District met its compliance and financial policy obligations with a debt service coverage ratio of 1.49.
- As is done annually, District Management met with each local community where it provides water and/or wastewater services. These meetings allow the District to review operations, financial performance and projected future projects, and obtain feedback from community members. Following a public rate hearing, rates were revised for five of nine water systems and two of five wastewater systems. Rate increases ranged from 1% to 5%.
- In January of 2014, Klickitat County experienced a severe ice storm, which affected both distribution and transmission customers. Mutual aid was provided by Northern Wasco, Skamania and Cowlitz PUDs. A section of the District’s 230 kV transmission line, which serves several wind projects, fell due to ice accumulation and was damaged beyond repair. Emergency efforts were initiated to rebuild the section as soon as possible to restore transmission service. Total cost to rebuild the destroyed line was \$1,086,814. Per contract terms, reimbursement for the entire cost was received from the original owners of the line, who had previously designed, built and donated the asset to the District.
- The District received \$1.39 million from electric customer Contributions in Aid of Construction (CAIC) related to construction and line extension projects. This reflects a 69% increase over 2013. Klickitat County is experiencing substantial growth in agricultural and viticulture activities.

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- Approximately \$1.7 million of Regulatory Liability was recognized as Contributions in Aid of Construction (CAIC) in 2014. Regulatory accounting treatment had been applied to the value of assets donated to the District, and a portion of the deferred CAIC will be recognized annually throughout the lives of those assets.
- The District’s \$2.5 million Credit Facility Agreement with an FDIC-insured financial institution was extended to August 1, 2015.
- A second draw was taken from the District’s Public Works Trust Fund \$500,000 loan for the Lyle Water System Project in the amount of \$314,795. The loan has a 0.50% interest rate and 20-year term.
- The District received the second half of committed funding from the Klickitat County Landfill Gas Improvement Fund in the amount of \$125,000 for benefit of the new Bickleton Water System under construction.
- The District receives transmission revenues for providing transmission services for the White Creek Wind I, Harvest Wind, Tuolumne, Windy Flats, Linden Farms and Windy Point wind projects, and from the Goldendale Energy Center, a 248 MW natural gas-fired combined cycle combustion turbine electric generating facility owned and operated by Puget Sound Energy. The revenue received from this line was \$5,331,791.
- Since 2012, the District has utilized The Energy Authority (TEA) to manage its day-to-day marketing and purchasing functions and to evaluate the District’s Risk Management hedging strategies and power sale contracts. The District continues to focus on maximizing the value of our day-ahead and month-ahead surplus and deficits, and on incorporating prior year experience and best practices.

**Financial Analysis**

**Capital Activity**

*2014 to 2015:*

Total utility plant saw an increase of \$5.5 million in 2015. Capital additions of Distribution station equipment, poles, towers and fixtures, overhead and underground conductors and devices, and transformers accounted for 62.0% of the increase. Additionally, Construction Work in Progress (CWIP) increased by 10.3% from 2014. Notable projects during 2015 included the Mercer Sundale Project, M.A. Collins Portable Substation, Maryhill Loops Fire Rebuild, High Prairie Poles, and Gas Cleaning System Modifications at the H. W. Hill Landfill Gas Plant.

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*2013 to 2014:*

Total utility plant increased by \$4.9 million in 2014. The largest contributor to the increase was the Electric Distribution Plant category with approximately \$2.9 million of added capital. In January, 2014, Klickitat County suffered a major ice storm, which caused a portion of the District’s 230 kV transmission line to fall. The downed section was damaged beyond repair and had to be rebuilt. The District expensed the book value of the destroyed line, which was \$869,948 at the time of the storm, and capitalized \$1,086,814 of costs to rebuild the section. Other projects during the year included Darland Transmission Rebuild, 3 Mountain Village Underground Rebuild, Sonova Road Portable Substation, deployment of a 230 kV SCADA (Supervisory Control and Data Acquisition) System, Landfill Gas generation project compressor system modifications, and the Ponderosa Park Water System Reservoir and Pipeline Project.

**Debt Activity**

*2014 to 2015:*

As detailed in the Financial Highlights – 2015 section above, the District issued Electric Revenue and Refunding Bonds totaling \$81,270,000 during 2015. The bond issue refunded a portion of the District’s 2006 Revenue Bonds and provided funds for capital improvements. The District’s entire Electric debt now spans to 2036 with a relatively smooth debt service schedule. During 2015, Electric and Water/Wastewater principal repayments totaled \$4,400,000 and \$218,490, respectively. The District obtained a \$200,000 USDA loan to partially fund the Bickleton Water System project.

*2013 to 2014:*

During 2014, the District paid electric bond principal payments of \$3,340,000 and water/wastewater loan payments of \$198,000. A second draw was taken from the District’s Public Works Trust Fund Loan in the amount of \$314,795 to fund the Lyle Water System Project. The District also purchased a residential property in Roosevelt, Washington to support the Landfill Gas generation project. The purchase was funded with an \$85,000 bank loan.

**Current, Restricted, and Other Activity**

*2014 to 2015:*

Total Current Assets saw a 40.5% rise over the prior year. Cash and Cash Equivalents increased by \$7.4 million, primarily the result of reimbursement by the 2015 Bond Proceeds for eligible capital expenditures prior to the bond issue. Accounts Receivable and Unbilled Revenue were responsible for \$0.8 million of the rise. Restricted Cash Equivalents rose by \$8.6 million, the result of the 2015 Bond Construction Fund and a decrease in the 2006 Bond Fund requirement due to partial refunding. Other Activity increased by 19.5% with drivers being Deferred Loss on 2006 Bond Refunding of \$2.9 million, and Preliminary Investigation of \$1.0 million. The District also implemented GASB 68, which increased deferred outflows of resources by \$1 million and pension liability by \$2.3 million and decreased deferred inflows of resources by \$0.9 million.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
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*2013 to 2014:*

The District’s total Receivables dropped by 9.7% compared to 2013. Materials and supplies inventory increased by \$304,000. The value of the District’s derivative assets related to its Risk Management activities ended 2014 at \$3.0 million, a 142% increase over 2013.

**Overall Results of Operations**

*2014 to 2015:*

2015 Operating Income increased over 2014 by \$800,000 or 84%. The drop in Wholesale Generation Revenue was offset by retail rate increases. Operating Expenses were lower than 2014, which resulted in it being the major contributor to the increase in Operating Income.

*2013 to 2014:*

The District’s 2014 Operating Income was lower than 2013 by 43% but remained positive. 2014 saw financial pressures from unusually cold weather conditions in the first quarter of 2014 and falling energy market power prices.

**Electric system operating results**

	2015	2014	2013
		<i>as restated</i>	
Operating revenues	\$ 43,777,979	\$ 43,471,178	\$ 40,064,800
Operating expenses	<u>42,039,227</u>	<u>41,671,964</u>	<u>37,528,015</u>
Operating income	1,738,752	1,799,214	2,536,785
Net non-operating revenue (expense)	(3,539,791)	(5,649,717)	(5,597,246)
Capital contributions	<u>1,988,648</u>	<u>3,126,557</u>	<u>1,608,378</u>
Change in net position	<u>\$ 187,609</u>	<u>\$ (723,946)</u>	<u>\$ (1,452,083)</u>

**Operating Revenues**

*2014 to 2015:*

Operating Revenues remained stable from 2014, primarily due to the 9% retail rate increase effective June 1, 2015 less the \$500,000 transfer to the rate stabilization fund.

