



**Office of the Washington State Auditor
Pat McCarthy**

September 10, 2020

Board of Commissioners
Public Utility District No. 1 of Jefferson County
Port Townsend, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of Public Utility District No. 1 of Jefferson County for the fiscal year ended December 31, 2019. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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Certified Public Accountants
& Consultants



**Public Utility District No. 1
of Jefferson County, Washington
December 31, 2019**
Financial Statements

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

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Independent Auditor's Report

Board of Commissioners
Public Utility District No. 1 of Jefferson County, Washington
Port Townsend, Washington

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 11 and the schedule of proportionate share of the net pension liability and the schedule of employer contributions on pages 44 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 18, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Jackson Thornton & Co. PC

Franklin, Tennessee
March 18, 2020

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

Board of Commissioners
Public Utility District No. 1 of Jefferson County, Washington
Port Townsend, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Jefferson County, Washington (the District), which comprise the statement of net position as of December 31, 2019, and the statement of revenues, expenses, and changes in net position, and the statement of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated March 18, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jackson Thornton & Co. PC

Franklin, Tennessee
March 18, 2020

**Public Utility District No. 1 of Jefferson County, Washington
Management's Discussion and Analysis
December 31, 2019**

Information about the District

Public Utility District No. 1 of Jefferson County, Washington (the District or the PUD) is a municipal corporation of the State of Washington as authorized under RCW 54. The District provides electricity, water, and sewer utility services for the residents of Jefferson County, Washington. Additionally, the PUD conserves the water and power resources of the State in support of its authorized purpose. The District was formed in 1940 but did not provide any utility service until 1981, with the formation of Local Utility District No. 1. Initially providing water service, the District later received citizens' approval for sewer operations, and most recently, in 2008, the Jefferson County citizens voted to authorize the District to become its electrical provider. In 2013, the District purchased the electrical assets/infrastructure of Puget Sound Energy, Inc. in Eastern Jefferson County. The PUD now serves over 4,800 water connections, 370 sewer connections, and 19,950 electrical connections throughout Eastern Jefferson County.

The District operates under the authority of RCW 54. It is governed by a three-member elected Board of Commissioners that appoints a General Manager to oversee the District's daily operations. The PUD Board of Commissioners holds its regular scheduled meetings on the first and third Tuesday of each month starting at 5:00 pm. The meeting's location, as well as recordings of past meetings, can be found at the PUD's website: www.jeffpud.org.

Contact information related to this report:

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Port Townsend, Washington 98368

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(360) 385-8360

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Public Utility District No. 1 of Jefferson County, Washington
Management's Discussion and Analysis
December 31, 2019

Management's Discussion and Analysis

The following Management's Discussion and Analysis is intended to provide a summary of District highlights to serve as an introduction to the District's basic financial statements, the notes to the financial statements and other supplementary information required as part of the basic financial statements.

Statements included in this Annual Financial Report for 2019 are:

The statement of net position presents information on the District's assets, liabilities, and deferred outflows and inflows of resources. This statement provides information about the amount of investments in resources (assets), the obligations to creditors (liabilities), and items for which the recognition of these assets and liabilities are deferred to a later time period (deferred inflows and outflows of resources). The net position increases when revenues exceed expenses.

The statement of revenues, expenses, and changes in net position reports the revenues and expenses during the years indicated. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges.

The statement of cash flows provides information about the District's cash receipts and payment of operating expenses, as well as, funds provided and used in investing and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the operating results provided in the basic financial statements.

Public Utility District No. 1 of Jefferson County, Washington
Management's Discussion and Analysis
December 31, 2019

District Highlights

On April 1, 2013, the PUD purchased all the electrical assets of Puget Sound Energy, Inc., (PSE) in Eastern Jefferson County. 2019 was the sixth full year of the operational and financial ownership of the nearly \$76,000,000 of assets, over 19,950 electrical customers, and the maintenance and operations of an aged electrical system. The PUD's annual budget and revenues increased from roughly \$2,000,000 in 2012 to over \$41,000,000 in 2019. The PUD's accounting system transitioned from a cash basis to a government accrual system conforming with Federal Energy Regulatory Commission (FERC) and Rural Utilities Service (RUS) accounting requirements. As a result of the increased requirements, the PUD has had to review and adapt its organization, management, and support systems.

Overview of the Financial Statements

The District is a municipal corporation with financial activities in the areas of electric, water, and sewer. In addition to its enterprise role, the PUD uses its taxing authority to support providing services to the District's customers.

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

The District's basic financial situation, shown on a comparative format, is presented in the Condensed Statement of Net Position.

**Public Utility District No. 1 of Jefferson County, Washington
Management's Discussion and Analysis
December 31, 2019**

Financial Analysis

The following information provides analysis of the 2019 and 2018 comparative financial information provided in the following tables.

Condensed Statement of Net Position

	<u>2019</u>	<u>2018</u>	<u>'19 - '18 Change</u>
Current assets	\$ 20,795,913	\$ 22,371,464	-7%
Noncurrent assets	5,602,020	5,652,953	-1%
Capital assets	<u>92,113,476</u>	<u>87,236,607</u>	6%
Total assets	<u>118,511,409</u>	<u>115,261,024</u>	3%
Deferred outflows of resources	<u>47,080,861</u>	<u>49,352,895</u>	-5%
Current liabilities	10,447,590	11,006,383	-5%
Noncurrent liabilities	<u>104,712,977</u>	<u>109,016,973</u>	-4%
Total liabilities	<u>115,160,567</u>	<u>120,023,356</u>	-4%
Deferred inflows of resources	<u>981,935</u>	<u>421,121</u>	133%
Net investment in capital assets	31,786,360	24,956,449	27%
Restricted	4,639,019	4,450,731	4%
Unrestricted	<u>13,024,389</u>	<u>14,762,262</u>	-12%
Total net position	<u>\$ 49,449,768</u>	<u>\$ 44,169,442</u>	12%

Current Assets

Cash and cash equivalents - Cash accounts decreased approximately \$1,500,000 from 2018 to 2019, see the cash flow statement for the details of this change.

Receivables - Receivables decreased by \$298,000 in 2019 as compared to 2018. This decrease is due to lower sales near the end of 2019. In 2018, the District recorded \$2,052,000 in accrued utility revenues for unrecorded electric and water sales occurring in December 2018 which were booked at the time of billing customers in January 2019. In 2019, this amount was increased by \$450,000 to a total of \$2,502,333 at December 31, 2019.

Material and supplies - Material and supplies decreased \$148,000 in 2019. This decrease is attributed to an increase in capital projects being completed.

Public Utility District No. 1 of Jefferson County, Washington
Management's Discussion and Analysis
December 31, 2019

Noncurrent Assets

Long-term portion of assessments receivable - Total assessments receivable was \$912,889 as of December 31, 2019. This was an overall decrease of \$400,000 from 2018 as customers paid on their assessments.

