

# **Annual Report**

## **PUD #1 of Ferry County**

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MCAG No. 1778

Submitted pursuant to RCW 43.09.230

To the

Office of the State Auditor

For the fiscal year ended December 31, 2021.

Certified correct this 30<sup>th</sup> day of May 2022 to the best of my knowledge:

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2021**

The following discussion and analysis is designed to provide an overview of Public Utility District No. 1 of Ferry County's (the District) financial activity, to assist the public in focusing on the significant financial issues facing the District, and to identify changes in the District's financial position.

The District is a municipal corporation of the State of Washington and was established in 1936 and began operations in 1945. At that time, the system served 300 customers. In 2021 the system served an average of 3,700 meters. The District is an electricity-only utility with distribution and limited 34.5 KV transmission system. The District purchases all electricity from the Bonneville Power Administration (BPA) as a full-requirements customer. A three-member Board of Commissioners locally elected to six-year terms governs the District.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial report includes this Management's Discussion and Analysis, Basic Financial Statements with accompanying notes, and Supplemental Information. The District conforms to generally accepted accounting principles as applicable to proprietary funds of public utility districts operated in the State of Washington. The District uses the Uniform Systems of Accounts as prescribed by the United States Department of Agriculture Rural Utilities Service (RUS). The District's financial statements are presented on an accrual basis of accounting. Accrual accounting recognizes revenues when earned and expenses when they are incurred, regardless of when cash is received or paid.

- The *Statement of Net Position* presents information on the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and equity at year end. It also provides information about the nature and amounts of investment in resources (assets) and the District's obligations to its creditors (liabilities).
- The *Statement of Revenue, Expenses and Changes in Net Position* accounts for the year's revenue and expense transactions. This statement measures the District's operations over the past year and may be used to determine if the District has been successful in recovering its costs through rates and other charges.
- The *Statement of Cash Flows* provides information on the District's cash receipts and disbursements during the year. This statement reports changes in cash resulting from operations, investing, and financing activities.

- The *Notes to the Financial Statements* provide additional information that is an integral part of the financial statements. This information includes the disclosure of significant accounting policies, financial activities, risks, commitments, obligations, and subsequent events.
- The *Required Supplemental Information* provides additional information on the District's state pension plan. It includes information about the District's Proportionate Share of the Net Pension Liability of the full plan as well as the District's contributions to the plan.

## **FINANCIAL ANALYSIS OF THE DISTRICT**

**Net Position. Net Position.** In 2021, the District's Net Position improved by \$836.57 thousand; at year end it totaled approximately \$19.22 million. \$12.1 million of the Net Position is invested in Capital assets, \$307.02 thousand are Restricted Assets, and \$6.80 million are Unrestricted Assets.

**Assets/Liabilities & Deferred Outflows/Deferred Inflows.** The District's Total Assets increased by \$2.14 million while District Liabilities decreased in 2021 by \$24.20 thousand. There was an increase in all asset categories; Current Assets reflected an increase in value of about \$503.30 thousand and the Capital Assets saw an increase of \$188.91 thousand. The District now reflects a Net Pension Asset as well. Long-Term Liabilities declined in 2021 by \$413.55 thousand since the District's Pension funds increased in value and are now recognized as a Net Pension Asset valued at \$1.49 million. Year-end Accounts Payable increased causing Total Current Liabilities to increase to \$1.23 million. These factors in combination with an increase to the Deferred Pension Inflows even though there was a reduction in Deferred Pension Outflows resulted in the above-mentioned increase to Net Position.

**Cash and Cash Equivalents.** District Cash and Cash Equivalents continued to rise to \$3.72 million; a \$450.52 thousand increase.

**Revenues/Expenses.** Operating Revenues increased by about \$720.46 thousand during 2021. This was the result of an increase in total Energy Sales related to both an increase in local residential construction and an increased industrial usage in the area. While other Operating Revenues reflected only a minor change. Non-Operating Revenues also rose; an increase of about \$122.82 thousand occurred. This was for the most part due to additional contributions to capital from the new construction previously mentioned. Operating Expenses also increased as the District saw an increase in its revenues but by only \$101.22 thousand.

All these items combine to reflect a positive change in the District's overall financial position.

The following *Selected Financial Information* provides a two-year comparison of key financial information for the District.

# **SELECTED FINANCIAL INFORMATION**

|   | 2021       | 2020       | Increase (Decrease) |
|---|------------|------------|---------------------|
| Total Capital Assets  | 12,106,877 | 11,917,968 | 188,909             |
| Total Current Assets  | 8,727,001  | 8,223,695  | 503,306             |
| Total Net Pension Asset   | 1,449,215  | -          | 1,449,215           |
| Total Assets  | 22,283,094 | 20,141,663 | 2,141,431           |
| Total Deferred Outflows   | 190,956    | 207,811    | (16,855)            |
| Total Long-term Liabilities   | 495,185    | 908,732    | (413,548)           |
| Total Current Liabilities   | 1,231,251  | 841,907    | 389,344             |
| Total Liabilities   | 1,726,436  | 1,750,639  | (24,203)            |
| Total Deferred Inflows  | 1,532,093  | 219,880    | 1,312,213           |
| Net Investment in Capital Assets  | 12,106,877 | 11,917,968 | 188,909             |
| Restricted Assets & Net Pension Asset                                       | 307,020    | 235,910    | 71,110              |
| Unrestricted Assets   | 6,801,624  | 6,225,076  | 576,548             |
| Total Net Position  | 19,215,521 | 18,378,954 | 836,567             |
| Cash & Cash Equivalents   | 3,721,303  | 3,270,787  | 450,516             |
| Total Energy Sales  | 7,161,842  | 6,515,483  | 646,358             |
| Other Electric Revenue  | 142,340    | 68,238     | 74,102              |
| Total Operating Revenues  | 7,304,181  | 6,583,721  | 720,460             |
| Cost of Purchased Power   | 3,048,300  | 2,747,111  | 301,189             |
| O&M Expenses  | 1,279,606  | 1,367,788  | (88,182)            |
| Customer Service Expenses   | 423,968    | 485,132    | (61,164)            |
| G&A, Taxes and Other Expenses   | 1,301,888  | 1,373,956  | (72,068)            |
| Depreciation and Amortization   | 892,524    | 871,076    | 21,448              |
| Total Operating Expenses  | 6,946,286  | 6,845,063  | 101,223             |
| Non-Operating Revenues  | 418,239    | 295,417    | 122,822             |
| Income before Contributions,<br>Special & Extraordinary Items and Transfers | 22,395     | 55,331     | (32,936)            |
| Contributions   | 395,845    | 240,086    | 155,759             |
| Prior Year Adjustments  | 60,431     | -          | 60,431              |
| Change in Net Position  | 776,135    | 33,804     | 742,331             |
| Year End Net Position   | 19,215,520 | 18,378,954 | 836,566             |