*2013 to 2014:*

There was an 8.5% increase in Total Operating Revenues in 2014. The significant contributors were a 114% increase in revenue from market sales of our share of excess BPA-generated power per our Slice Agreement and a full year of increased retail rates that had been adopted in the 2<sup>nd</sup> Quarter of 2013.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
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MANAGEMENT’S DISCUSSION AND ANALYSIS**

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**Operating Expenses**

*2014 to 2015:*

Operating expenses increased a meager 0.8% in 2015. A number of employee positions were vacant during the year and cost containment efforts by staff helped contribute to the minimal increase in expenses.

*2013 to 2014:*

Operating expenses increased 10.0% in 2014. In addition to a full year of the BPA increase implemented in October, 2013, much colder than usual conditions in the First Quarter of 2014 required additional power purchases at market prices to meet our load requirements. Transmission expenses include approximately \$900,000 of book value of a destroyed portion of transmission line as a result of an ice storm in the same period. Also, major repairs of the Landfill Gas steam turbine generator were completed during 2014.

**Non-Operating Revenue/(Expense)**

*2014 to 2015:*

Net Non-Operating Revenue/ (Expense) was lower by \$2.1 million compared to 2014. The two primary drivers of this change was an interest income adjustment related to the District’s transmission deposit with the Bonneville Power Administration, and a drop in interest expense due to the refunding of the 2006 Revenue Bonds in 2015.

*2013 to 2014:*

A drop in interest income, as a result of decreasing interest rates applicable to the District’s monetary investments, was the main contributor to the negative change in the District’s Non-Operating Revenue/ (Expense).

**Capital Contributions**

*2014 to 2015:*

Electric capital contributions were 36.3% lower than 2014; however, customer cash contributions in aid of construction were over \$1.0 million for the year. Agricultural growth continued strong.

*2013 to 2014:*

Electric capital contributions rebounded in 2014 with a 94.3% increase over 2013. We saw strong growth from agricultural and viticultural activities in Klickitat County.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
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MANAGEMENT’S DISCUSSION AND ANALYSIS**

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**Water and wastewater systems operating results**

	2015	2014	2013
		<i>as restated</i>	
Operating revenues	\$ 1,478,695	\$ 1,485,743	\$ 1,448,854
Operating expenses	<u>1,369,641</u>	<u>2,282,326</u>	<u>1,523,784</u>
Operating income	109,054	(796,583)	(74,930)
Net non-operating revenue (expense)	(11,359)	4,785	(9,718)
Capital contributions and grants	<u>957,943</u>	<u>138,127</u>	<u>300,171</u>
Change in net position	<u>\$ 1,055,638</u>	<u>\$ (653,671)</u>	<u>\$ 215,523</u>

**Operating Revenues**

*2014 to 2015:*

Operating Revenues were 0.5% lower than 2014. The main reason for the drop was a change in the reporting of revenues related to the two systems that are owned by other entities, but operated by the District. Effective in 2015, their financial activity was no longer reported in the District’s financial statements, but was included in 2014.

*2013 to 2014:*

Operating revenues from 2014 water and wastewater services were 2.5% above 2013, attributable mainly to rate increases.

**Operating Expenses**

*2014 to 2015:*

Operating Expenses were lower than 2014 by 40.0%. Similar to Operating Revenues, beginning in 2015, we are no longer reporting the financial activity of the two systems operated by the District but owned by other entities. Also contributing to the change were single year water and wastewater system expense adjustments in 2014.

*2013 to 2014:*

The District experienced an increase in water and wastewater expenses from 2013. There were additional testing and lab fees based on a varying multi-year testing schedule, and increased labor and supply costs related to maintenance of the systems.

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**Non-Operating Revenue/(Expense)**

*2014 to 2015:*

The change in Non-Operating Revenue/(Expense) is primarily related to the reporting change of the two water and wastewater systems as detailed above.

*2013 to 2014:*

Water and Wastewater non-operating revenue/(expense) increased over 2013 resulting from an increase in other revenue and drop in interest expense.

**Capital Contributions and Grants**

*2014 to 2015:*

Water and Wastewater Capital Contributions and Grants saw a sharp increase in 2015. The Bickleton Water System received grants totaling \$650,000 from USDA and \$205,428 from Klickitat County in 2015. Slow growth in new construction and related utility connections continued during 2015.

*2013 to 2014:*

Water and Wastewater customer capital contributions remained small in 2014, reflecting slow growth in new construction and related utility connections. The District received the second half of committed grant funding from the Klickitat County Landfill Gas Improvement Fund in the amount of \$125,000 for benefit of the new Bickleton Water System under construction.

**The District Looking Forward**

During 2015, the District revised its financial policy and updated its financial days-cash-on-hand and debt service coverage targets. We also began the development of long-term financial planning tools to allow us to better manage our portfolio of renewable generation projects. Looking forward, we will be refining and implementing those tools. We will also be reviewing proposals for longer term power sales from our H. W. Hill Landfill Gas Generation Facility and evaluating alternative products that may return a higher value from the renewable fuel we receive at the facility. We expect to implement specific initiatives and contracts to reduce our exposure to the current volatile electric market. We will also continue to explore ways to improve our non-retail revenues as well as remain diligent in our cost controls.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
COMBINED STATEMENTS OF NET POSITION**

**ASSETS AND DEFERRED OUTFLOW OF RESOURCES**

	December 31,	
	2015	2014 <i>as restated</i>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 15,770,021	\$ 8,865,010
Notes receivable	96,349	139,409
Accounts receivable, net	1,770,390	1,534,352
Unbilled revenue	2,150,696	1,552,891
Other receivables	3,753,773	3,799,343
Materials and supplies	1,988,634	1,990,279
Prepayments	958,227	983,916
Current portion of prepaid power contract	1,180,359	1,180,359
Total current assets	<u>27,668,449</u>	<u>20,045,559</u>
<b>RESTRICTED CASH EQUIVALENTS</b>		
Special funds, bonds	11,276,222	12,767,025
Special funds, construction	10,141,395	-
Special funds, power cost stabilization	3,300,000	2,800,000
Total restricted cash equivalents	<u>24,717,617</u>	<u>15,567,025</u>
<b>CAPITAL ASSETS</b>		
Total plant in service	306,654,309	301,591,834
Construction work in progress	4,227,753	3,831,346
Total utility plant	310,882,062	305,423,180
Accumulated provision for depreciation	(97,102,052)	(88,254,540)
Net capital assets	<u>213,780,010</u>	<u>217,168,640</u>
<b>OTHER ASSETS</b>		
Other investments and transmission deposits	1,183,901	705,786
Other assets and prepaid power contract	14,903,041	15,008,342
Derivative asset	2,830,889	3,081,340
Regulatory asset – issuance costs	647,900	-
Total other assets	<u>19,565,731</u>	<u>18,795,468</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension	1,211,524	299,198
Accumulated decrease in fair value of hedging derivatives	-	38,025
Deferred loss on refunding	2,898,151	-
Total deferred outflows of resources	<u>4,109,675</u>	<u>337,223</u>
Total assets and deferred outflow of resources	<u>\$ 289,841,482</u>	<u>\$ 271,913,915</u>