Nonutility property - This is comprised of \$2,225,000 of land and two rental homes (Peterson Lake), less accumulated depreciation of \$37,200 which was acquired for conserving state water resources and the protection of the Chimacum Water Basin.

Restricted assets - The District maintains cash accounts which are restricted for making payment on certain debt obligations.

Net utility plant - Capital improvements in 2019 increased by \$7.3 million. Construction work in progress increased by approximately \$690,000. Accumulated depreciation increased by approximately \$3.1 million primarily due to depreciation on electric plant in service.

See Note 3 - Utility Plant for additional information.

Current Liabilities

Accounts payable - Decreased by approximately \$200,000 in 2019 as compared to 2018 due to timing of payables.

Accrued liabilities - Accrued liabilities at December 31, 2019 decreased \$130,000.

Current portion of long-term debt and capital lease - This represents the total of principal payments due in 2019 for the Public Works Trust Fund debt, notes payable, and bonds payable.

Noncurrent Liabilities

Public Work Trust Fund and Drinking Water Loans - In 2019, \$305,000 was paid on these loans.

Notes payable - Notes payable decreased by \$164,000 as the PUD made required debt payments.

Bonds payable - Bonds payable decreased by \$487,000 as the PUD made required debt payments. See Note 4 - Long-Term Debt for additional information.

Other noncurrent liabilities - Other noncurrent liabilities are comprised of the long-term liability for vacation, sick leave, and other compensated absences.

Net pension liability - This liability represents the District's proportionate share of collective pension liability. See Note 5 - Pension Plans for additional information.

**Public Utility District No. 1 of Jefferson County, Washington
Management's Discussion and Analysis
December 31, 2019**

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>'19 - '18 Change</u>
Operating revenues	\$ 41,111,708	\$ 39,406,945	4%
Nonoperating revenues	984,548	1,471,205	-33%
Total revenues	<u>42,096,256</u>	<u>40,878,150</u>	3%
Operating expenses	35,359,721	34,097,962	4%
Nonoperating expenses	3,044,396	3,149,223	-3%
Total expenses	<u>38,404,117</u>	<u>37,247,185</u>	3%
Income before contributions	3,692,139	3,630,965	2%
Capital contributions	1,588,187	1,522,567	4%
Change in net position	<u>5,280,326</u>	<u>5,153,532</u>	2%
Net position - beginning of year	<u>44,169,442</u>	<u>39,015,910</u>	13%
Net position - end of year	<u>\$ 49,449,768</u>	<u>\$ 44,169,442</u>	12%

Operating Revenues

Operating revenues in 2019 were \$1.7 million greater than 2018. Revenues increased in 2019 due to higher sales.

Operating Expenses

Purchased power/water - Purchased power and water increased by \$150,000 in 2019. This cost increase is primarily due to the purchase of additional kilowatts of electrical power and a rate increase by Bonneville Power Administration.

Operations and maintenance - Increased by approximately \$568,000 in 2019 as a result of storms causing outages and more right of way clearing.

Nonoperating Revenues/Expenses

Nonoperating revenues - In 2019, nonoperating revenues were \$490,000 lower than 2018. In 2019, nonoperating revenues were lower due to a change in how rebate program revenue is accounted for.

Nonoperating expenses - Interest expense decreased \$105,000 in 2019 due to the paydown of debt principal. A decrease in abandoned work orders as well as how we account for the BPA rebate program expenses decreased other nonoperating expenses by \$530,000.

**Public Utility District No. 1 of Jefferson County, Washington
Management's Discussion and Analysis
December 31, 2019**

Contacting the District

This financial report is designed to provide the District's ratepayers, debt holders, and other readers with a general overview of the District's finances and to show the District's accountability for money it receives. If you have any questions about this report or need additional information, contact the District's General Manager, Kevin Streett at Public Utility District No. 1 of Jefferson County, Washington, 310 Four Corners Road, Port Townsend, Washington 98368.

**Public Utility District No. 1
of Jefferson County, Washington
Statement of Net Position at December 31, 2019**

Assets and Deferred Outflows of Resources

Current Assets

Cash and cash equivalents	\$ 12,989,395
Receivables	
Accounts and contracts, net	5,400,315
Other	301,470
Materials and supplies	1,977,941
Prepaid expenses	126,792
Total current assets	<u>20,795,913</u>

Noncurrent Assets

Long-term portion of assessments receivable	912,889
Nonutility plant	2,190,021
Restricted assets	
Cash	4,639,019
Investments	50,112
Utility plant	
Land and land rights	450,623
Utility plant	139,405,444
Construction work in progress	8,687,960
Less accumulated depreciation	<u>(58,620,572)</u>
Net utility plant	<u>89,923,455</u>
Total noncurrent assets	<u>97,715,496</u>
Total assets	<u>118,511,409</u>

Deferred Outflows of Resources

Excess consideration provided for acquisition	46,666,632
Deferred pension outflows	414,229
Total deferred outflows of resources	<u>47,080,861</u>

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

Liabilities, Deferred Inflows of Resources, and Net Position

Current Liabilities

Accounts payable	\$ 4,704,536
Customer deposits	132,500
Accrued liabilities	1,589,373
Current portion of long-term debt	<u>4,021,181</u>
Total current liabilities	<u>10,447,590</u>

Noncurrent Liabilities

PWTF loans payable	2,140,148
Notes payable	97,439,285
Bonds payable	3,393,134
Net pension liability	<u>1,740,410</u>
Total noncurrent liabilities	<u>104,712,977</u>
Total liabilities	<u>115,160,567</u>

Deferred Inflows of Resources

Deferred pension inflows	<u>981,935</u>
Total deferred inflows of resources	<u>981,935</u>

Net Position

Net investment in capital assets	31,786,360
Restricted	4,639,019
Unrestricted	<u>13,024,389</u>
Total net position	<u>\$ 49,449,768</u>

**Public Utility District No. 1
of Jefferson County, Washington
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2019**

Operating Revenues	
Power sales to retail and commercial customers	\$ 38,150,714
Water sales to retail and commercial customers	2,586,272
Other charges for service	374,722
Total operating revenues	<u>41,111,708</u>
Operating Expenses	
Purchased power and water	15,208,740
Operations and maintenance	8,710,005
Administrative and general	3,095,975
Taxes	2,324,169
Depreciation and amortization	6,020,832
Total operating expenses	<u>35,359,721</u>
Net Operating Income	5,751,987
Nonoperating Revenues (Expenses)	
Interest income	333,340
Timber harvest tax and other	603,806
Interest expense	(3,044,396)
Other nonoperating expenses	47,402
Total nonoperating expenses	<u>(2,059,848)</u>
Income Before Capital Contributions	3,692,139
Capital Contributions	<u>1,588,187</u>
Change in Net Position	5,280,326
Accumulated Net Position	
Beginning of the year	<u>44,169,442</u>
End of year	<u>\$ 49,449,768</u>