*See Note 3 Utility Plant and Depreciation for capital assets.*

## **SIGNIFICANT LONG-TERM DEBT**

As of December 31, 2021, the District had no long-term debt outstanding other than a capital lease obligation of \$8,084 for a Xerox copier. See Note 5.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's ratepayers, investors, 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 questions about this report or need additional information, contact the District's Auditor at Public Utility District No. 1 of Ferry County, P.O. Box 1039, Republic, WA 99166.

PUD No. 1 of Ferry County  
**Statement of Net Position**  
For the period ending December 31, 2021

| <u><b>Assets</b></u>                        | <u><b>2021</b></u>              |
|---|---------------------------------|
| <b><u>Current Assets</u></b>                |                                 |
| Cash and Cash Equivalents                   | 3,721,303                       |
| Receivables (Net)                           |                                 |
| Notes Receivable                            | 512,135                         |
| Accounts Receivable                         | 967,267                         |
| Inventories                                 | 460,938                         |
| Prepayments                                 | 30,110                          |
| Other Current Assets                        | 2,789,425                       |
| Restricted Assets                           |                                 |
| Bond Reserve                                | 600                             |
| Customer Deposits                           | 165,613                         |
| Revolving Loan and Grant Fund               | 79,611                          |
| <b>Total Current Assets</b>                 | <b><u>8,727,001</u></b>         |
| <b>Assets Being Depreciated</b>             |                                 |
| Leased Assets                               | 11,493                          |
| Plant                                       | 26,761,461                      |
| Buildings                                   | 936,843                         |
| Machinery and Equipment                     | 3,583,472                       |
| <b>Assets Not Being Depreciated</b>         |                                 |
| Land  | 200,204                         |
| Construction Work in Progress               | 50,232                          |
| Retirement Work in Progress                 | 11,394                          |
| <b>Less Accumulated Depreciation</b>        |                                 |
| Less Accumulated Depreciation               | <u>(19,448,221)</u>             |
| <b>Capital Assets (Net)</b>                 | <b><u>12,106,877</u></b>        |
| <b>Net Pension Asset</b>                    | <u>1,449,215</u>                |
| <b>Total Non-Current Assets</b>             | <b><u>13,556,092</u></b>        |
| <b>Deferred Outflows</b>                    |                                 |
| Pension Related Outflows                    | <u>190,956</u>                  |
| <b>Total Deferred Outflows</b>              | <b><u>190,956</u></b>           |
| <b>Total Assets &amp; Deferred Outflows</b> | <b><u><u>22,474,050</u></u></b> |

PUD No. 1 of Ferry County

## Statement of Net Position

For the period ending December 31, 2021, Continued

### Liabilities

#### **Current Liabilities**

|                                  |                  |
|----------------------------------|------------------|
| Accounts Payable                 | 830,471          |
| Customer Deposits                | 165,613          |
| Accrued Taxes                    | 146,747          |
| Accrued Payroll                  | 88,421           |
| <b>Total Current Liabilities</b> | <b>1,231,251</b> |

#### **Non-current Liabilities**

|                                      |                |
|--------------------------------------|----------------|
| Compensated Absences                 | 348,942        |
| Net Pension Liability                | 138,158        |
| Lease Obligation                     | 8,084          |
| <b>Total Non-Current Liabilities</b> | <b>495,185</b> |

#### **Deferred Inflows**

|                               |                  |
|-------------------------------|------------------|
| Pension Related Inflows       | 1,532,093        |
| <b>Total Deferred Inflows</b> | <b>1,532,093</b> |

|   |                  |
|---|------------------|
| <b>Total Liabilities and Deferred Inflows</b> | <b>3,258,529</b> |
|---|------------------|

### Net Position

|   |                   |
|---|-------------------|
| Net Investment in Capital Assets          | 12,106,877        |
| <b>Restricted Assets</b>                  | <b>80,211</b>     |
| <b>Restricted Net Pension Assets</b>      | <b>226,809</b>    |
| <b>Unrestricted Assets</b>                | <b>6,801,624</b>  |
| <b>Total Net Position</b>                 | <b>19,215,521</b> |
| <b>Total Net Position and Liabilities</b> | <b>22,474,050</b> |

*Notes to Financial Statements are an integral part of this statement.*

PUD No. 1 of Ferry County  
**Statement of Revenue, Expenses, and Changes in Net Position**  
For the period ending December 31, 2021

|   | <u><b>2021</b></u> |
|---|--------------------|
| Total Energy Sales  | 7,161,842          |
| Income from Plant Leased to Others                                    | 81,044             |
| Other Revenue   | 61,296             |
| <b>Total Operating Revenue</b>  | <b>7,304,181</b>   |
| Cost of Purchased Power   | 3,048,300          |
| Operating Expense   | 418,263            |
| Maintenance Expense   | 861,343            |
| Customer Services   | 423,968            |
| General & Administrative Services                                     | 898,749            |
| Depreciation & Amortization Expense                                   | 892,524            |
| Interest on Lease Obligation  | 343                |
| Taxes Other than Income Taxes   | 402,796            |
| <b>Total Operating Expenses</b>                                       | <b>6,946,286</b>   |
| <b>Operating Income (Loss)</b>  | <b>357,896</b>     |
| Income from Non-Utility Operations                                    | 686                |
| Interest and Dividend Income  | 13,664             |
| Gains/Losses from Disposition of Property                             | 8,045              |
| Contributed Capital   | 395,845            |
| Interest on Long-term Debt  |                    |
| <b>Non-Operating Revenues (Expenses)</b>                              | <b>418,239</b>     |
| <b>Change in Net Position</b>   | <b>776,135</b>     |
| <b>Total Net Position Beginning of Year</b>                           | <b>18,378,954</b>  |
| <b>Prior Period Adjustments to Net Position (See Financial Notes)</b> | <b>60,431</b>      |
| <b>Change in Net Position</b>   | <b>776,135</b>     |
| <b>Total Net Position End of Year</b>                                 | <b>19,215,521</b>  |

