

ANNUAL FINANCIAL REPORT

Fiscal Year Ended December 31, 2018



Public Utility District #1 of Clallam County

P.O. Box 1000 Carlsborg, WA 98324 • 360-452-9771

www.clallampud.net

Table of Contents

Message from the General Manager.....	3
About Clallam PUD.....	4
State Auditor’s Report on Financial Statements.....	5
Management’s Discussion and Analysis.....	9
Statement of Net Position.....	15
Statement of Revenue, Expenses, and Changes in Net Position.....	16
Statement of Cash Flows.....	17
Notes to the Financial Statements.....	19
Note 1 - Summary of Significant Accounting Policies.....	19
Note 2 - Deposits and Investments.....	23
Note 3 - Utility Plant and Depreciation.....	25
Note 4 - Lease Commitments.....	27
Note 5 - Long-Term Debt.....	28
Note 6 - Pension Plans.....	31
Note 7 - Other Post-Employment Benefits.....	37
Note 8 - Self Insurance.....	38
Note 9 - Conservation Programs.....	40
Note 10 - Purchased Power and Water Contracts.....	41
Note 11 - Association With Energy Northwest.....	43
Note 12 - Participation in Northwest Open Access Network, Inc. (NoaNet).....	44
Note 13 - Telecommunication Services.....	44
Note 14 - Commitments and Contingencies.....	45
Note 15 - Subsequent Events.....	45
Note 16 - Segment Information.....	46
Required Supplemental Information.....	49
Directory of Public Officials.....	52



Message From the General Manager

Dear Clallam PUD Owners,

As General Manager, I am pleased to introduce our 2018 Financial Annual Report. In the 2017 report, we included the first “Message from the General Manager” so I provided a recap of our Strategic Plan and the decade of progress that has been accomplished up to that time by your hard working and dedicated employees of the PUD. We continue to strive to accomplish our Vision of “Being the best utility for OUR customers” and our Mission of “Providing reliable, efficient, safe and low cost utility services in a financially and environmentally responsible manner”. From this report on, we will mainly be reporting on the year addressed.

Some of the major accomplishment in 2018

Our website now includes mapping outage locations during major outages as well as real-time updates on our Facebook and Twitter social media to help keep our customers informed during major outages.

A new software system has been added to all of our accounting, engineering, operations and customer service systems to provide a more integrated, secure and efficient operation. We will be upgrading our Human Resources system in the coming years.

Our Emergency Response and Restoration Plan (ERRP) has been completed, after a number of years of study, and lays out the plan for your utility to be better prepared to respond to a major emergency such as an earthquake.

Each year we are working on over eighty major projects to help make your power and water more reliable while striving to keep it as low cost as possible.

Increasing Costs

Reliability, safety and financial strength are a few of our highest attributes. Working to keep our rates low is a constant battle, with rising power and materials cost, along with environmental and legislative laws continuing to increase our budgets.

Employees

One of your most valuable assets here at the PUD is our employees. They are there day and night, every day of the year, to provide you great service. We continue to make sure they are highly trained with the skills and education to provide the best services for you. We work to attract and maintain a great workforce in this highly competitive industry.

Financial Outlook

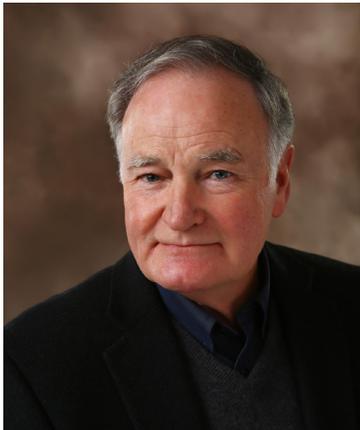
The outlook for your utility, Clallam PUD #1 continues to be strong. Moody’s Investors Service announced that they have assigned an Aa3 rating to the PUD #1 of Clallam County’s \$9.1 million, 2018 Electric System Revenue Bonds stating that the rating “reflects the District’s strong financial profile, including strong debt service coverage and healthy but declining liquidity levels. The rating takes into consideration the stable, rural residential character of the service area and low cost power supply from Bonneville Power Administration, as well as the District’s manageable debt and pension liabilities”. According to our bond underwriter, this rating is the highest rating possible for a utility of our size.