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

**Public Utility District No. 1
of Jefferson County, Washington
Statement of Cash Flows
For the Year Ended December 31, 2019**

Cash Flows From (Used For) Operating Activities	
Receipts from customers	\$ 41,465,278
Payments to suppliers	(26,115,566)
Payments to employees	<u>(3,183,099)</u>
Net cash from operating activities	<u>12,166,613</u>
 Cash Flows From (Used For) Noncapital Financing Activity	
Payments received on assessments	<u>251,996</u>
Net cash from noncapital financing activities	<u>251,996</u>
 Cash Flows From (Used For) Capital and Related Financing Activity	
Acquisition and construction of capital assets	(7,847,274)
Principal payments on debt	(4,276,599)
Interest paid	(3,044,396)
Capital contributions	<u>861,317</u>
Net cash used for capital and related financing activities	<u>(14,306,952)</u>
 Cash Flows From (Used For) Investing Activities	
Receipts from interest	<u>320,565</u>
Net cash from investing activities	<u>320,565</u>
Net Decrease in Cash and Cash Equivalents	(1,567,778)
 Cash and Cash Equivalents at Beginning of Year - Restricted and Unrestricted	
	<u>19,196,192</u>
 Cash and Cash Equivalents at End of Year - Restricted and Unrestricted	
	<u><u>\$ 17,628,414</u></u>
 Cash and Cash Equivalents at End of Year Consist of	
Operating cash and cash equivalents	\$ 12,989,395
Restricted cash and cash equivalents	<u>4,639,019</u>
	<u><u>\$ 17,628,414</u></u>

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

**Public Utility District No. 1
of Jefferson County, Washington
Statement of Cash Flows
For the Year Ended December 31, 2019**

**Reconciliation of Net Operating Revenues (Expenses) to
Net Cash Provided by Operating Activities**

Net operating revenues	\$ 5,751,987
Adjustments to reconcile net operating revenues to net cash provided by operating activities	
Depreciation and amortization	6,020,832
Provision for bad debt	58,572
Net nonoperating revenues	651,208
(Increase) decrease in receivables	(356,210)
(Increase) decrease in materials and supplies	148,009
(Increase) decrease in prepaid expenses	(30,886)
Increase (decrease) in payables	(201,303)
Increase (decrease) in customer deposits	
Increase (decrease) in accrued liabilities	124,404
Total adjustments	<u>6,414,626</u>
Net cash provided by operating activities	<u><u>\$ 12,166,613</u></u>

Noncash Investing, Capital, and Financing Activities

Contribution in aid of construction	\$ 726,870
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The accompanying notes are an integral part of these financial statements.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 1 - Summary of Significant Accounting Policies

Reporting entity - Public Utility District No. 1 of Jefferson County, Washington (the District or the PUD) is a municipal corporation governed by an elected, three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity.

The District's reporting entity consists of two primary operating systems. The Electric System distributes electricity to residential and other consumers in Jefferson County. The Water System includes nine separate Class A systems and four separate Class B systems. The District is required by various financing and contractual arrangements to report separately on each system and maintain each system as a separate segment with separate obligations.

Basis of accounting and presentation - The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governmental utilities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements. Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Revised Code of Washington, Chapter 43.09; 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 and B Water Utilities prescribed by the National Association of Regulatory Utility Commissioners (NARUC) for the Water System.

A summary of other significant accounting policies used in the preparation of the financial statements follows.

Revenue recognition and unbilled revenue - The Electric System and Water System utilize the accrual basis of accounting where revenues are recognized as earned on rates established by the District's Board of Commissioners. The District follows the industry practice of estimating unbilled revenues for energy delivered to customers between their last respective meter reading date and December 31. This estimate is then recorded as unbilled revenue for the current year. The related accrued balance as of December 31, 2019 was \$2,502,333.

The District distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as related to the sale of electric or water services to customers and to other services that are usually provided under standard rate schedules or by contractual arrangements. Operating expenses for the District include the cost of sales and services, administrative expenses, utility taxes, and depreciation on capital assets. Nonoperating revenues and expenses include property tax revenues, preliminary public power study costs, regional studies, assessment revenues and expenses, interest income and expense, and timber sales not usually directly related to the provision of electric, water, or sewer service.

Recognition of electric and water revenue - The PUD distributes electric power to consumers in Washington. Electric revenue and the related cost of power purchased are recognized when electricity is used by the ultimate consumer. Water sales are recognized when water is used by the ultimate consumer.

Taxes - The PUD collects various privilege and utility taxes from its customers on behalf of the State of Washington. Revenue is presented gross of taxes collected in the statement of revenues, expenses, and changes in net position.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 1 - Summary of Significant Accounting Policies (continued)

Receivables and allowance for uncollectible accounts - All receivables are reported at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Assessments receivable represent the future amounts due on improvement district assessments. Management reviews accounts receivable on a regular basis to determine if any receivables will potentially 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 who may be unable to meet their financial obligations, and a reserve based on historical experience of accounts with balances of greater than 90 days past due. The allowance for uncollectible balances as of December 31, 2019 was \$70,146.

Cash and cash equivalents - For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Cash includes cash on hand, demand deposits, and certain short-term investments held in the Jefferson County Treasury. The Jefferson County Treasurer acts as the Treasurer of the District and as such invests cash in excess of current requirements in various interest-bearing securities, which are disclosed as part of the District's investments.

Restricted assets - In accordance with bond resolutions, related agreements, and laws, separate restricted accounts have been established. These assets are restricted for specific uses including debt service, bond reserve, and capital additions and are classified as current or noncurrent assets, as appropriate.

Because of certain bond covenants, the District is required to establish and maintain prescribed amounts of resources (cash and investments) that can be used only to service outstanding debt. These required reserves are maintained by the County Treasurer in restricted funds attributable to each debt instrument.

Materials and supplies - Materials and supplies are valued at weighted average cost.

Capital assets and depreciation - Property, plant, and equipment are stated at cost including an allowance for funds used during construction (AFUDC). Assets with a useful life of more than one year and a cost of more than \$1,000 are capitalized. Where cost could not be determined from available records, estimated historical cost was used to record the estimated value of the assets. Donated assets are recorded at their acquisition value at the date of transfer.

Depreciation of exhaustible capital assets used by the District is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the estimated useful lives using the composite rate or straight-line method.