*Notes to Financial Statements are an integral part of this statement.*



PUD No. 1 of Ferry County  
**Statement of Cash Flows**  
For the period ending December 31, 2021

|   | <b><u>2021</u></b>    |
|---|-----------------------|
| <b>Cash Flows from Operating Activities</b>                           |                       |
| Receipts from Customers   | 7,180,039             |
| Payments to Employees & Suppliers                                     | <u>(6,281,431)</u>    |
| Cash Flows from Operating Activities                                  | 898,608               |
| <br><b>Cash Flows from Capital &amp; Related Financing Activities</b> |                       |
| Proceeds from Grants  |                       |
| Capital Contributions   | 395,845               |
| Purchase of Capital Assets  | (1,081,777)           |
| Principal Paid on Capital Debt  | -                     |
| Proceeds/Loss from Disposition of Property                            | <u>8,045</u>          |
| Cash Flows from Capital & Related Financing Activities                | (677,888)             |
| <br><b>Cash Flows from Investing Activities</b>                       |                       |
| Interest and Dividends  | 13,664                |
| Cash Out to Restricted Investment Funds                               | <u>155,699</u>        |
| Cash Flows from Investing Activities                                  | <u>169,363</u>        |
| <br>Net Increase (Decrease) in Cash & Cash Equivalents                | <u><u>390,084</u></u> |
| <br>Cash & Cash Equivalents Beginning of Year                         | 3,270,787             |
| Prior period Adjustments  | <u>60,431</u>         |
| Adjusted Cash & Cash Equivalents Beginning of Year                    | 3,331,218             |
| Cash & Cash Equivalents End of Year                                   | <u>3,721,303</u>      |
| Net Increase (Decrease) to Cash & Cash Equivalents                    | 390,084               |

*Notes to Financial Statements are an integral part of this statement.*

**Statement of Cash Flows**  
**Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by**  
**Operating Activities**

For the period ending December 31, 2021

|  | <u><b>2021</b></u> |
|--|--------------------|
| <b>Operating Income</b>  | 357,896            |
| <b>Adjustments to Reconcile Net Operating Revenues to Cash</b> |                    |
| <b>Provided (Used) by Operating Activities:</b>                |                    |
| Depreciation & Amortization Expense                            | 892,524            |
| Change in Operating Assets and Liabilities:                    |                    |
| Accounts Receivable  | 25,653             |
| Materials & Supplies   | (74,630)           |
| Prepayments  | 5,919              |
| Notes Receivable   | (60,248)           |
| Other Current Assets   | (99,033)           |
| Pensions   | (1,884,445)        |
| Deferred Outflow of Resources                                  | 16,855             |
| Accounts Payable   | 362,263            |
| Compensated Absences   | 23,753             |
| Lease Obligation   | (2,070)            |
| Accrued Payroll & Accrued Taxes                                | 20,930             |
| Pensions   | -                  |
| Deferred Inflows of Resources                                  | 1,312,213          |
| Miscellaneous  | 1,029              |
| Change in Assets and Liabilities                               | (351,812)          |
| <b>Net Cash Provided by Operating Activities</b>               | <b>898,608</b>     |

*Notes to Financial Statements are an integral part of this statement.*

FERRY COUNTY P.U.D. NO. 1  
NOTES TO THE FINANCIAL STATEMENTS

January 1, 2021, through December 31, 2021

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Public Utility District No. 1 of Ferry County conform to generally accepted accounting principles as applicable to proprietary funds of public utility districts operated in the State of Washington. (See note 3 – Utility Plant and Depreciation regarding historical departure from GAAP.) The District is governed by an elected three-member Board of Commissioners and is operated by various management personnel as prescribed by Chapter 54 RCW - Public Utility Districts. The following is a summary of the more significant policies:

A. Reporting Entity.

Public Utility District No. 1 of Ferry County is a municipal corporation of Washington State. The District was organized to provide utility services to its owners, the people who formed the District, on a nonprofit, cost-of-service basis. The Board of Commissioners consists of three elected officials and is responsible for the legislative and fiscal control of the District. The financial statements include all funds of the District over which the Board of Commissioners exercises operating control.

B. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Uniform System of Accounts as prescribed by the United States Department of Agriculture Rural Utilities Service (RUS).

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases of greater than \$1,000 are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled service receivables are not material and are not accrued.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the district are charges to customers for electricity energy sales. The district also recognizes as operating revenue utility plant leased to others, and other revenue. Operating expenses for the district include cost of purchased power, operating expenses, maintenance expenses, customer service expenses, general and administration expenses, depreciation and amortization expense, and taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

With respect to proprietary activities, the District has elected to apply all applicable GASB pronouncements.

Effective for the year ending December 31, 2020, the District adopted GASB Statement No. 87, Leases, (GASB 87). This statement supersedes GASB Statement No. 62 and establishes new requirements for calculating the reporting of the District's lease activities. The adoption of GASB 87 did not result in a restatement of the financial statements.

C. Cash and Cash Equivalents

The District considers all cash investments (including restricted assets) to be cash equivalents.