**PUBLIC UTILITY DISTRICT NO. 1 OF KLUCKITAT COUNTY –  
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COMBINED STATEMENTS OF NET POSITION**

**LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION**

	December 31,	
	2015	2014 <i>as restated</i>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,525,933	\$ 2,023,342
Current portion of long-term debt	3,938,397	3,790,114
Consumers deposits	280,469	264,003
Other current and accrued liabilities	3,556,102	3,478,508
Total current liabilities	10,300,901	9,555,967
<b>NONCURRENT LIABILITIES</b>		
Compensated absences	-	73,581
Long-term debt	144,733,288	129,510,551
Net pension liability	6,885,902	4,518,176
Derivative liability	-	38,025
Total noncurrent liabilities	151,619,190	134,140,333
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension	1,057,013	1,979,034
Regulatory liability – rate stabilization	3,300,000	2,800,000
Accumulated increase in fair value of hedging derivatives	2,830,889	3,081,340
Regulatory liability – CIAC	26,111,302	26,978,301
Total deferred inflows of resources	33,299,204	34,838,675
<b>NET POSITION</b>		
Net investment in capital assets	75,249,720	83,867,975
Restricted – bond funds	10,698,073	12,178,945
Unrestricted	8,674,394	(2,667,980)
Total net position	94,622,187	93,378,940
Total liabilities, deferred inflow of resources and net position	\$ 289,841,482	\$ 271,913,915

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY -  
MCAG No. 1785  
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	Years Ended December 31,	
	2015	2014 <i>as restated</i>
<b>OPERATING REVENUES</b>		
Electric system		
Sales to retail customers	\$ 28,038,320	\$ 26,446,425
Sales to wholesale and transmission customers	15,739,659	17,024,753
Water/wastewater systems	1,478,695	1,485,743
Total operating revenues	<u>45,256,674</u>	<u>44,956,921</u>
<b>OPERATING EXPENSES</b>		
Power expense	12,339,684	12,676,986
Operations expense	12,500,326	13,537,638
Maintenance expense	2,697,908	2,446,882
Administrative and general expense	3,891,289	4,019,854
Depreciation expense	9,504,604	9,058,896
Tax expense	1,941,678	1,808,394
Pension expense	533,379	405,640
Total operating expenses	<u>43,408,868</u>	<u>43,954,290</u>
<b>OPERATING INCOME</b>	<u>1,847,806</u>	<u>1,002,631</u>
<b>NON-OPERATING REVENUE/(EXPENSE)</b>		
Interest income	1,272,655	216,960
Other non-operating revenues	1,152,178	1,023,729
Interest expense	(5,860,152)	(6,885,621)
Other expenses	(115,831)	-
Total non-operating expense	<u>(3,551,150)</u>	<u>(5,644,932)</u>
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS AND GRANTS</b>	(1,703,344)	(4,642,301)
<b>CAPITAL CONTRIBUTIONS AND GRANTS</b>	<u>2,946,591</u>	<u>3,264,684</u>
<b>CHANGE IN NET POSITION</b>	<u>1,243,247</u>	<u>(1,377,617)</u>
<b>NET POSITION, beginning of year, as originally reported</b>	<u>93,378,940</u>	<u>100,548,929</u>
Restatement for change in accounting principle	-	(5,792,372)
<b>NET POSITION, beginning of year, as restated</b>	<u>93,378,940</u>	<u>94,756,557</u>
<b>NET POSITION, end of year</b>	<u>\$ 94,622,187</u>	<u>\$ 93,378,940</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
COMBINED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 45,031,745	\$ 45,467,889
Payments to suppliers for goods and services	(26,785,254)	(26,040,264)
Payments to employees for services	(6,565,762)	(6,520,804)
Taxes paid	(2,002,405)	(1,842,793)
Net change in cash flows from operating activities	<u>9,678,324</u>	<u>11,064,028</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from (payments on) BPA transmission deposits	(478,115)	581,395
Other non-operating income (expense)	<u>1,036,347</u>	<u>1,023,729</u>
Net change in cash flows from non-capital financing activities	<u>558,232</u>	<u>1,605,124</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(4,625,114)	(3,633,807)
Issuance of long-term debt and premium	20,222,762	399,795
Interest payments	(5,936,001)	(7,098,246)
Capital contributions and grants	2,079,592	3,489,329
Other assets – preliminary engineering	(1,075,055)	(283,173)
Capital expenditures	<u>(6,115,974)</u>	<u>(6,883,778)</u>
Net change in cash flows from capital and related financing activities	<u>4,550,210</u>	<u>(14,009,880)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>1,268,837</u>	<u>218,855</u>
Net change in cash flows from investing activities	<u>1,268,837</u>	<u>218,855</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	16,055,603	(1,121,873)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>24,432,035</u>	<u>25,553,908</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 40,487,638</u>	<u>\$ 24,432,035</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
COMBINED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
OPERATING INCOME	\$ 1,847,806	\$ 1,002,631
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation expense	9,504,604	9,058,896
Pension expense	533,379	405,640
Amortization of prepaid power contract	1,180,356	1,180,359
Deferred loss on refunding	(3,038,999)	-
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Receivables and unbilled revenue	(741,395)	709,691
Materials and supplies	1,645	(304,450)
Prepayments	25,689	(281,148)
Derivative asset	-	(1,809,773)
Regulatory asset – issuance costs	(647,900)	-
Deferred outflow of resources	-	-
Accounts payable	502,591	(1,051,665)
Customer deposits	16,466	(198,723)
Other current and accrued liabilities	67,663	576,312
Compensated absences	(73,581)	(33,515)
Regulatory liability – rate stabilization	500,000	-
Deferred derivative inflow	-	1,809,773
Total adjustments	7,830,518	10,061,397
Net cash from operating activities	\$ 9,678,324	\$ 11,064,028

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 1 – Organization and Significant Accounting Policies**

**Organization and combined financial statements** – Public Utility District No. 1 of Klickitat County, Washington (the District) is a municipal corporation governed by an elected three-person Board of Commissioners. The District’s reporting entity is comprised of the combined electric system, nine water systems and five wastewater systems. All significant intercompany balances and transactions have been eliminated from the combined amounts reported. The District has no component units. The District’s service area covers approximately 1,680 square miles in Klickitat County. The District also serves small areas in the surrounding counties of Yakima, Skamania, and Benton. As of December 31, 2015 the District had 12,545 electric, 1,184 water and 1,203 wastewater customers. The District’s wholesale activity is a significant part of the electric system business lines. Wholesale revenues are generated from the sale of the output from the Landfill Gas II project, and from the White Creek Wind I power purchase contract. The District owns 13% of the generated output from the White Creek Wind I 205 MW project.

**Basis of accounting and presentation** – The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments using the full accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW, the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for the Electric System and the Uniform System of Accounts for Class A & B Water Utilities prescribed by the National Association of Regulatory Utility Commissioners for the Water System.

**Cash and cash equivalents** – The District considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents. Assets in the Local Government Investment Pool (LGIP) are considered cash equivalents as they can be converted to cash within one day.