The estimated useful lives for each major class of depreciable capital assets are as follows:

Buildings	28 - 50 years
Equipment	5 - 28 years
Electric, water, and sewer systems	25 - 53 years
Office and computer equipment	5 - 20 years

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 1 - Summary of Significant Accounting Policies (continued)

Excess consideration provided for acquisition - Excess consideration provided for the acquisition of electric plant assets is classified as a deferred outflow of resources on the statement of net position in accordance with GASB Statement 69. The deferred outflow of \$62,571,725 is being amortized over the useful life of the assets at a rate of 3.72% per year. Amortization expense and accumulated amortization for the year ended December 31, 2019 was \$2,323,557 and \$15,855,093, respectively. No events have occurred leading to impairment evaluation per management as of December 31, 2019.

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.

Net position - The District's net position is classified as follows:

Net Investment in Capital Assets reflects the District's total investment in capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition or construction of capital assets.

Restricted Net Position includes amounts that are constrained by provisions imposed by external parties and cannot be used for normal operations.

Unrestricted Net Position are amounts that do not meet the definition of either net investment in capital assets or restricted net position and are used for normal operations.

Property tax revenues - Property taxes are levied and collected by the Jefferson County Treasurer. They are recognized as revenue when levied to the property owners.

Vacation, sick leave, and other compensated absences - District employees are entitled to certain compensated absences based on their length of employment and subject to one of two union agreements. With minor exceptions, compensated absences either vest or accumulate when they are earned. For union and nonunion employees who qualify for PTO, they will be paid 100 percent of hours earned up to a limit of 504 hours at the time of separation from employment. Union employees who qualify for vacation will be paid 100 percent of earned hours, up to 45 days (360 hours), at the time of separation from employment. Union employees who qualify for sick leave will be paid up to 90 days of accrued leave at 10 percent of their current hourly rate at the time of separation from employment. For sick leave in excess of 90 days, the District will value the leave at 100 percent of their current hourly rate and apply towards the employee's HRA VEBA account.

Postemployment health care benefits - The District does not provide postemployment health care benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the District.

Income taxes - The District is a governmental entity under the laws of the State of Washington and therefore no provision for income taxes has been made in the accompanying financial statements.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 1 - Summary of Significant Accounting Policies (continued)

Accounting estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain reclassifications may be made to prior year financial statements' presentation to conform to the current year presentation.

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 weather and natural-disaster-related disruptions; collective bargaining labor disputes; changing local and national economic conditions; reliability standards issued by the North American Electric Reliability Corporation; federal government regulations and changing federal and state laws; and the financing and completion of significant capital projects.

Adoption of New Accounting Pronouncements - GASB Pronouncements that have been issued and were effective for the District's year ended December 31, 2019

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement is effective for years beginning after June 15, 2018. The District has evaluated and determined that there are no AROs for the year ended December 31, 2019 and thus, GASB 83 no financial impact on the financial statements.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement is effective for years beginning after December 15, 2018. The District evaluated and determined that GASB 84 did not have a material effect on the financial statements for the year ended December 31, 2019.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirement of this Statement are effective for reporting periods beginning after June 15, 2018. The District evaluated and determined that GASB 88 did not have a material effect on the financial statements for the year ended December 31, 2019.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Future Adoption of New Accounting Pronouncements - GASB Pronouncements that have been issued but are not yet effective at December 31, 2019

GASB Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. This Statement also simplifies accounting for interest cost incurred before the end of a construction period. This Statement is effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement is effective for reporting periods beginning after December 15, 2020.

The District will implement the new GASB pronouncements in the year no later than the required effective date. The District has not yet determined if the above listed new GASB pronouncements will have a significant financial impact to the District or in issuing its financial statements.

Note 2 - Cash, Deposits, and Investments

Cash on hand at December 31, 2019 was \$2,000. The carrying amount of the District's deposits was \$17,628,414 and the bank balance was \$17,443,100.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. All of the District's bank deposits are covered by federal depository insurance (FDIC) and/or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The District does not have a deposit policy for custodial credit risk.

In accordance with the District's Financial Policy, the Jefferson County Treasurer (Treasurer) acts as the treasurer for the District and, as such, fully invests funds not needed for current operations.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 2 - Cash, Deposits, and Investments (continued)

Investments in Local Government Investment Pool (LGIP) - The District is a participant in the Local Government Investment Pool (LGIP). The LGIP was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP Advisory Committee.

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

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

The District measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.

Level 3: Unobservable inputs for an asset or liability.

At December 31, 2019, the District had the following investments measured at fair value:

<u>Investments by Fair Value Level</u>	<u>December 31, 2019</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Patronage with associated organization	\$ 50,112			\$ 50,112
Total investments measured at fair value	50,112	\$ -	\$ -	\$ 50,112
Total investments in statement of net position	\$ 50,112			

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 3 - Utility Plant

Utility plant in service and other capital assets are recorded at cost when the historical cost is known. When historical cost is not known, assets are recorded at estimated fair value. Costs include labor, materials, overhead, capitalized interest, and related indirect costs. For electric utility plant assets, the District follows the directive under the Rural Utilities Service (RUS) Bulletin 1767B-2, *Work Order Procedure*, when capitalizing assets. Depreciation expense is computed using the composite rate method over useful lives of 25 to 50 years. For water utility and other assets, the District capitalizes assets with costs in excess of \$1,000. Depreciation expense is computed using the straight-line method employing useful lives of 5 to 53 years. Repairs are charged to operating expenses.

The original cost of operating property retired or otherwise disposed of and the cost of removal, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and net gain or loss on disposition is credited or charged to income.

Preliminary costs incurred for proposed projects are deferred pending construction of the asset and included in construction work in process. Costs relating to projects ultimately constructed are transferred to utility plant, whereas charges that relate to abandoned projects are expensed.

Following is a summary of 2019 changes in capital assets:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated				
Land	\$ 490,321	\$ 302	\$ (40,000)	\$ 450,623
Construction in progress	7,997,602	10,894,024	(10,203,666)	8,687,960
Total capital assets, not being depreciated	<u>8,487,923</u>	<u>10,894,326</u>	<u>(10,243,666)</u>	<u>9,138,583</u>
Capital assets, being depreciated				
Buildings	1,554,190	83,824		1,638,014
Office/computer equipment	879,635	105,602		985,237
Equipment	98,917,692	8,142,469	(875,084)	106,185,077
Water and sewer systems	30,721,649	(123,205)	(1,328)	30,597,116
Total capital assets, being depreciated	132,073,166	8,208,690	(876,412)	139,405,444
Less accumulated depreciation	<u>(55,526,903)</u>	<u>(3,401,121)</u>	<u>307,452</u>	<u>(58,620,572)</u>
Total capital assets, being depreciated, net	76,546,263	4,807,569	(568,960)	80,784,872
Capital assets, net	<u>\$ 85,034,186</u>	<u>\$ 15,701,895</u>	<u>\$ (10,812,626)</u>	<u>\$ 89,923,455</u>

Total depreciation and amortization recorded during 2019 was \$3,697,275. Per the requirements of the Uniform System of Accounts, vehicle depreciation is charged to clearing accounts and then spread to operations, maintenance and construction accounts based on where the vehicle was used. It is not expensed to depreciation expense.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 4 - Long-Term Debt

Long-term debt of the District as of December 31, 2019 consists of Revenue Bonds, private debt for the purchase of property, and Public Works Trust Fund (PWTF) and Drinking Water loans. Revenues of the District are pledged to pay related debt. Additionally, all revenue bonds require a portion of cash and cash equivalents to be reserved for future debt retirement. The Jefferson County Treasurer has established sufficient reserves and District management believes that the District is in compliance with all debt covenants. The District has no arbitrage liability with respect to bond issuances. The following tables summarize the District's long-term debt obligations as of December 31, 2019.