D. Utility Plant and Depreciation-See Note 3

E. Restricted Funds

In accordance with debt covenants, grantors, contributors, and certain laws and regulations from external agencies, separate restricted funds may be required to be established. The assets held in these funds are designated for specific uses. There is one bond reserve kept for the annual debt service payment for the District's BIA land lease. Customer deposits are required by law to be available for refund. A Revolving Loan and Grant Fund was established for economic development and is overseen by a board that generally consists of the elected Commissioners of the District and three other persons representing customers of the District. The Revolving Loan and Grant Fund can only be used for loans or grants for economic development projects as per the RCW establishing these funds. There was a new loan in the amount of \$182,000 issued from this fund in 2021 to the T.V. Association of Republic to install fiber cable to parts of Ferry County that is currently underserved. The restricted funds as of December 31, 2021 are listed below.

|   | <u>2021</u>   |
|---|---------------|
| Bond Reserves                           | 600           |
| Customer Deposits                       | 165,613       |
| Revolving Loan and Grant Fund           | 79,611        |
| Payables from Current Restricted Assets | -165,613      |
| Total Restricted Funds                  | <u>80,211</u> |

Reserved Funds

The Utility's Board of Commissioners has created restrictions on asset use by creating reserve funds. Though not imposed externally as the assets noted above, they are assets designated for specific use only. These funds are reflected as Other Current Assets since they are reserved for such specific use and would require board action to change the designated use. The Vacation, Sick Leave, and Storm Fund was established by Board resolution as a way of "self-insuring" against leave liabilities and major catastrophes. Use of this Fund requires specific Board approval. The Board's goal is to have funding at a level to ensure adequate monies for future potential storm damages. The current monies in this fund are \$2,500,000. The High-Cost Line Extension Fund was designated for low interest loans to customers for high-cost line extensions by resolution in 2014; there were new no loan applications received during the year. Transportation and Operating

Equipment Fund is for the sole purpose of future replacement needs in these areas. The funding comes from the sale of surplus equipment. The reserved funds as of December 31, 2021 are listed below.

|                                       | <u>2021</u>      |
|---------------------------------------|------------------|
| Vacation, Sick Leave, and Storm Fund  | 2,500,000        |
| High-Cost Line Extension Fund         | 288,454          |
| Transportation & Operation Equip Fund | <u>0</u>         |
| Total Reserved Funds                  | <u>2,788,454</u> |

F. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services. Once a year, the Board of Commissioners authorizes the write-off of the uncollectible receivable accounts. In addition, the District annually assesses future uncollectable accounts and maintains an allowance for them. As of December 31, 2021, the balance was \$30,000. Please see Note 12 for additional information regarding the District's Receivables.

G. Inventories

Inventories are valued at average cost which approximates the market value.

H. Investments

The District investments are stated at fair market value as of December 31, 2021. The District does not have any derivatives. See Note 2.

I. Compensated Absences

The District offers a single personal leave bank to be used for vacation, sick and/or family leave purposes. The District accrues its direct liability for personal leave benefits as they are earned by the employee and places a limitation of 1200 hours on the potential leave accumulation. For employees hired on or after April 1, 2011, the accrued Personal Leave shall not exceed 700 hours.

As required by Washington State RCW 49.46.210 and WAC 296-128-600 thru 296-128-770, all part-time or seasonal employees not qualifying for the District's person leave, now accrue paid sick leave at one hour of paid leave for every 40 hours worked.

The costs of both benefit accruals are expensed monthly as employee payroll overhead and adjusted to current wage scales. Compensated absences for leave as of December 31, 2021, amounted to \$ 348,942. The District has established a vacation, sick leave, and storm fund to fully cover these direct and estimated liabilities.

J. Pensions

For purposes of measuring the net pension liability, net pension asset, 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.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset only and the related deferred outflows and deferred inflows.

K. Construction Financing

The District has no cost sharing agreement or other long-term financing agreements currently in place.

L. Purchase Commitments

The District is a full-requirements preference customer of the Bonneville Power Administration (BPA) which operates under the authority of the U.S. Department of Energy. The BPA supplies the sole source of the District's power under a contract agreement that was approved by the District's Board of Commissioners October 1, 2011 and continuing through September 30, 2028.

The District is a member of Energy Northwest (formerly known as Washington Public Power Supply System) and has participant rights and obligations relative to this membership. See Note 11.

M. Other Contingencies

The District is subject to various claims, possible legal actions, and other matters arising out of the normal course of business. When it is possible to make a reasonable estimate of the District's liability with respect to probable claims, an appropriate provision is made. Although the ultimate outcome of litigation against the District cannot be determined, management intends to continually defend all claims against the District and believes the District is adequately reserved for all known events.

Effective as of last year, the year ending December 31, 2020, the District adopted GASB Statement No. 87, Leases, (GASB 87). This statement supersedes GASB Statement No. 62 and establishes new requirements for calculating the reporting of the District's lease activities. The adoption of GASB 87 was reflected as of January 1, 2020 and did not result in a restatement of the financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the State. The FDIC currently insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances over \$250,000

are insured by the collateral pool. State statutes provide for additional amounts to be assessed on a pro rata basis to financial institutions in the collateral pool if the pool's funds would be insufficient to cover a loss. As of year-end, the carrying amount of the District's demand deposits was \$ 4,786,938.

B. Investments

At year end, the District had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Less Than</u> |            |
|------------------------|-------------------|------------------|------------|
|                        |                   | <u>1</u>         | <u>1-5</u> |
| State Investment Pool  | 1,967,843         | 0                | 0          |

The State Investment Pool is a 2a7-like pool. The fair value of the pool is determined by the pool's share price. The District has no regulatory oversight for the pool, which is governed by the State Finance Committee and is administered by the State Treasurer. The pool is audited annually by the State Auditor General, an independently elected public official.

**Interest Rate Risk.** As a means of limiting its exposure to interest rate risk, the District diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date.

**Custodial Credit Risk.** Custodial credit risk is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Credit Risk.** State law and District policy limit investments to those authorized by State statutes including commercial paper and bonds issued by the State or any local government in the State, which have, at the time of investment, one of the three highest ratings of a nationally recognized rating agency. The District further limits its holdings in commercial paper to 10% of the portfolio and 10% per issuer, and local government bonds to 25% of the portfolio and 10% per issuer. At year end, the District held no investments in commercial paper or local government bonds. Additionally, the District limits its investments in mutual funds to amounts needed for arbitrage purposes only.