Have a great year and thanks for your support,

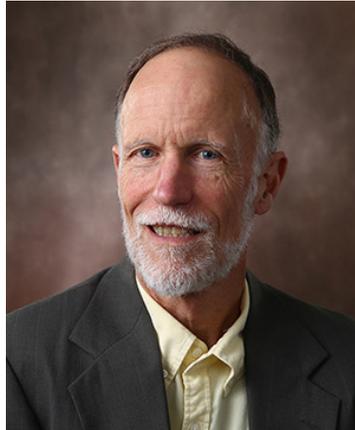


General Manager, Doug Nass

About Clallam PUD



Will Purser, Commissioner - District 1



David Anderson - District 2



Ted Simpson, Commissioner - District 3

Clallam County Public Utility District #1 is directed by a three-member Board of Commissioners elected by citizens of the county. Each Commissioner represents a different sector of the county and serves a six-year term. The Commissioners set utility policies and hire a General Manager to implement those policies. Washington RCW Chapter 54.12 governs Public Utility District Commissioners. Commissioners' meetings are open to the public and start at 1:30 p.m. Meetings are held the 2nd and 4th Mondays, monthly, at the Carlsborg Main Office.

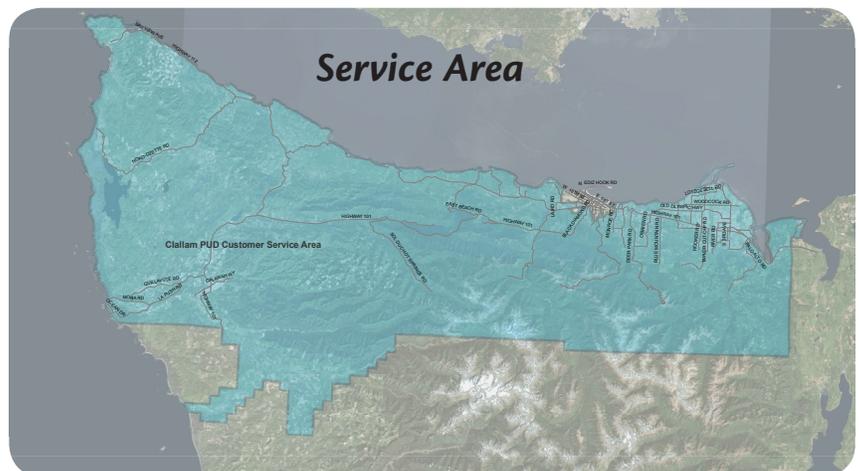
Vision: Being the best utility for OUR customers.

Mission Statement: Providing reliable, efficient, safe, and low cost utility services in a financially and environmentally responsible manner.

Fuel Mix

Your PUD's electricity comes from the following fuel mix (which is 98% clean energy!):

- 1% Coal
- 87% Hydroelectric
- 1% Natural Gas
- 11% Nuclear



At A Glance 2018 Year-End

Number of Customers - 26,939
Full-time Employees - 137
Residential Electric Rate - \$0.073

Miles of Transmission Lines - 108
Miles of Distribution Line - 1,806
Total Kilowatt Hours Sales - \$632,219,933



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

December 23, 2019

Board of Commissioners
Public Utility District No. 1 of Clallam County
Carlsborg, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Clallam County's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

**INDEPENDENT AUDITOR'S REPORT ON
FINANCIAL STATEMENTS**

**Public Utility District No. 1 of Clallam County
January 1, 2018 through December 31, 2018**

Board of Commissioners
Public Utility District No. 1 of Clallam County
Carlsborg, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Clallam County, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

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 District'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 District'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 Clallam County, as of December 31, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 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 our report dated December 12, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

December 12, 2019

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis is designed to provide an overview of the financial activities of the Public Utility District No. 1 of Clallam County ("District") for the year ended December 31, 2018. This section is intended to be read in conjunction with the basic financial statements and accompanying notes.

2018 Highlights

To align with the District's mission statement of providing reliable, efficient, safe and low cost utility services in a financially and environmentally responsible matter, the District moved forward with several major projects in 2018.

The District completed a \$1.4 Million project to upgrade both capacity and voltage of the transmission segment between the Airport and Laird Corner substations. This was the seventh of ten planned transmission and substation projects over a 14-year period to upgrade the Port Angeles Central Transmission Feeder and establish transmission and substation redundancy between Joyce and the areas immediately south and west of Port Angeles.

The District made substantial progress on its long term Substation Rebuild, Modernization and Consolidation Program with the decommission of underutilized Pysht Substation and consolidation of loads under recently upgraded and modernized Sekiu Substation. Funding to complete the 2006-2020 Substation Program was obtained in 2018 and will be used for the remaining substation upgrades and Supervisory Control and Data Acquisition (SCADA) implementation at Airport Substation and two Forks area substations.