**Accounts receivable and allowance for uncollectible accounts** – Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances, of customers that may be unable to meet their financial obligations, and a reserve is recorded based on historical experience. The allowance for uncollectible accounts at December 31, 2015 and 2014 was \$78,741 and \$57,411, respectively.

**Other receivables** – Other receivables consists of amounts due from customers for small material purchases, certain aid in construction billings, repairs to damaged plant and equipment from accidents caused by others, funding requests to granting or loaning agencies, customers who take primary electric service from the District or have a power sales contract, and other miscellaneous items that may require invoicing that would not normally be entered into the customer service billing system. No allowance for doubtful accounts was deemed necessary as of December 31, 2015 and 2014.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 1 – Organization and Significant Accounting Policies (continued)**

**Materials and supplies** – Materials and supplies provide for additions, maintenance and repairs to utility plant and are stated at average cost.

**Restricted assets** – In accordance with bond resolutions and certain related agreements, separate restricted funds are required to be established. Cash held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements.

**Capital assets (utility plant)** – Utility plant is stated at original cost, contract price or fair value if donated (see Note 3). Costs include labor, materials and related indirect costs, such as engineering, transportation and allowance for funds (i.e. interest) used during construction. Additions, renewals and betterments with a minimum cost of \$500 per item are capitalized. Repairs and minor replacements are charged to operating expenses. In the case of disposals, unless there is a major retirement or a general plant asset is retired, the cost of property and any removal cost less salvage are charged to accumulated depreciation when property is retired. Depreciation is computed using straight-line group rates; 3% for distribution plant, 2.75% for transmission plant, and 1.67% to 2.5% for generating plant. Depreciation of water and wastewater plant has been computed over useful lives of 25 to 40 years. General plant composite rates range from 2.2% to 14.4%.

**Derivative instruments** – The District has adopted 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 to be recognized in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective.

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 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 are considered to be derivatives under GASB Statement No. 53, and do not generally meet the “normal purchases and normal sales” criteria. See Note 8 for further discussion of the District’s derivative instruments and risk management.

**Debt expense, unamortized premium and loss on refunding** – Bond issue costs are generally expensed as incurred. However, the District utilized regulatory accounting for the 2015 bond issuance costs and as such, will amortize them consistent with rate making decisions. Bond premiums are amortized to interest expense, using the weighted average method over the term of the bonds. Loss on refunding is amortized over the shorter of the new or previous bonds.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 1 – Organization and Significant Accounting Policies (continued)**

**Other investments** – Consists of investment in White Creek Public LLC, carried on the equity basis of accounting.

**Transmission deposits** – Consists of deposits for certain transmission services paid to Bonneville Power Administration (BPA).

**Unamortized prepaid power contract** – Consists of prepaid power amortized using the straight-line method over the term of the contract (see Note 4).

**Compensated absences** – Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records compensated absences as an expense and liability when earned. District employees are entitled to Personal Time Off (PTO) based upon length of continuous service which is payable upon resignation, retirement or death. There is a 700-hour cap on PTO accrual, determined according to the employees' anniversary dates. After the annual transfer of PTO hours into Volunteer Employee Beneficiary Association (VEBA) or deferred compensation, any hours over the 700-hour cap will be forfeited. At separation, if an employee is not eligible to retire, they may cash out their PTO bank at a schedule governed by years of service.

**Fair value of financial instruments** – The carrying amounts of current assets, including restricted cash, and current liabilities approximate fair value due to the short-term maturity of those instruments.

**Net position** – Net position consists of:

- **Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation, and unspent bond proceeds less outstanding balances of any bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – This component consists of net position on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.
- **Unrestricted** – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

**Regulatory liability – rate stabilization** – The District has established a rate stabilization account to reduce significant year-to-year variations in rates. Amounts deposited into the account are excluded from the statement of revenues, expenses and changes in net position in accordance with regulated operations. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions and debt service covenants.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 1 – Organization and Significant Accounting Policies (continued)**

**Regulatory liability – CIAC** – The District has deferred certain contributions in aid of construction (CIAC) to future periods matching the time when the revenues and expenses are included in rates. The deferred balance is amortized as capital contributions on the statement of revenues, expenses and changes in net position.

**Revenues and expenses** – Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District’s principal ongoing operations. Operating revenues are recognized when billed and expenses are recognized when incurred. In addition, the District recognizes unbilled revenue, revenues from services provided, but not yet billed. The principal operating revenues of the District are charges to customers for electric, water and wastewater service. Operating expenses for the District include the cost of sales and services, maintenance, administrative expenses, depreciation on capital assets and taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The credit practices of the District require an evaluation of each new customer’s credit worthiness on a case-by-case basis. Based on policy, a deposit may be obtained from the customer. Concentrations of credit risk with respect to receivables for residential customers are limited due to the number of customers comprising the District’s customer base. Credit losses have been within management’s expectations. Similar to its evaluation of residential, commercial and industrial customers’ credit reviews, the District continually evaluates its wholesale power customers by reviewing credit ratings and financial credit worthiness of existing and new customers.

**Capital contributions** – Capital contributions are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer.

**Use of estimates** – The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the District’s financial statements include the allowance for doubtful accounts, bad debt expense, useful lives of plant and related depreciation expense.

**Significant risks and uncertainties** – The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster related disruptions; collective bargaining labor disputes; fish and other Endangered Species Act issues; Environmental Protection Agency regulations; federal government regulations or orders; deregulation of the electric industry; and market risks inherent in the buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.



**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 1 – Organization and Significant Accounting Policies (continued)**

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

**Change in accounting principle** – In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, effective for financial statement periods beginning after June 15, 2014. This statement provides guidance for accounting for net pension liabilities (assets), including definition of balances to be included in deferred inflows and deferred outflows of resources. The Utility adopted this guidance as of and for the year ended December 31, 2015. See Note 15.

**Note 2 – Deposits and Investments**

Cash and cash equivalents consist of the following at December 31:

	Restricted Cash Equivalents	Unrestricted Cash and Cash Equivalents	Total 2015	Total 2014
Special funds, bonds	\$ 11,276,222	\$ -	\$ 11,276,222	\$ 12,767,025
Special funds, construction	10,141,395	-	10,141,395	-
Special funds, power cost stabilization	3,300,000	-	3,300,000	2,800,000
Cash – general funds	-	15,770,021	15,770,021	8,865,010
Totals	<u>\$ 24,717,617</u>	<u>\$ 15,770,021</u>	<u>\$ 40,487,638</u>	<u>\$ 24,432,035</u>

**Interest rate risk** – The District’s investment policy limits investment maturities to less than five years from the date of purchase unless authorized by the General Manager or his designee for a specific purpose. During 2015 and 2014 investments were in the State Treasurer’s LGIP, which has a weighted average portfolio maturity of less than 90 days, as well as a Money Market Plus Public Funds account at an FDIC-insured financial institution.

**Credit risk** – In accordance with the Revised Code of Washington, District bond resolutions and District internal investment policies, all investments are direct obligations of the U.S. Government, deposits in the LGIP, or deposits with financial institutions recognized as qualified public depositories of the State of Washington.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 2 – Deposits and Investments (continued)**

The District's cash deposits are covered by federal depository insurance or protected against loss by deposit with financial institutions recognized as qualified public depositories of the State of Washington. The District intends to hold deposits and securities until maturity.