Credit quality distribution for investments, with credit exposure as a percentage of total investments (total investments include certificates of deposit, which are not represented in this table), are as follows at year end:

**2021**

| <u>Investment Type</u> | <u>Rating</u> | <u>Percentage</u> |
|------------------------|---------------|-------------------|
| State Investment Pool  | Not Rated     | 100%              |

**Concentration of Credit Risk.** The District diversifies its investments by security type and institution.

- 100% of the District's portfolio may be invested in US Treasury notes, bonds or certificates, US Government sponsored corporations, or the State investment pool.
- 50% of the portfolio may be invested in certificates of deposit with no more than 10% held by any one issuer and not exceeding 20% of the issuer's net worth.
- 25% of the portfolio may be invested in banker's acceptances (10% per issuer), State or local government bonds (10% per issuer) and repurchase agreements (25% per dealer).
- 10% of the portfolio may be invested in commercial paper and other authorized investments.

At year end, 100% percent of the District's investments were held at the State Investment Pool. Such concentration is permitted by the District's investment policy.

**Fair Value.** The District has adopted GASB Statement No. 72, *Fair Value Measurement and Application*; investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period.

### NOTE 3 - UTILITY PLANT AND DEPRECIATION

Capital assets are defined by the District as assets with initial individual cost of more than \$1,000 and an estimated useful life in excess of five years.

Major expenses for capital assets, including capital leases and major repairs that increase useful life expectancy are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Prior to 2011, the District historically accounted for its assets using USDA's Rural Utilities Services (RUS) reporting guidelines. Customer contributions in aid of construction were not included in the recorded cost of plant assets following these RUS guidelines. This method of accounting for Utility Plant capital assets is a departure from generally accepted accounting principles (GAAP). Per GAAP accounting regulations Utility Plant should be recorded at full cost and depreciated over its useful life. This departure from GAAP has resulted in an understatement of the District's Utility Plant and thus an understatement to the correlating accumulated depreciation expense accounts. To give perspective on the effect of this departure, the 2009 contributions in aid totaled \$124,332 and in 2010 \$220,211. In 2007 & 2008 during higher construction years the contribution dollars amounted to \$382,395 and \$582,971, respectively. Since 2011, the District has accounted for its assets using the GAAP regulations. Though the differences in these two accounting methods would be considered immaterial a disclosure of this departure is required.

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 the net gain or loss on disposition is credited or charged to income.

Capital assets are depreciated using the straight-line method within useful life guidelines as established by the Rural Utilities Service:

| <u>Assets</u>      | <u>Estimated Life- Years</u> |
|--------------------|------------------------------|
| Buildings          | 33.33                        |
| Equipment-Shop     | 16.67                        |
| Transportation     | 10.00                        |
| Computer Hardware  | 6.25                         |
| Distribution-Poles | 25.03                        |
| Transmission Plant | 36.39                        |

PUD No. 1 of Ferry County

**Utility Plant Activity**

For the period ended December 31, 2021

|  | Beginning      |                 |                 | Ending         |
|--|----------------|-----------------|-----------------|----------------|
|  | <u>Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance</u> |
| Utility Plant Not Being Depreciated        |                |                 |                 |                |
| Land                                       | 200,484        | -               | 280             | 200,204        |
| Construction Work in Progress              | 40,944         | 716,625         | 707,337         | 50,232         |
| Retirement Work in Progress                | 14,722         | 163,480         | 166,808         | 11,394         |
| Total Utility Plant Not Being Depreciated  | 256,150        | 880,105         | 874,425         | 261,830        |
| Utility Plant Being Depreciated            |                |                 |                 |                |
| Buildings                                  | 966,883        | 3,417           | 33,457          | 936,843        |
| Equipment                                  | 3,227,781      | 356,059         | 368             | 3,583,472      |
| Distribution Plant                         | 24,422,344     | 818,862         | 111,583         | 25,129,622     |
| All Other Utility Plant                    | 147,691        | -               | -               | 147,691        |
| Transmission Plant                         | 1,493,880      | 1,760           | -               | 1,495,640      |
| Total Utility Plant Being Depreciated      | 30,258,579     | 1,180,098       | 145,409         | 31,293,268     |
| Total Utility Plant                        | 30,514,729     | 2,060,204       | 1,019,834       | 31,555,098     |
| Less Accumulated Depreciation For:         |                |                 |                 |                |
| Transmission Plant                         | 1,063,470      | 45,966          | -               | 1,109,435      |
| Distribution Plant                         | 14,093,384     | 793,972         | 158,644         | 14,728,712     |
| General Plant                              | 1,712,048      | 48,623          | 27,038          | 1,733,633      |
| Equipment                                  | 1,681,898      | 143,875         | -               | 1,825,774      |
| All other Plant                            | 45,960         | 4,706           | -               | 50,667         |
| Total Accumulated Depreciation             | 18,596,761     | 1,037,142       | 185,682         | 19,448,221     |
| Total Utility Plant Being Depreciated, Net | 11,661,818     | 142,956         | (40,273)        | 11,845,047     |
| TOTAL UTILITY PLANT, NET                   | 11,917,968     | 1,023,061       | 834,152         | 12,106,877     |

*Notes to Financial Statements are an integral part of this statement.*

#### NOTE 4 – CONSTRUCTION WORK IN PROGRESS

Construction in progress, representing expenditures to date on projects which are not fully completed for electrical plant or unitized to plant accounts, totals \$ 50,232 as of December 31, 2021. (See Note 3 – Utility Plant and Depreciation regarding historical departure from GAAP)

#### NOTE 5 - LONG-TERM DEBT

During the year ended December 31, 2021, the District had no long-term debt to recognize. The following changes occurred in long-term Liabilities.

| Liability Class                    | Beginning Balance<br>1/1/2021 | Increase (Decrease)<br>2021 | Balances Outstanding as of<br>12/31/21 |
|------------------------------------|-------------------------------|-----------------------------|--|
| Capital Lease Obligation           | 10,155                        | (2,071)                     | 8,084                                  |
| Compensated Absences               | 325,190                       | 23,752                      | 348,942                                |
| Net Pension Liability              | 573,388                       | (435,230)                   | 138,158                                |
| <b>Total Long-Term Liabilities</b> | <b>908,733</b>                | <b>(413,549)</b>            | <b>495,184</b>                         |

#### NOTE 6 – RESTRICTED ASSETS

The District's Balance Sheet reports \$307,020 of restricted assets, including the restricted Net Pension asset, as of December 31, 2021.