	Issue Date	Issue Amount	Outstanding December 31, 2019
Rural Utilities Services Federal Financing Bank Loan for the Acquisition of PSE Electrical Plant Assets			
PUD-JEFF 001-001 - Quarterly P&I payments of \$1,482,454 maturing December 2041 with interest at 2.728%.	3/13	\$ 114,743,000	\$ 99,081,225
PUD-JEFF 001-002 - Quarterly P&I payments of \$10,725 maturing December 2041 with interest at 3.433%.	8/13	764,000	668,592
Total rural utilities services federal financing bank loan for the acquisition of PSE Electrical Plant assets			99,749,817

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 4 - Long-Term Debt (continued)

	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Outstanding December 31, 2019</u>
Public Works Trust Fund and Drinking Water Loans			
PW-00-65120-008: Snow Creek Ranch - Annual principal payments of \$8,272 plus interest 2.5% maturing October 2021.	3/03	\$ 157,168	\$ 16,544
PW-05-691-024: Beckett Pt - Annual principal payments of \$50,776 plus interest at 0.50% maturing July 2025.	5/05	948,924	304,655
PW-05-691-025: Marrowstone Island - Annual principal payments of \$108,806 plus interest at 0.50% maturing July 2025.	6/06	2,000,000	652,838
DM10-952-018: Sparling Well/Quimper - Annual principal payments of \$26,887 plus interest at 1.0% maturing October 2044. \$803,750 of debt was forgiven in 2016.	8/11	1,607,500	672,178
DM12-952-091: Kala Point - Annual principal payments of \$27,225 plus interest at 1.0% maturing October 2035. \$544,500 of debt was forgiven in 2016.	11/12	1,089,000	435,600
DM13-952-177: Sparling Water Treatment - Annual principal payments of \$29,108 plus interest at 1.0% maturing October 2037.	4/14	582,162	<u>674,680</u>
Total public works trust fund and drinking water loans			<u>2,756,495</u>

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 4 - Long-Term Debt (continued)

	Issue Date	Issue Amount	Outstanding December 31, 2019
Notes Payable			
Kala Point Water System - Annual principal payments of \$50,000 with 0% interest maturing October 2024.	10/12	\$ 600,000	\$ 200,000
Peterson Lake Loan - Monthly P&I payments of \$14,329 maturing March 2026 with interest at 6%.	3/06	2,000,000	894,302
Total notes payable			1,094,302
Revenue Bonds for Water and Sewer Systems			
LUD 14: Marrowstone Island - Serial Bonds \$102,000 - \$173,000 due through March 2026 with interest at 4.15% - 6.75%.	3/09	2,000,000	1,020,000
Tri-Area (USDA) - Semi-annual P&I payments of \$82,381 with interest at 4.5% maturing April 2043.	4/03	3,043,250	2,373,134
Total revenue bonds for water and sewer systems			3,393,134
Total long-term debt			106,993,748
Other Long-Term Liabilities			
Pension liability			1,740,410
Total other long-term liabilities			1,740,410
Total long-term liabilities			\$ 108,734,158

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 4 - Long-Term Debt (continued)

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Long-Term Debt					
RUS loans	\$ 103,067,254		\$ 3,317,437	\$ 99,749,817	\$ 3,404,835
Public Works Trust Fund loans	3,063,970		307,475	2,756,495	264,134
Notes payable	1,258,831		164,529	1,094,302	171,593
Bonds payable	3,880,292		487,158	3,393,134	180,619
Total long-term debt	111,270,347		4,276,599	106,993,748	4,021,181
Other Long-Term Liabilities					
Pension liability	1,995,984		255,574	1,740,410	
Total other long- term liabilities	1,995,984		255,574	1,740,410	
Total long-term liabilities	<u>\$ 113,266,331</u>	<u>\$ -</u>	<u>\$ 4,532,173</u>	<u>\$ 108,734,158</u>	<u>\$ 4,021,181</u>

Interest expense was \$3,044,396 for the year ended December 31, 2019. Capitalized interest was \$0 for the year ended December 31, 2019.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Scheduled maturities and interest on long-term debt are as follows:

	<u>Electric System</u>	<u>Water System</u>	<u>Combined as of December 31, 2019</u>
Principal			
2020	\$ 3,404,835	\$ 616,346	\$ 4,021,181
2021	3,474,557	633,513	4,108,070
2022 - 2026	18,921,424	2,983,235	21,904,659
2027 - 2031	21,524,187	919,735	22,443,922
2032 - 2036	24,511,178	959,578	25,470,756
2037 - 2041	27,913,636	818,465	28,732,101
2042 - 2044	313,059	313,059	313,059
	<u>\$ 99,749,817</u>	<u>\$ 7,243,931</u>	<u>\$ 106,993,748</u>
Interest			
2020	\$ 2,567,878	\$ 242,898	\$ 2,810,776
2021	2,498,156	224,053	2,722,209
2022 - 2026	10,942,144	794,721	11,736,865
2027 - 2031	8,339,381	431,270	8,770,651
2032 - 2036	5,352,390	297,965	5,650,355
2037 - 2041	1,949,931	147,847	2,097,778
2042 - 2044	12,059	12,059	12,059
	<u>\$ 31,649,880</u>	<u>\$ 2,150,813</u>	<u>\$ 33,800,693</u>

Note 5 - Pension Plans

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 2019:

<u>Aggregate Pension Amounts - All Plans</u>	<u>Amount</u>
Pension liabilities	\$ 1,740,410
Pension assets	
Deferred outflows of resources	414,229
Deferred inflows of resources	981,935
Pension expense/expenditures	154,747

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 5 - Pension Plans (continued)

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

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

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

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

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

PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% 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 nonduty 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.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 5 - Pension Plans (continued)

PERS Plan 1 member contribution rate is established by State statute at 6%. 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%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

	<u>Employer</u>	<u>Employee</u>
Actual Contribution Rates January - June 2019		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative fee	0.18%	
	<u>12.83%</u>	<u>6.00%</u>
Actual Contribution Rates July - December 2019		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative fee	0.18%	
	<u>12.86%</u>	<u>6.00%</u>

PERS Plans 2 and 3 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% 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 Plans 2 and 3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plans 2 and 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:

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

PERS Plans 2 and 3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5% 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 Plans 2 and 3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plans 2 and 3 benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service if 12 months of that service is earned after age 44.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 5 - Pension Plans (continued)

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% and escalate to 15% 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.