**Concentration of credit risk** – District policies allow the entire portfolio to be invested in direct United States Government guaranteed obligations or in the LGIP. No other investment may exceed half of portfolio market value. The LGIP, a 2a7-like pool as defined by GASB Statement No. 31 and the Securities and Exchange Commission, invests in high quality, short-term investments; all LGIP money market securities must be rated A-1 by Standard & Poor's Corporation or P1 by Moody's Investor Services, Inc.

The LGIP weighted average maturity must not exceed 90 days and no single investment may exceed 762 days in maturity. Withdrawals in excess of \$10 million are available on a one day notice. The LGIP Annual Report is available on the Washington State Treasurer's website.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
NOTES TO COMBINED FINANCIAL STATEMENTS**

**Note 3 – Capital Assets (Utility Plant)**

The following are changes in capital assets for the year ended December 31, 2015:

Description	Balance 01/01/2015	Additions	Retirements and Transfers	Balance 12/31/2015
Capital assets not being depreciated				
Organization	\$ 14,767	\$ -	\$ -	\$ 14,767
Franchises and consents	211,427	-	-	211,427
Land and land rights	1,701,940	-	3,800	1,698,140
Construction work in progress	3,831,346	5,900,800	5,504,393	4,227,753
	<u>5,759,480</u>	<u>5,900,800</u>	<u>5,508,193</u>	<u>6,152,087</u>
Capital assets being depreciated				
Electric plant				
Distribution plant	113,327,042	4,034,037	468,287	116,892,792
Transmission plant	54,643,184	241,759	43,770	54,841,173
Generating plant	100,485,079	2,575,406	-	103,060,485
Water and wastewater plant	20,505,158	142,792	-	20,647,950
General plant	10,703,237	532,878	1,948,540	9,287,575
	<u>299,663,700</u>	<u>7,526,872</u>	<u>2,460,597</u>	<u>304,729,975</u>
Total capital assets	305,423,180	13,427,672	7,968,790	310,882,062
Accumulated depreciation	<u>(88,254,540)</u>	<u>(9,648,881)</u>	<u>801,369</u>	<u>(97,102,052)</u>
Net capital assets	<u>\$ 217,168,640</u>	<u>\$ 3,778,791</u>	<u>\$ 8,770,159</u>	<u>\$ 213,780,010</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY -  
MCAG No. 1785  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 3 - Capital Assets (Utility Plant) (continued)**

The following are changes in capital assets for the year ended December 31, 2014:

Description	Balance 01/01/2014	Additions	Retirements and Transfers	Balance 12/31/2014
Capital assets not being depreciated				
Organization	\$ 14,767	\$ -	\$ -	\$ 14,767
Franchises and consents	211,427	-	-	211,427
Land and land rights	1,686,583	15,357	-	1,701,940
Construction work in progress	3,254,603	6,756,703	6,179,960	3,831,346
	<u>5,167,380</u>	<u>6,772,060</u>	<u>6,179,960</u>	<u>5,759,480</u>
Capital assets being depreciated				
Electric plant				
Distribution plant	110,459,539	3,324,029	456,526	113,327,042
Transmission plant	54,175,005	1,476,959	1,008,780	54,643,184
Generating plant	100,491,414	431,125	437,460	100,485,079
Water and wastewater plant	19,748,516	757,001	359	20,505,158
General plant	10,407,804	366,181	70,748	10,703,237
	<u>295,282,278</u>	<u>6,355,295</u>	<u>1,973,873</u>	<u>299,663,700</u>
Total capital assets	300,449,658	13,127,355	8,153,833	305,423,180
Accumulated depreciation	<u>(79,799,180)</u>	<u>(8,999,064)</u>	<u>(543,704)</u>	<u>(88,254,540)</u>
Net capital assets	<u>\$ 220,650,478</u>	<u>\$ 4,128,291</u>	<u>\$ 7,610,129</u>	<u>\$ 217,168,640</u>

**Note 4 - Other Assets and Prepaid Power Contract**

Other assets and prepaid power contract as of December 31 consist of the following:

	2015	2014
Prepaid power contract, net of current portion	\$ 12,983,976	\$ 14,164,332
Preliminary investigation charges	1,919,065	844,010
	<u>\$ 14,903,041</u>	<u>\$ 15,008,342</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 4 – Other Assets and Prepaid Power Contract (continued)**

**Prepaid power contract** – The District entered into a 20-year Energy Purchase Agreement for the White Creek Wind I Facility, which became effective January 1, 2008. Under this Agreement, the District had rights to 26% of the output from the 205 MW facility and was obligated to pay the same percentage of the reimbursable operating expenses. In June 2008, the District completed a transaction with Lewis PUD to sell 10% of the 26% share of the White Creek Wind I project power output. In December 2008, the District also sold 3% of the remaining 16% share of the White Creek Wind I project power output to Benton PUD. The gain on the sale of White Creek power rights was \$23,678,404. The remaining portion of the project is amortized on a straight-line basis over the remaining term of the contract.

**Note 5 – Long-Term Debt**

The following are changes in long-term debt for the year ended December 31, 2015:

	Balance 01/01/2015	Additions	Payments/ Amortization	Balance 12/31/2015	Due Within One Year
Electric revenue bonds and loan	\$ 129,319,194	\$ 18,694,337	\$ 4,406,624	\$ 143,606,907	\$ 3,716,907
Unamortized bond premium	1,809,144	1,321,980	226,628	2,904,496	-
W/WW revenue bonds	149,500	-	26,000	123,500	29,000
W/WW loans	2,022,827	206,445	192,490	2,036,782	192,490
<b>Total long-term debt</b>	<b>\$ 133,300,665</b>	<b>\$ 20,222,762</b>	<b>\$ 4,851,742</b>	<b>\$ 148,671,685</b>	<b>\$ 3,938,397</b>

The following are changes in long-term debt for the year ended December 31, 2014:

	Balance 01/01/2014	Additions	Payments/ Amortization	Balance 12/31/2014	Due Within One Year
Electric revenue bonds	\$ 132,670,000	\$ 85,000	\$ 3,435,806	\$ 129,319,194	\$ 3,571,624
Unamortized bond premium	2,007,358	-	198,214	1,809,144	-
W/WW revenue bonds	172,500	-	23,000	149,500	26,000
W/WW loans	1,883,032	314,795	175,000	2,022,827	192,490
<b>Total long-term debt</b>	<b>\$ 136,732,890</b>	<b>\$ 399,795</b>	<b>\$ 3,832,020</b>	<b>\$ 133,300,665</b>	<b>\$ 3,790,114</b>

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 5 – Long-Term Debt (continued)**

Substantially all electric revenues are pledged as security for the electric revenue bonds and substantially all water/wastewater (W/WW) revenues are pledged as security for the water/wastewater revenue bonds. Water/wastewater loans are secured by water/wastewater assets. Electric revenue bonds carry fixed interest rates ranging from 0.993% to 5.0% for the year ended December 31, 2015 and from 1.470% to 7.038% for the year ended December 31, 2014. The electric system also has one loan that carries a fixed interest rate of 3.68%. The water/wastewater revenue bonds have a 5.0% fixed rate. The loans from the Public Work Trust Fund (PWTF) carry fixed rates from 0.0% to 3.0%, the State Revolving Fund (SRF) loans have fixed rates of 0.0% to 1.0% and the USDA of 2.125%. Electric revenue bonds mature through December 1, 2036, water/wastewater bonds mature through September 1, 2021 and the PWTF and SRF loans mature through 2055. There is \$11,276,222 as of December 31, 2015, in restricted assets of the District representing revenue bond reserve requirements, construction funds and debt service accounts for the various indentures. There are a number of other limitations and restrictions contained in the various bond indentures.