#### NOTE 7 - PENSION & BENEFIT PLANS

The following table represents the aggregate pension amounts for all plans for the year 2021:

| <b>Aggregate Pension Amounts – All Plans</b> |              |
|--|--------------|
| Pension liabilities                          | \$ 138,158   |
| Pension assets                               | \$ 1,449,215 |
| Deferred outflows of resources               | \$ 190,956   |
| Deferred inflows of resources                | \$ 1,532,093 |
| Pension expense (or income)                  | \$ (346,867) |

#### **State Sponsored Pension Plans**

Substantially all Public Utility District No. 1 of Ferry County's (District) full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

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

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

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

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

### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

| <b>PERS Plan 1</b>               |                 |                  |
|----------------------------------|-----------------|------------------|
| <b>Actual Contribution Rates</b> | <b>Employer</b> | <b>Employee*</b> |
| January – June 2021              |                 |                  |
| PERS Plan 1                      | 7.92%           | 6.00%            |
| PERS Plan 1 UAAL                 | 4.87%           |                  |
| Administrative Fee               | 0.18%           |                  |
| <b>Total</b>                     | <b>12.97%</b>   | <b>6.00%</b>     |
| July – December 2021             |                 |                  |
| PERS Plan 1                      | 10.07%          | 6.00%            |
| Administrative Fee               | 0.18%           |                  |
| <b>Total</b>                     | <b>10.25%</b>   | <b>6.00%</b>     |

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

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

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

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

### Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as reflected on the next page:

| <b>PERS Plan 2/3</b>             |                     |                    |
|----------------------------------|---------------------|--------------------|
| <b>Actual Contribution Rates</b> | <b>Employer 2/3</b> | <b>Employee 2*</b> |
| January – June 2021              |                     |                    |
| PERS Plan 2/3                    | 7.92%               | 7.90%              |
| PERS Plan 1 UAAL                 | 4.87%               |                    |
| Administrative Fee               | 0.18%               |                    |
| Employee PERS Plan 3             |                     | Varies             |
| <b>Total</b>                     | <b>12.97%</b>       | <b>7.90%</b>       |
| July – December 2021             |                     |                    |
| PERS Plan 2/3                    | 6.36%               | 6.36%              |
| PERS Plan 1 UAAL                 | 3.71%               |                    |
| Administrative Fee               | 0.18%               |                    |
| Employee PERS Plan 3             |                     | Varies             |
| <b>Total</b>                     | <b>10.25%</b>       | <b>6.36%</b>       |

\* For employees participating in JBM, the contribution rate was 15.90%.

The District's actual PERS plan contributions were \$78,231 to PERS Plan 1 and \$130,270 to PERS Plan 2 for the year ended December 31, 2021.

### **Actuarial Assumptions**

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

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

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

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

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

- For purposes of the June 30, 2020, Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

### **Discount Rate**

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

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

### **Long-Term Expected Rate of Return**

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

### **Estimated Rates of Return by Asset Class**

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

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

### Sensitivity of the Net Pension Liability/(Asset)

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

|          | 1% Decrease<br>(6.4%) | Current Discount<br>Rate<br>(7.4%) | 1% Increase<br>(8.4%) |
|----------|-----------------------|------------------------------------|-----------------------|
| PERS 1   | \$ 235,360            | \$ 138,158                         | \$ 53,388             |
| PERS 2/3 | \$ (412,853)          | \$ (1,449,215)                     | \$ (2,302,659)        |

### Pension Plan Fiduciary Net Position

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

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

At June 30, 2021, the District reported its proportionate share of the net pension liabilities as follows:

|          | Liability (or Asset) |
|----------|----------------------|
| PERS 1   | \$ 138,158           |
| PERS 2/3 | \$ (1,449,214)       |

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

|          | Proportionate<br>Share 6/30/20 | Proportionate<br>Share 6/30/21 | Change in<br>Proportion |
|----------|--------------------------------|--------------------------------|-------------------------|
| PERS 1   | 0.011053%                      | 0.011313%                      | 0.000260%               |
| PERS 2/3 | 0.014321%                      | 0.014548%                      | 0.000227%               |



Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2021, 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 Non-employer Allocations* for all plans except LEOFF 1.

### **Pension Expense**

For the year ended December 31, 2021, the District's recognized pension expense as follows:

|          | <b>Pension Expense (or Income)</b> |
|----------|------------------------------------|
| PERS 1   | \$ (15,672)                        |
| PERS 2/3 | \$ (331,205)                       |
| TOTAL    | \$ (346,877)                       |

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

At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <b>PERS 1</b>  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Differences between expected and actual experience   | \$  | \$                                       |
| Net difference between projected and actual investment earnings on pension plan investments          | \$  | \$ 153,309                               |
| Changes of assumptions   | \$  | \$                                       |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$  | \$                                       |
| Contributions subsequent to the measurement date   | \$ 34,579                                 | \$                                       |
| TOTAL  | \$ 34,579                                 | \$ 153,309                               |

| <b>PERS 2/3</b>  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Differences between expected and actual experience   | \$ 70,386                                 | \$ 17,766                                |
| Net difference between projected and actual investment earnings on pension plan investments          | \$  | \$ 1,211,204                             |
| Changes of assumptions   | \$ 2,118                                  | \$ 102,918                               |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ 24,595                                 | \$ 46,895                                |
| Contributions subsequent to the measurement date   | \$ 59,278                                 | \$                                       |
| TOTAL  | \$ 156,377                                | \$ 1,378,783                             |