PERS Plans 2 and 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 Plans 2 and 3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plans 2 and 3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

	Employer	Employee
Actual Contribution Rates January - June 2019		
PERS Plan 2	7.52%	7.41%
PERS Plan 3	7.52%	Varies
PERS Plan 1 UAAL	5.13%	
Administrative fee	0.18%	
	20.35%	
Actual Contribution Rates July - December 2019		
PERS Plan 2	7.92%	7.90%
PERS Plan 3	7.92%	Varies
PERS Plan 1 UAAL	4.76%	
Administrative fee	0.18%	
	20.78%	

The District's actual contributions to the plan were \$244,756 to PERS Plan 1 and \$359,737 to PERS Plans 2 and 3 for the year ended December 31, 2019.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 5 - Pension Plans (continued)

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

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

Inflation	2.75% total economic inflation; 3.50% salary inflation
Salary increases	3.50% salary inflation assumption plus expected growth by promotions and longevity
Investment rate of return	7.40%

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% Scale BB. Mortality rates are applied on a generational basis, meaning that each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5%). Consistent with the long-term expected rate of return, a 7.4% 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 employers, whose rates include a component for the PERS 1 liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

Long-term expected rate of return - The long-term expected rate of return on the DRS pension plan investments of 7.4% 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 7.4% approximately equals the median of the simulated investment returns over a 50-year time horizon.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 5 - Pension Plans (continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Fixed income	20.0%	2.2%
Tangible assets	7.0%	5.1%
Real estate	18.0%	5.8%
Global equity	32.0%	6.3%
Private equity	23.0%	9.3%
Total	100.0%	

Sensitivity of NPL - The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.4%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.4%) or 1 percentage point higher (8.4%) than the current rate.

	<u>1.00% Decrease (6.40%)</u>	<u>Current Discount Rate (7.4%)</u>	<u>1.00% Increase (8.4%)</u>
District's net pension liability			
PERS Plan 1	\$ 141,969	\$ 1,312,574	\$ 885,471
PERS Plans 2 and 3	2,807,082	427,836	(1,637,067)

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.

At December 31, 2019, the District reported a total pension liability of \$1,740,410 for its proportionate share of the net pension liabilities as follows:

District's net pension liability	
PERS Plan 1	\$ 1,312,574
PERS Plans 2 and 3	427,836
	\$ 1,740,410

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 5 - Pension Plans (continued)

At December 31, 2019, the District's proportionate share of the collective net pension liabilities was as follows:

	<u>Proportionate Share June 30, 2018</u>	<u>Proportionate Share June 30, 2019</u>	<u>Change in Proportion</u>
District's proportionate share of net pension liability			
PERS Plan 1	0.0294810%	0.0313434%	0.0018624%
PERS Plans 2 and 3	0.0376800%	0.0440460%	0.0063660%

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

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

District's pension expense (benefit)	
PERS Plan 1	\$ 63,192
PERS Plans 2 and 3	91,555
	<u>\$ 154,747</u>

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PERS Plan 1		
Differences between expected and actual experience		
Changes of assumptions		
Net differences between projected and actual earnings on plan investments		\$ (87,691)
Employer contributions subsequent to the measurement date		
Totals	<u>\$ -</u>	<u>\$ (87,691)</u>

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 5 - Pension Plans (continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PERS Plans 2 and 3		
Differences between expected and actual experience	\$ 122,576	\$ (91,982)
Changes of assumptions	10,956	(179,506)
Net differences between projected and actual earnings on plan investments		(622,756)
Employer contributions subsequent to the measurement date	280,697	
Totals	<u>\$ 414,229</u>	<u>\$ (894,244)</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PERS Plan 1, 2, and 3		
Differences between expected and actual experience	\$ 122,576	\$ (91,982)
Changes of assumptions	10,956	(179,506)
Net differences between projected and actual earnings on plan investments		(710,447)
Changes in proportion and difference between contributions and proportionate share of contributions		
Employer contributions subsequent to the measurement date	280,697	
Totals	<u>\$ 414,229</u>	<u>\$ (981,935)</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, 2020. 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 Plan 1</u>	<u>PERS Plans 2 and 3</u>
2020	\$ (19,358)	\$ (191,034)
2021	(45,854)	(319,651)
2022	(16,363)	(141,779)
2023	(6,115)	(75,894)
2024 and thereafter		(32,354)

Note 6 - Insurance and Risk Management

The District is a member of the Public Utility Risk Management Services (PURMS) Self Insurance fund. PURMS is a public entity risk pool organized December 30, 1976, pursuant to the provisions of the Revised Code of Washington, Chapter 54.16.200, and interlocal government agreements. The program's general objectives are to formulate, develop, and administer, on behalf of the member public utilities, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 6 - Insurance and Risk Management (continued)

PURMS consists of 18 members and NoaNet, a governmental entity consisting of local governments. The risks shared by the members are defined in the Self Insurance Agreement (SIA). PURMS consists of three pools for liability, property, and health and welfare coverage.

The pools operate independently of one another and all members do not participate in all pools. The District participates in the liability, property, and health and welfare pools.

The pools are governed by a Board of Directors comprised of one designated representative from each participating member. The administrator and elected Administrative Committee conduct the business of the pools.

The pools are fully funded by its current and former members. Members that withdraw from the fund are still responsible for their share of the assessments for occurrences while they were members. Likewise, terminated members continue to receive coverage for the time they were members.

Each of the PURMS Risk Pools is audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides annual financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools, and periodically, the State Risk Manager performs its own audit of PURMS' Risk Pools.

Liability risk pool - The liability risk pool has a \$1 million liability coverage limit per occurrence. In addition, the fund maintains \$35 million, per occurrence, of excess general liability insurance and \$35 million, per occurrence, of professional liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$50 million, per occurrence, over the first layer of \$35 million is also available to those members that choose to participate. The District has been participating in the second layer of excess liability insurance since January 1, 2018. The amount of the layer was \$50 million in 2019. The fund maintains \$35 million of excess coverage for public officials, with a \$500,000 retention. The deductible is \$250.

Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level or at any time during the year that the actual reserves drop to \$500,000 less than the designated level. The designated reserve level was \$3.5 million at December 31, 2019. The District was assessed \$135,839 in 2019.

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

The designated property pool reserve balance is \$750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below \$500,000. The District was assessed \$68,510 in 2019.