Future maturities are as follows as of December 31, 2015:

Electric Revenue Bonds and Loan			
Year(s)	Principal	Interest	Totals
2016	\$ 3,716,907	\$ 6,908,082	\$ 10,624,989
2017	13,082,843	6,287,792	19,370,635
2018	4,428,178	6,167,004	10,595,182
2019	4,573,528	6,026,039	10,599,567
2020	4,733,892	5,865,495	10,599,387
2021–25	26,696,559	26,206,806	52,903,365
2026–30	33,585,000	18,932,864	52,517,864
2031–35	42,930,000	8,250,938	51,180,938
2036	9,860,000	394,400	10,254,400
	<u>\$ 143,606,907</u>	<u>\$ 85,039,420</u>	<u>\$ 228,646,327</u>

Water/Wastewater Revenue Bonds			
Year(s)	Principal	Interest	Totals
2016	\$ 29,000	\$ 5,838	\$ 34,838
2017	29,000	4,388	33,388
2018	28,000	2,938	30,938
2019	29,000	1,513	30,513
2020	6,500	313	6,813
2021	2,000	50	2,050
	<u>\$ 123,500</u>	<u>\$ 15,040</u>	<u>\$ 138,540</u>

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**Note 5 – Long-Term Debt (continued)**

Year(s)	Water/Wastewater PWTf, SRF and USDA Loans		Totals
	Principal	Interest	
2016	\$ 192,490	\$ 12,857	\$ 205,347
2017	147,576	11,798	159,374
2018	151,050	10,589	161,639
2019	151,124	9,888	161,012
2020	151,200	9,491	160,691
2021–25	713,271	41,351	754,622
2026–30	329,825	31,000	360,825
2031–35	68,971	19,675	88,646
2036-40	26,450	153,154	179,604
2041-45	29,379	9,241	38,620
2046-50	32,644	5,976	38,620
2051-55	42,802	2,357	45,159
	<u>\$ 2,036,782</u>	<u>\$ 317,377</u>	<u>\$ 2,354,159</u>

**Note 6 – Retirement Benefits**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 45,874,258,000
Pension assets	\$ 37,070,271,000
Deferred outflows of resources	\$ 385,574,000
Deferred inflows of resources	\$ 1,240,026,000
Pension expense/expenditures	\$ 735,179,000

**State Sponsored Pension Plans**

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

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**Note 6 – Retirement Benefits (continued)**

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

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

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employees' Retirement System (PERS)**

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

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



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**Note 6 – Retirement Benefits (continued)**

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 2015 were as follows:

<b>PERS Plan 1</b>	Employer	Employee*
Actual Contribution Rates		
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%
January through December 2014	9.21%	6.00%

\* For employees participating in JBM, the contribution rate was 12.26%.

The District’s actual contributions to the plan were \$296,743 and \$270,972 for the years ended December 31, 2015 and 2014, respectively.

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member’s 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years (PERS 2) or 10 years (PERS 3) of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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**Note 6 – Retirement Benefits (continued)**

Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 2/3</b>		
<u>Actual Contribution Rates</u>	<u>Employer 2/3</u>	<u>Employee* 2</u>
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
January through December 2014	9.21%	4.92%
Employee PERS Plan 3	Varies	Varies

\* For employees participating in JBM, the contribution rate was 15.30%.

The District’s actual contributions to the plan were \$379,656 and \$327,691 for the years ended December 31, 2015 and 2014, respectively.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015, with a valuation date of June 30, 2014. 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*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015.

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**Note 6 – Retirement Benefits (continued)**

Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation.
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%.

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

**Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

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**Note 6 – Retirement Benefits (continued)**

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB’s capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

**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, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long Term Expected Real Rate of Return Arithmetic	
		2015	2014
Fixed Income	20%	1.70%	0.80%
Tangible Assets	5%	4.40%	4.10%
Real Estate	15%	5.80%	5.30%
Global Equity	37%	6.60%	6.05%
Private Equity	23%	9.60%	9.05%
	<u>100%</u>		

**Sensitivity of NPL**

The table below presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

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**Note 6 – Retirement Benefits (continued)**

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
PERS 1	\$ 4,425,144	\$ 3,680,692	\$ 2,954,818
PERS 2/3	\$ 9,372,203	\$ 3,205,210	\$ (1,516,624)

**Pension Plan Fiduciary Net Position**

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

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

At December 31, 2015 and 2014, the District reported a total pension liability of \$6,885,902 and \$4,518,176 for its proportionate share of the net pension liability.

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

	<u>Proportionate Share 6/30/15</u>	<u>Proportionate Share 6/30/14</u>	<u>Change in Proportion</u>
PERS 1	0.070364%	0.059667%	0.010697%
PERS 2/3	0.089705%	0.074822%	0.014883%

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

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2015 and 2014, the District recognized pension expense of \$533,379 and \$405,640, respectively.

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**Note 6 – Retirement Benefits (continued)**

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>PERS 1</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	201,374
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	<u>167,961</u>	-
Total	<u>\$ 167,961</u>	<u>\$ 201,374</u>
<u>PERS 2/3</u>		
Differences between expected and actual experience	\$ 340,715	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	855,639
Changes of assumptions	5,164	-
Changes in proportion and differences between contributions and proportionate share of contributions	478,884	-
Contributions subsequent to the measurement date	<u>218,800</u>	-
Total	<u>\$ 1,043,563</u>	<u>\$ 855,639</u>

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**Note 6 – Retirement Benefits (continued)**

<u>Combined PERS 1 &amp; PERS 2/3</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 340,715	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	1,057,013
Changes of assumptions	5,164	-
Changes in proportion and differences between contributions and proportionate share of contributions	478,884	-
Contributions subsequent to the measurement date	<u>386,761</u>	<u>-</u>
Total	<u>\$ 1,211,524</u>	<u>\$ 1,057,013</u>

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>PERS 1</u>
2016	\$ 78,046
2017	78,046
2018	78,046
2019	(32,764)
<u>Year Ended December 31,</u>	<u>PERS 2/3</u>
2016	\$ 91,462
2017	91,462
2018	91,462
2019	(243,510)

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**Note 7 – Segment Information – Enterprise Funds**

The District operates an electric, nine water, and five wastewater utilities which are primarily financed by user charges. The key financial data for the years ended December 31, 2015 and 2014 is as follows:

Condensed statement of net position:

	Electric System	Water- Wastewater Systems	Total 2015	Total 2014
<b>Assets</b>				
Current, restricted, other assets and deferred outflows	\$ 72,217,024	\$ 3,844,448	\$ 76,061,472	\$ 54,745,275
Capital assets	<u>197,051,868</u>	<u>16,728,142</u>	<u>213,780,010</u>	<u>217,168,640</u>
Total assets and deferred outflows	<u>\$ 269,268,892</u>	<u>\$ 20,572,590</u>	<u>\$ 289,841,482</u>	<u>\$ 271,913,915</u>
<b>Liabilities</b>				
Current liabilities	\$ 8,907,925	\$ 1,392,976	\$ 10,300,901	\$ 9,555,967
Noncurrent liabilities and deferred inflows	<u>183,044,651</u>	<u>1,873,743</u>	<u>184,918,394</u>	<u>168,979,008</u>
Total liabilities and deferred inflows	<u>191,952,576</u>	<u>3,266,719</u>	<u>195,219,295</u>	<u>178,534,975</u>
<b>Net position</b>				
Net investment in capital assets	60,616,811	14,632,909	75,249,720	83,867,975
Restricted	10,698,073	-	10,698,073	12,178,945
Unrestricted	<u>6,001,432</u>	<u>2,672,962</u>	<u>8,674,394</u>	<u>(2,667,980)</u>
Total net position	<u>77,316,316</u>	<u>17,305,871</u>	<u>94,622,187</u>	<u>93,378,940</u>
Total liabilities, deferred inflows and net position	<u>\$ 269,268,892</u>	<u>\$ 20,572,590</u>	<u>\$ 289,841,482</u>	<u>\$ 271,913,915</u>



**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
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**Note 7 – Segment Information – Enterprise Funds (continued)**

Condensed statements of revenues, expenses, and changes in net position:

	Electric System	Water- Wastewater Systems	Total 2015	Total 2014
Operating revenues	\$ 43,777,979	\$ 1,478,695	\$ 45,256,674	\$ 44,956,921
Operating expenses	33,144,878	759,386	33,904,264	34,895,394
Depreciation	8,894,349	610,255	9,504,604	9,058,896
Operating income	1,738,752	109,054	1,847,806	1,002,631
Non-operating revenues (expenses)				
Interest income	1,247,683	24,972	1,272,655	216,960
Interest expense	(5,826,317)	(33,835)	(5,860,152)	(6,885,621)
Other non-operating revenue (expense), net	1,038,843	(2,496)	1,036,347	1,023,729
Capital contributions and grants	1,988,648	957,943	2,946,591	3,264,684
Change in net position	187,609	1,055,638	1,243,247	(1,377,617)
Net position, beginning of year	76,833,030	16,545,910	93,378,940	94,756,557
Net position, end of year	\$ 77,020,639	\$ 17,601,548	\$ 94,622,187	\$ 93,378,940

**Note 8 – Power Risk Management**

As of December 31, 2015, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2015		Notional
	Classification	Amount	Classification	Amount	
Cash Flow Hedges:					
Financial Swap Forward	Deferred Inflow	\$ 2,830,889	Derivative Asset	\$ 2,830,889	99,311 MWH

The fair values of the financial swap contracts were based on the futures price curve for the Mid-Columbia Intercontinental Exchange for electricity.

**Objective and strategies** – The District enters into derivative energy transactions to hedge its known or expected positions within its approved Risk Management Policy. Decisions are made to enter into forward transactions to protect its financial position specifically to deal with long and short positions as determined by projected load and resource balance positions.

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**Note 8 – Power Risk Management (continued)**

Generally, several strategies are employed to hedge the District’s resource portfolio, including:

- *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 index to perfect financial forward sales which settle based on the same index.

**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. 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 7 counterparties with approved credit limits for electric power sales and purchases as of December 31, 2015. Counterparty credit limits are based on The Energy Authority’s (TEA) 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 AA.

**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, 2015. 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. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

**Termination risk** – Hedging derivative contracts may be terminated by mutual agreement of the Board and the counterparty, or upon the occurrence of a termination event. Termination events include non-payment, non-delivery, deterioration of creditworthiness, or other material adverse changes. During the years ended December 31, 2015 and 2014, there were no terminations.

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**Note 9 – Risk Management and Self Insurance**

**Unemployment insurance** – The District maintains insurance against most normal hazards, except for unemployment insurance, where the District has elected to become self-insured with the Employment Security Department applying an experience rating that dictates payment amounts. The District reimburses the State Employment Security Department for actual costs upon receipt of any claim. The District does not estimate any future liability as the amount is not significant.

**Public utility risk management services** – The District, along with seventeen other public utility districts and one joint operating agency, is a member of the Public Utility Risk Management Services (PURMS) self-insurance fund. The program provides members with various liability, property, and health insurance coverages in three separate pools.

The District has not accrued a liability for any outstanding claims of the self-insured pools, including incurred-but-not-reported health and welfare claims, as the amount cannot be reasonably estimated. Management believes these claims, for those that are successful, will not have a significant impact on the financial position of the District.

The District has also not accrued a liability for any outstanding claims regarding recent wildfire activity, most notably the Mile Marker 28 fire. In July 2013, a wildfire broke out in the vicinity of an electrical power line located on active timber lands. The Washington Department of Natural Resources is currently conducting an investigation as to the cause of and any damages that may have resulted from the fire. Complaints have been filed by: Private property owners, Bureau of Indian Affairs on behalf of Yakama Nation and the Washington Department of Transportation.

PURMS, the insurance carrier for the District, is providing legal representation. As of December 31, 2015, damages cannot be reasonably estimated, and no fault has been established. Management believes that with the shared insurance pools described below, these events will not have a significant impact on the District's financial position. The District's deductible is \$1,000,000, which is shared by the pool.

The District is a participant in the liability pool, which provides the District with shared excess coverage of \$35,000,000 general liability, and \$35,000,000 per occurrence Directors and Officers liability.

The District is also a participant in the property pool, which maintains varying deductibles of \$250 on most property and \$75,000 on the H. W. Hill Landfill Gas project.

The property pool provides the District with \$200,000,000 shared excess coverage, attaching at the self-insured retention level for all property risks except flood and earthquake, which attach at 2% of total insured value. Any gap between the self-insured level and excess insurance is funded half by the property pool and half by the affected member.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
MCAG No. 1785  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 9 – Risk Management and Self Insurance (continued)**

The District also participates in the health and welfare pool. Participating members are billed each month for shared costs (administration costs to operate the pool, mail order prescription plan costs, and stop loss carrier costs), claims by the members covered employees and dependents, and any shared claims for members who exceeded stop loss limits.

**Note 10 – Joint Ventures**

**Conservation and Renewable Energy System (CARES)** – The District, along with seven other public utility districts, is a member of CARES, a municipal corporation and joint operating agency of the State of Washington. CARES was formed pursuant to RCW Chapter 43.52. The purpose of CARES is to develop and acquire conservation, renewable and high efficiency resources consistent with the Northwest Conservation and Electric Power Plan. CARES issued Conservation Project Revenue Bonds which are tax-exempt and unconditionally guaranteed by the BPA. The District has not contributed any money to CARES for several years. The District has no equity interest or liability for CARES operations.