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, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended<br>December 31: | PERS 1      |
|----------------------------|-------------|
| 2022                       | \$ (40,612) |
| 2023                       | \$ (37,215) |
| 2024                       | \$ (35,188) |
| 2025                       | \$ (40,294) |
| 2026                       | \$          |
| Thereafter                 | \$          |

| Year ended<br>December 31: | PERS 2/3     |
|----------------------------|--------------|
| 2022                       | \$ (335,135) |
| 2023                       | \$ (313,373) |
| 2024                       | \$ (306,122) |
| 2025                       | \$ (324,926) |
| 2026                       | \$ (3,584)   |
| Thereafter                 | \$ 1,456     |

#### NOTE 8 - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with The Great West Life Assurance Co. of Denver, Colorado. The plan, available to eligible employees, permits them to defer a portion of their compensation until future years. The District has historically provided a fifty-cent-for-one-dollar (50%) match of employee contributions which were capped at two percent (2%) of employee regular straight-time wages. In April 2020, through the collective bargaining process, the District increased the cap from two percent (2%) to four percent (4%) of employee regular straight-time wages. This increase was extended to all District employees. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. In 2021, the District match consisted of \$ 54,945.

Compensation deferred under the plan and all income attributable to the plan is solely the property of the employee. The District's rights to this property have been amended to exclude these funds from the claims of the District's general creditors.

The District has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor in the implementation of this plan on the behalf of the District's employees.

#### NOTE 9 - CONTRACTS WITH ENERGY NORTHWEST

Energy Northwest (ENW), formerly Washington Public Power Supply System (WPPSS), is a Washington municipal corporation operating as a Joint Operating Agency comprised of 27 public utilities and municipalities from numerous regions

throughout the state of Washington. (This venture is defined as a Joint Operating Agency, as described in RCW 43.52 – Operating Agencies.)

##### A. Energy Northwest Nuclear Project No. 2

Nuclear Project No. 2, Columbia Generating Station Nuclear Power Plant (Columbia) was completed and placed in operation on December 13, 1984. It is owned by Energy Northwest and its participants and operated by Energy

Northwest. The plant is a 1,207 gross MW boiling water nuclear power station located on the Department of Energy's Hanford Reservation north of Richland, Washington. It is currently operating under a Nuclear Regulatory Commission license renewed in May of 2012 for an additional 20 years, extending operation through 2043. All output is provided to the Bonneville Power Administration at the cost of production under a formal net billing agreement in which BPA pays the costs of maintaining and operating the facility.

B. Packwood Lake Hydroelectric Project

The District is a participant in Energy Northwest's Packwood Project, located in the Cascade Mountains south of Mount Rainier. In late 2011, the District signed an agreement with Public Utility District #1 of Clallam County for the sale and purchase of project output and associated environmental attributes. The rights to the District's 1% share of the project are assigned to Clallam County through 2028. In return, Clallam will pay the District's share of project costs directly to ENW, a 10% mark-up of the costs to the District and \$15 for each REC provided to Clallam from this assignment. The District received \$2,926 in payments during 2021.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

During 2021, the District increased prior year margin accounts by \$60,431. The Selected Financial Information in the Management Discussion and Analysis section of this report properly reflects these adjustments as do the 2021 Financial Statements presented in this report.

\$55,691 of these monies were to recognize Non-Operating Revenues and the associated Asset that was not presented on the District's 2020 Financial Statements. Pole line contact leases in 2020 were not originally included in the Revenues or Accounts Receivables for the year. Entries to correct this error and properly reflect them on the District's financials occurred in 2021.

In addition, the District received \$4,740 of funding from FEMA and WA State Emergency Management as part of the reimbursement of expenses from the September 2020 High Wind and Fire Event. These dollars increase prior year margins in offsetting costs and expenses recognized in 2020. See Note 12 for further details.

NOTE 11 - RISK MANAGEMENT

The District maintains an all-risk blanket coverage policy with the Federated Rural Electric Insurance Corporation insuring against most normal hazards and liabilities. It also maintains a commercial umbrella policy, and officers, directors, managers, and corporate indemnification coverage with the same carrier.

Workers compensation insurance coverage is provided by the District through the State of Washington Department of Labor and Industries. Rather than pay monthly insurance premiums, the District has elected to self-insure for unemployment insurance purposes. Claims are filed with, and processed by, the State of Washington Employment Security Department and, upon authentication and payment, are reimbursed by the District. In 2021, the District had no such reimbursements and as of December 31, 2021 estimated liability for potential claims was minimal.

The District, with six other public utility districts, is a member of the Central Washington Public Utilities Unified Insurance Program and Trust, which is a self-

insurance program providing medical, dental, life insurance, disability insurance, and similar benefits to member employees and families. Formed by a Declaration of Trust and an Interlocal Agreement under RCW Chapter 39.34, the trust is administered by a board of trustees consisting of an appointed trustee from each of the seven-member districts. Additional information may be obtained by contacting the District.

#### NOTE 12 – SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, colleges, and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they were leaving for an essential function. As this virus continues to spread, there have been numerous proclamations enacted by the Governor including a moratorium on disconnect of utility services. These measures remained in place throughout 2020 and most of 2021. During 2020, the District did see an increase in Accounts Receivable balances of over 90 days and this continued through 2021. As such, a close look was taken at the year-end balance for Allowance for Uncollectible Accounts. The full extent of any financial impact continues to be monitored.

In September of 2020, Ferry County experienced a high wind and fire event that caused some damages to the electric system. A Federal Disaster was declared for the county for Public Assistance under DR-4584-Washington-WA; the District is working with FEMA, the Federal Emergency Management Agency, to assist with costs related to emergency response and damages from these events. The cost estimates at year end 2020 were approximately \$21,000. In September 2021, \$4,740 was received for costs related to the Emergency Response that transpired in 2020. This represented Federal and State reimbursement of expenditures. The actual amounts determined allowable for reimbursement in damages is \$68,544. This majority of the repair work is anticipated to occur in June 2022.