Health and welfare risk pool - The District participates in the PURMS Health and Welfare Risk Pool. PURMS provides health and welfare insurance coverage for the employees of each of its members participating in the Health and Welfare Risk Pool (H&W Pool) in accordance with the terms of the Health and Welfare Coverage of the SIA (H&W Coverage) and the terms of each member's respective Coverage Booklet provided to its employees.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

The H&W Pool's operations are financed by assessments of its participants. Each month, each participant of the H&W Pool is assessed for: (a) the cost the H&W Pool incurred during the preceding month for the H&W Claims for such member's employees (H&W Claims Costs); and (b) for such member's share of Shared H&W Costs. "Shared H&W Costs" consist of administrative expenses incurred by the H&W Pool, premiums for Stop-Loss Insurance, PPO Charges and Shared H&W Claims.

The exposure of each Participant is limited by two different pairs of stop-loss points. The Individual Stop-Loss Point was \$325,000 and the Aggregate Stop-Loss Point was \$23,723,000 for 2019 for the combined Claims Costs of the employees of all participants of the H&W Pool.

Insurance settlements have not exceeded insurance coverage in the past three years.

Note 7 - Commitments and Contingencies

Power supply contracts - The District has a power purchase contract with the Bonneville Power Administration (BPA) to provide the District's power supply through September 30, 2028.

Union contract - The District employs approximately 70% of its workforce under collective bargaining agreements. The contract with IBEW Local 77 covers the electrical operations and expires in May 2020. The office and water staff are covered under a contract with Local Labor 252 which ends in December 2020.

Federal and state programs - The District participates in a number of federal and state assisted programs. These grants are subject to audit, which could result in requests for reimbursement to the grantor agencies for disallowed expenditures. District management believes that such disallowances, if any, will be immaterial.

Note 8 - Participation in Northwest Open Access Network, Inc. (NoaNet)

The District, along with nine other Washington State public entities, is a member of Northwest Open Access Network, Inc. (dba NoaNet), a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout Washington. The network began commercial operation in January 2001.

In 2019, NoaNet entered into a 2019 Member Payment Agreement whereby eight members established a \$1.56M line of credit for sales driven capital. Through Q4 2019, \$665,000 has been drawn to date on this line of credit. In December 2019, NoaNet secured a \$665,000 term loan to be used to fund capital expenditures. The outstanding balance on the line of credit and loan was \$13,420,951 as of December 31, 2019 and the District's percentage share was 0.21% in 2019. No assessments were charged in 2019.

NoaNet incurred a net loss from operations of \$4,232,357 in 2019.

Financial and operating information regarding NoaNet may be obtained from the NoaNet Financial Center, 5802 Overlook Avenue NE, Tacoma, Washington 98422.

Note 9 - Interfund Activity

The District records its own consumption of electric and water utility services as retail sales and operating expense. Both revenues and expenses are reported on the statement of revenues, expenses, and changes in net position and on the condensed statement of revenues, expenses, and changes in net position. The amounts are not material.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 10 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments are due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installments are due.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The District is part of the county's taxing authorities and receives up to \$0.45 per \$1,000 of assessed valuation for general government services.

The District's portion of the regular levy for 2019 was \$.1003293802 per \$1,000 on an assessed valuation of \$5,553,846,929 for a total regular levy portion of \$557,214.

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 11 - System Reporting

Summary financial information for each business-type activity system is presented below.

Assets and Deferred Outflows of Resources

	Electric	Water
Current Assets		
Cash and cash equivalents	\$ 7,848,606	\$ 5,140,789
Receivables		
Accounts and contracts, net	5,119,078	281,237
Other	301,394	76
Materials and supplies	1,959,611	18,330
Prepaid expenses	126,792	
Total current assets	15,355,481	5,440,432
Noncurrent Assets		
Long-term portion of assessments receivable		912,889
Nonutility plant	2,220	2,187,801
Restricted assets		
Cash	1,185,959	3,453,060
Investments	50,112	
Utility plant		
Land and land rights	450,623	
Utility plant	108,570,765	30,834,679
Construction work in progress	8,037,053	650,907
Less accumulated depreciation	(46,790,540)	(11,830,032)
Net utility plant	70,267,901	19,655,554
Total noncurrent assets	71,506,192	26,209,304
Total assets	86,861,673	31,649,736
Deferred Outflows of Resources		
Excess consideration provided for acquisition	46,666,632	
Deferred pension outflows	414,229	
Total deferred outflows of resources	47,080,861	

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 11 - System Reporting (continued)

Liabilities, Deferred Inflows of Resources, and Net Position

	Electric	Water
Current Liabilities		
Accounts payable	\$ 4,704,536	\$
Customer deposits	132,200	300
Inter-division payables/(receivables)	(1,016,012)	1,016,012
Accrued liabilities	1,516,631	72,742
Current portion of long-term debt	3,404,835	616,346
Total current liabilities	8,742,190	1,705,400
 Noncurrent Liabilities		
PWTF loans payable		2,140,148
Notes payable	96,344,983	1,094,302
Bonds payable		3,393,134
Net pension liability	1,740,410	
Total noncurrent liabilities	98,085,393	6,627,584
Total liabilities	106,827,583	8,332,984
 Deferred Inflows of Resources		
Deferred pension inflows	981,935	
Total deferred inflows of resources	981,935	
 Net Position		
Net investment in capital assets	17,186,935	14,599,425
Restricted	1,185,959	3,453,060
Unrestricted	7,760,122	5,264,267
Total net position	\$ 26,133,016	\$ 23,316,752

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 11 - System Reporting (continued)

Statement of Revenues, Expenses, and Changes in Net Position

	Electric	Water
Operating Revenues		
Power sales to retail and commercial customers	\$ 38,150,714	
Water sales to retail and commercial customers		\$ 2,586,272
Other charges for service	247,489	127,233
Total operating revenues	38,398,203	2,713,505
Operating Expenses		
Purchased power and water	15,204,855	3,885
Operations and maintenance	7,555,576	1,154,429
Administrative and general	2,432,104	663,871
Taxes	2,198,268	125,901
Depreciation and amortization	5,319,171	701,661
Total operating expenses	32,709,974	2,649,747
Operating Income	5,688,229	63,758
Nonoperating Revenues (Expenses)		
Interest income	165,304	168,036
Timber harvest tax and other	1,037	602,769
Interest expense	(2,782,563)	(261,833)
Other nonoperating revenues (expenses)	68,581	(21,179)
Total nonoperating revenues (expenses)	(2,547,641)	487,793
Income Before Capital Contributions	3,140,588	551,551
Capital Contributions	1,422,586	165,601
Change in Net Position	4,563,174	717,152
Accumulated Net Position		
Beginning of the year	21,569,842	22,599,600
End of year	\$ 26,133,016	\$ 23,316,752

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

Note 11 - System Reporting (continued)