**McNary North Fishway Hydroelectric Project** – On August 14, 1995, the District and Northern Wasco County PUD entered into an Ownership Agreement to jointly construct and operate the McNary North Fishway Hydroelectric Project. The project was completed in September 1997 and is generating approximately ten megawatts (10 MW) of electricity. Both the District and Northern Wasco County PUD share equally in the output, as well as the construction and operation costs of the Project. The District contributed \$1,375,000 and \$575,000 in 2015 and 2014, respectively.

**Last Mile Electrical Cooperative (LMEC)** – The District, along with seven other public utility districts and two other organizations, is a member of LMEC, a non-profit cooperative. LMEC was formed pursuant to RCW Chapter 24.06. The purpose of LMEC is to develop wind and other renewable energy projects. At this time, LMEC has not issued any debt and is solely funded by its members. The District has no equity interest or liability for the LMEC operations at this time.

**White Creek Public, LLC & White Creek Project, LLC** – The District, along with Cowlitz PUD, formed White Creek Public, LLC to participate in White Creek Project, LLC which also includes as members Tanner Electric Co-op and Lakeview Light & Power. Early development of the project was done by the utilities involved, but prior to the end of 2007 the project was sold to Prudential and Lehman Brothers. Energy purchase agreements were signed by the utilities for 20 years of power that began commercial operation on November 21, 2007 (see Note 4). The percentage owned by each utility was determined based upon their contribution made during the original development stage. Phases 1 and 2 of White Creek Wind I have a total of 89 2.3 MW wind turbines for an anticipated output of 205 MW.

Both phases were in production as of November 21, 2007. In 2015 and 2014, the District's investment in the project of (\$22,078) and (\$18,885), respectively, consisted of a share of the remaining assets. These amounts have been shown on the balance sheet as other investments and transmission deposits.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
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NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 11 – Contingencies**

**Lawsuits** – The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of District management that resolution of these matters will not have a material adverse effect on the financial condition of the District. See also Note 9.

**Construction financing** – On April 17, 2001 the District entered into a thirty (30)-year agreement with Goldendale Energy, Inc. in order to provide for the transmission of the electric energy to be produced at Goldendale Energy Inc. generating facility from the E.E. Clouse Substation to Bonneville’s Harvalum Substation. The generating facility was sold through bankruptcy auction in February 2007 to Puget Sound Energy. The District established a new letter of credit for the transmission line service, which the District built and operates for the generation facility. The letter of credit covers the net present value of the remaining contract amount including the debt outstanding.

**Grants** – Grants received by the District are subject to audit by the granting agency and may result in certain costs being disallowed and required to be returned. Management believes it has complied with grant guidelines and the likelihood of disallowed costs is remote.

**Note 12 – Power Contracts**

Effective October 1, 2011, the District entered into a Slice/Block Agreement with the BPA. The provisions of this agreement establishes the terms under which the District is committed to purchase its power for a period of seventeen years. The Slice/Block Agreement specifies that BPA rates are variable and includes provisions for various adjustments depending on actual load and BPA costs. In addition, the Slice portion of the agreement includes a true-up provision that allows BPA to recover Slice costs not previously recovered during the fiscal year. BPA assesses this true up on an annual basis. The true up is paid, or refunded as a credit, during the next fiscal year.

The Slice portion of the agreement commits the District to purchase a certain fixed percentage of BPA generation which varies depending on the available water and may result in power that is surplus to the District’s needs and which the District intends to sell on the open market. The Block portion of the agreement specifies a specific amount of MWs BPA will supply to the District. This amount is adjusted per the contract on a yearly basis.

**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
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**Note 13 – Generation Assets**

H. W. Hill Landfill Gas project is rated a 26.0 MW plant that takes methane gas from the regional landfill and produces electricity from five 2.1 MW reciprocating combustion engines. 2.0 MW's of the output from this project was sold to a public utility until October 31, 2015, and the balance sold on the spot market.

McNary Dam Hydroelectric project is a 10 MW plant that the District shares joint ownership with Northern Wasco People's Utility District in The Dalles, Oregon. The facility is located on the north shore fish bypass area of McNary Dam and received a 50-year license on September 30, 1991. The District receives 4.5 MW's, which are declared to load.

**Note 14 – Union Contracts**

The District has a contract with the International Brotherhood of Electrical Workers as well as the Water/Wastewater Workers which covers these workers employed by the District. The District signed a new contract with the unions in April 2015, which expires in March 2020. The parties have agreed to open the contract no later than July 2017 with regard to wages and healthcare, the Patient Protection and Affordable Care Act (PPACA) Excise Tax on Cadillac Plans implementation in 2018.

**Note 15 – Change in Accounting Principle**

With the implementation of GASB Statements NO. 68 and 71, the District restated its 2014 financial statements. In accordance with these statements, the District now recognizes liabilities, deferred outflows and inflows of resources relating to pension obligations. As a result, the District decreased its beginning net position as of January 1, 2014 by \$5,792,372. The impact on the statement of net position as of December 31, 2014 is an increase in pension deferred outflow of resources of \$299,198, an increase of deferred inflow of resources of \$1,979,034, an increase in pension liability of \$4,518,176 and a decrease in unrestricted net position of \$6,198,012. The impact on the statement of revenues, expenses and changes in net position was an increase in pension expense of \$405,640.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY –  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AS OF JUNE 30, 2015  
LAST TEN YEARS\***

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**PERS 1**

	<u>2015</u>	<u>2014</u>
Proportion of the net pension asset	0.070364%	0.059667%
Proportionate share of the net pension liability	\$ 3,680,692	\$ 3,005,753
Covered - employee payroll	\$ 9,584	\$ 69,230
Proportionate share of the net pension liability as percentage of covered-employee payroll	38405%	4342%
Plan's fiduciary net position	\$ 7,558,312	\$ 7,941,557
Plan fiduciary net position as a percentage of the total pension liability	59%	61%

**PERS 2/3**

	<u>2015</u>	<u>2014</u>
Proportion of the net pension asset	0.089705%	0.074822%
Proportionate share of the net pension liability	\$ 3,205,210	\$ 1,512,423
Covered - employee payroll	\$ 6,497,821	\$ 6,516,242
Proportionate share of the net pension liability as percentage of covered-employee payroll	49%	23%
Plan's fiduciary net position	\$ 29,511,959	\$ 28,098,809
Plan fiduciary net position as a percentage of the total pension liability	89%	93%

\* - Additional years will be added as information is obtained.



**PUBLIC UTILITY DISTRICT NO. 1 OF KLICKITAT COUNTY -  
SCHEDULE OF CONTRIBUTIONS  
AS OF JUNE 30, 2015  
LAST TEN YEARS\***

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**PERS 1**

	<u>2015</u>	<u>2014</u>
Contractually required contribution (actuarially determined)	\$ 3,924	\$ 6,386
Contributions in relation to the actuarially determined contribution	<u>(3,924)</u>	<u>(6,386)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 9,584	\$ 69,230
Contributions as a percentage of covered-employee payroll	41%	9%

**PERS 2/3**

	<u>2015</u>	<u>2014</u>
Contractually required contribution (actuarially determined)	\$ 323,562	\$ 601,937
Contributions in relation to the actuarially determined contribution	<u>(323,562)</u>	<u>(601,937)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 6,497,821	\$ 6,516,242
Contributions as a percentage of covered-employee payroll	5%	9%

\* - Additional years will be added as information is obtained.