#### NOTE 13 – LEASE AGREEMENT

The District leases a copier from an external party. In accordance with GASB 87, the District has recorded a right-to-use asset and a lease liability based on the present value of expected payments over the term of the respective lease. Variable payments are excluded from the valuations unless they are fixed in substance. The District's lease is not subject to a residual value guarantee. The right -to-use asset is amortized over the shorter of the lease term or the underlying asset useful life. Right-to-use assets totaled \$11,493 as of year-end December 31, 2021, and the related accumulated depreciation totaled \$3,648.

As of December 31, 2021, the scheduled maturities of lease liabilities and related interest expenses are as follows:

| Years Ended December 31: | <u>Principal</u> | <u>Interest</u> | <u>Total</u>    |
|--------------------------|------------------|-----------------|-----------------|
| 2022                     | 2,149            | 265             | 2,414           |
| 2023                     | 2,230            | 183             | 2,413           |
| 2024                     | 2,315            | 99              | 2,414           |
| 2025                     | 1,390            | 17              | 1,407           |
|                          | <u>\$ 8,084</u>  | <u>\$ 564</u>   | <u>\$ 8,648</u> |

During the year ended December 31, 2021, the District paid \$2,413 in variable lease payments not previously included in the measurement of the related lease liability.

**FERRY COUNTY P.U.D. NO. 1  
REQUIRED SUPPLEMENTAL INFORMATION**

January 1, 2021 through December 31, 2021

**State Sponsored Pension Plans**

**Schedule of Proportionate Share of the Net Pension Liability**

**PERS Plan 1**

**As of June 30, 2021**

|   | <u>2021</u>  | <u>2020</u>  | <u>2019</u>  | <u>2018</u>  | <u>2017</u>  | <u>2016</u>  |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Employer's proportion of the net pension liability  | 0.011313%    | 0.011053%    | 0.011055%    | 0.011907%    | 0.013067%    | 0.011923%    |
| Employer's proportionate share of the net pension liability   | \$138,158.20 | \$390,231.00 | \$425,104.00 | \$531,771.00 | \$620,039.00 | \$640,321.00 |
| Employer's covered employee payroll   | \$0.00       | \$0.00       | \$0.00       | \$0.00       | \$0.00       | \$0.00       |
| Employer's proportionate share of the net pension liability as a percentage of the covered employee payroll | 0.00%        | 0.00%        | 0.00%        | 0.00%        | 0.00%        | 0.00%        |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 88.74%       | 68.64%       | 67.12%       | 63.22%       | 61.24%       | 57.03%       |

FERRY COUNTY P.U.D. NO. 1  
REQUIRED SUPPLEMENTAL INFORMATION

January 1, 2021 through December 31, 2021

**State Sponsored Pension Plans**

**Schedule of Proportionate Share of the Net Pension Liability**  
**PERS Plan 2/3**  
**As of June 30, 2021**

|   | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Employer's proportion of the net pension liability  | 0.014548%   | 0.014321%   | 0.014289%   | 0.015212%   | 0.016807%   | 0.015297%   |
| Employer's proportionate share of the net pension liability   | \$1,449,215 | \$183,157   | \$138,795   | \$259,731   | \$583,963   | \$770,192   |
| Employer's covered employee payroll   | \$1,828,404 | \$1,715,355 | \$1,594,368 | \$1,582,480 | \$1,601,512 | \$1,575,265 |
| Employer's proportionate share of the net pension liability as a percentage of the covered employee payroll | 79.26%      | 10.68%      | 8.71%       | 16.41%      | 36.46%      | 48.89%      |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 120.29%     | 97.22%      | 97.77%      | 95.77%      | 90.97%      | 85.82%      |

FERRY COUNTY P.U.D. NO. 1  
REQUIRED SUPPLEMENTAL INFORMATION

January 1, 2021 through December 31, 2021

**State Sponsored Pension Plans**

**Schedule of Employer Contributions**

**PERS Plan 1**

**As of December 31, 2021**

|  | <u>2021</u>        | <u>2020</u>        | <u>2019</u>        | <u>2018</u>        | <u>2017</u>        | <u>2016</u>        |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Statutorily or contractually required contributions                          | \$78,231.45        | \$82,293.00        | \$78,714.00        | \$80,093.00        | \$78,474.00        | \$75,140.00        |
| Contributions in relation to the statutorily or contractually required contr | <u>\$78,231.45</u> | <u>\$82,293.00</u> | <u>\$78,714.00</u> | <u>\$80,093.00</u> | <u>\$78,474.00</u> | <u>\$75,140.00</u> |
| Contribution deficiency (excess)   | \$0.00             | \$0.00             | \$0.00             | \$0.00             | \$0.00             | \$0.00             |
| Covered employer payroll   | \$0.00             | \$0.00             | \$0.00             | \$0.00             | \$0.00             | \$0.00             |
| Contributions as a percentage of covered employee payroll                    | 0.00%              | 0.00%              | 0.00%              | 0.00%              | 0.00%              | 0.00%              |



FERRY COUNTY P.U.D. NO. 1  
REQUIRED SUPPLEMENTAL INFORMATION

January 1, 2021 through December 31, 2021

**State Sponsored Pension Plans**

**Schedule of Employer Contributions**

**PERS Plan 2/3**

**As of December 31, 2021**

|  | <u>2021</u>      | <u>2020</u>      | <u>2019</u>      | <u>2018</u>      | <u>2017</u>      | <u>2016</u>     |
|--|------------------|------------------|------------------|------------------|------------------|-----------------|
| Statutorily or contractually required contributions                                  | \$130,091        | \$135,856        | \$123,224        | \$118,676        | \$109,866        | \$98,139        |
| Contributions in relation to the statutorily or contractually required contributions | <u>\$130,091</u> | <u>\$135,856</u> | <u>\$123,224</u> | <u>\$118,676</u> | <u>\$109,866</u> | <u>\$98,139</u> |
| Contribution deficiency (excess)   | \$0              | \$0              | \$0              | \$0              | \$0              | \$0             |
| Covered employer payroll   | \$1,828,404      | \$1,715,355      | \$1,594,368      | \$1,582,480      | \$1,601,512      | \$1,575,265     |
| Contributions as a percentage of covered employee payroll                            | 7.12%            | 7.92%            | 7.73%            | 7.50%            | 6.86%            | 6.23%           |