Statement of Cash Flows

	Electric	Water
Cash Flows From (Used For) Operating Activities		
Receipts from customers	\$ 38,268,977	\$ 3,196,301
Payments to suppliers	(24,758,745)	(1,356,821)
Payments to employees	(2,577,316)	(605,783)
Net cash from operating activities	10,932,916	1,233,697
Cash Flows From (Used For) Noncapital Financing Activity		
Payments received on assessments		251,996
Inter-division payables (receivables)	(364,129)	364,129
Net cash from (used for) noncapital financing activities	(364,129)	616,125
Cash Flows From (Used For) Capital and Related Financing Activity		
Acquisition and construction of capital assets	(7,704,989)	(142,285)
Principal payments on debt	(3,317,436)	(959,163)
Interest paid	(2,782,563)	(261,833)
Capital contributions	695,716	165,601
Net cash used for capital and related financing activities	(13,109,272)	(1,197,680)
Cash Flows From (Used For) Investing Activities		
Receipts from interest	152,529	168,036
Net cash from investing activities	152,529	168,036
Net Increase (Decrease) in Cash and Cash Equivalents	(2,387,956)	820,178
Cash and Cash Equivalents at Beginning of Year - Restricted and Unrestricted		
	11,422,521	7,773,671
Cash and Cash Equivalents at End of Year - Restricted and Unrestricted		
	\$ 9,034,565	\$ 8,593,849
Cash and Cash Equivalents at End of Year Consist of		
Operating cash and cash equivalents	\$ 7,848,606	\$ 5,140,789
Restricted cash and cash equivalents	1,185,959	3,453,060
	\$ 9,034,565	\$ 8,593,849

Public Utility District No. 1 of Jefferson County, Washington
Notes to Financial Statements
December 31, 2019

	<u>Electric</u>	<u>Water</u>
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided by Operating Activities		
Net operating revenues	\$ 5,688,229	\$ 63,758
Adjustments to reconcile net operating revenues to net cash provided by operating activities		
Depreciation and amortization	5,319,171	701,661
Provision for bad debt	29,286	29,286
Net nonoperating revenues	69,618	581,590
(Increase) decrease in receivables	(229,130)	(127,080)
(Increase) decrease in materials and supplies	148,052	(43)
(Increase) decrease in prepaid expenses	(30,886)	
Increase (decrease) in payables	(201,303)	
Increase (decrease) in customer deposits	1,000	(1,000)
Increase (decrease) in accrued liabilities	138,879	(14,475)
Total adjustments	<u>5,244,687</u>	<u>1,169,939</u>
Net cash provided by operating activities	<u>\$ 10,932,916</u>	<u>\$ 1,233,697</u>

Note 12 - Subsequent Events

The District has evaluated subsequent events through March 18, 2020, which is the date these financial statements were available to be issued. In January 2020, the District established a line of credit in the amount of \$5,000,000 from the National Rural Utilities Cooperative Finance Corporation (CFC) with a variable interest rate, currently 3.25%. All other subsequent events requiring recognition as of December 31, 2019, have been incorporated into these financial statements.

Required Supplementary Information

**Public Utility District No. 1
of Jefferson County, Washington
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, Last 10 Fiscal Years***

	PERS 1					
	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.034134%	0.029481%	0.026527%	0.026887%	0.024189%	0.020203%
Employer's proportionate share of the net pension liability	\$ 1,312,573	\$ 1,316,631	\$ 1,258,727	\$ 1,443,959	\$ 1,265,310	\$ 1,017,736
Employer's covered payroll	4,773,469	3,884,483	3,298,818	3,157,676	2,697,385	2,182,726
Employer's proportionate share of the net pension liability as a percentage of covered payroll	27.50%	33.89%	38.16%	45.73%	46.91%	46.63%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%
	PERS 2					
	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.044046%	0.037680%	0.034121%	0.034416%	0.031244%	0.026012%
Employer's proportionate share of the net pension liability	\$ 427,836	\$ 643,352	\$ 1,185,542	\$ 1,732,818	\$ 1,116,366	\$ 525,796
Employer's covered payroll	4,827,756	3,925,909	3,363,002	3,208,763	2,773,498	2,239,050
Employer's proportionate share of the net pension liability as a percentage of covered payroll	8.86%	16.39%	35.25%	54.00%	40.25%	23.48%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

* Data is presented for those years for which the information is available

**Public Utility District No. 1
of Jefferson County, Washington
Schedule of Employer Contributions
As of December 31, Last 10 Fiscal Years***

	PERS 1					
	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 244,756	\$ 197,058	\$ 181,068	\$ 153,848	\$ 134,157	\$ 103,742
Contributions in relation to the statutorily or contractually required contributions	<u>(244,756)</u>	<u>(197,058)</u>	<u>(181,068)</u>	<u>(153,848)</u>	<u>(134,157)</u>	<u>(103,742)</u>
Contribution deficiency (excess)	<u>\$ -</u>					
Covered payroll	\$ 4,309,843	\$ 4,144,460	\$ 3,688,452	\$ 3,225,327	\$ 3,025,349	\$ 2,571,386
Contributions as a percentage of covered payroll	5.68%	4.75%	4.91%	4.77%	4.43%	4.03%
	PERS 2					
	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 359,737	\$ 290,746	\$ 254,647	\$ 200,938	\$ 172,658	\$ 128,454
Contributions in relation to the statutorily or contractually required contributions	<u>(359,737)</u>	<u>(290,746)</u>	<u>(254,647)</u>	<u>(200,938)</u>	<u>(172,658)</u>	<u>(128,454)</u>
Contribution deficiency (excess)	<u>\$ -</u>					
Covered payroll	\$ 4,309,843	\$ 4,144,460	\$ 3,688,452	\$ 3,225,327	\$ 3,025,349	\$ 2,571,386
Contributions as a percentage of covered payroll	8.35%	7.02%	6.90%	6.23%	5.71%	5.00%

* Data is presented for those years for which the information is available

Basic Financial Statements

Independent Auditor's Report

The Board of Commissioners
Public Utility District No. 1 of Jefferson County, Washington
Port Townsend, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Jefferson County, Washington (the District), which comprise the statement of net position as of December 31, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service (RUS) Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they related to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they related to accounting matters. In connection with our audit, we noted no matters regarding the District's accounting and records to indicate that the District did not:

- Maintain adequate and effective accounting procedures.
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts.
- Reconcile continuing property records to the controlling general ledger plant accounts.
- Clear construction accounts and accrue depreciation on completed construction.
- Record and properly price the retirement of plant.

- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap.
- Maintain adequate control over materials and supplies.
- Prepare accurate and timely Financial and Operating Reports as described in 7 CFR 1773.33(e)(2)(ii).
- Obtain written RUS approval to enter into any contract, agreement or lease with an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles.
- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the Board of Commissioners, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Jackson Thornton & Co. PC

Franklin, Tennessee
March 18, 2020