Work continued on smart grid modernization with a new Voltage Optimization and Conservation Voltage Reduction evaluation and implementation at Agnew Substation. In November of 2018 the Board of Commissioners authorized a multi-year Advanced Metering Infrastructure (AMI) upgrade and deployment of AMI meters throughout the District's service territory. The new Meter Strategy is estimated to offer a positive Net Present Value in excess of \$10,000,000 over the infrastructure life. The associated ability to implement time of use rates well positions the District for the conclusion of our current Bonneville Power Administration contract in 2028, as well as cost effectively implement Washington's new ESSSB Bill 5116 "Clean Energy – Electric Utilities" requirements.

Overview of the Financial Statements

The District is a municipal corporation duly organized and existing under the laws of the State of Washington. The District operates and maintains three divisions: the Electric Division, the Water Division (consisting of nine water systems), and the Wastewater Division (consisting of four sewer systems). These three divisions are reported in a combined format. In accordance with the requirements set forth by the Governmental Accounting Standards Board (GASB), the District uses full accrual basis accounting where revenues are recognized when earned and expenses are recognized when incurred. The basic financial statements are comprised of:

- **Statement of Net Position:** This statement presents information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) at year-end. Net position is separated into three categories: net investment in capital assets, net position – restricted and net position – unrestricted.
- **Statement of Revenue, Expenses and Changes in Net Position:** This statement reports revenues, expenses and the change in net position for the year indicated and measures the

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

MANAGEMENT’S DISCUSSION AND ANALYSIS

success of the District’s operations. It can be used to evaluate the level of cost recovery from charges for products and services.

- **Statement of Cash Flows:** This statement reflects the sources and uses of cash resulting from operating, financing, and investing activities. It provides insight into the District’s ability to generate cash flow and to meet its obligations.

The notes to the financial statements, presented at the end of the basic financial statements, provide additional information pertaining to the District's operations and financial position, and are essential to fully understanding the basic financial statements and are considered an integral part thereof.

Condensed Statement of Net Position (in thousands) *

	2018	2017	Change	% Change
		Restated		
Assets and Deferred Outflows of Resources				
Current Assets	\$ 42,278	\$ 42,800	\$ (522)	-1.2%
Capital Assets, net	172,001	168,805	3,196	1.9%
Other Assets	12,167	3,741	8,426	225.2%
Total Assets	226,446	215,346	11,100	5.2%
Deferred Outflows of Resources	1,505	1,608	(103)	-6.4%
Liabilities and Deferred Inflows of Resources				
Current Liabilities	13,545	12,364	1,180	9.5%
Noncurrent Liabilities	52,583	47,584	4,999	10.5%
Total Liabilities	66,128	59,948	6,179	10.3%
Deferred Inflows of Resources	2,592	1,470	1,122	76.3%
Net Position				
Net Investment in Capital Assets	133,093	130,112	2,981	2.3%
Restricted for:				
Debt Service	4,940	4,368	572	13.1%
Rural Economic Development Fund	550	544	6	1.1%
Future Capital	34	-	34	100.0%
Unrestricted	20,614	20,512	102	0.5%
Total Net Position	\$159,231	\$155,536	\$ 3,695	2.4%

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

MANAGEMENT’S DISCUSSION AND ANALYSIS

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

	2018	2017 Restated	Change	% Change
Operating Revenues	\$ 64,714	\$ 64,731	\$ (17)	0.0%
Non-Operating Revenues	561	648	(87)	-13.5%
Total Revenues	65,275	65,379	(104)	-0.2%
Operating Expenses	61,433	60,946	487	0.8%
Non-Operating Expenses	1,357	1,217	140	11.5%
Total Expenses	62,790	62,163	627	1.0%
Net Revenue before Contributions	2,485	3,216	(731)	-22.7%
Capital Contributions	1,210	1,658	(448)	-27.0%
Change in Net Position	3,695	4,874	(1,179)	-24.2%
Net Position as Restated				
Beginning of the Year	155,536	150,662	4,874	3.2%
Net Position, December 31	\$159,231	\$155,536	\$ 3,695	2.4%

Note: 2017 balances have been restated due to the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

Financial Analysis

The District maintained a strong overall net position in 2018, with total net position increasing 2.40% over 2017. The following is a comparative analysis of the change in net position by major components of income.

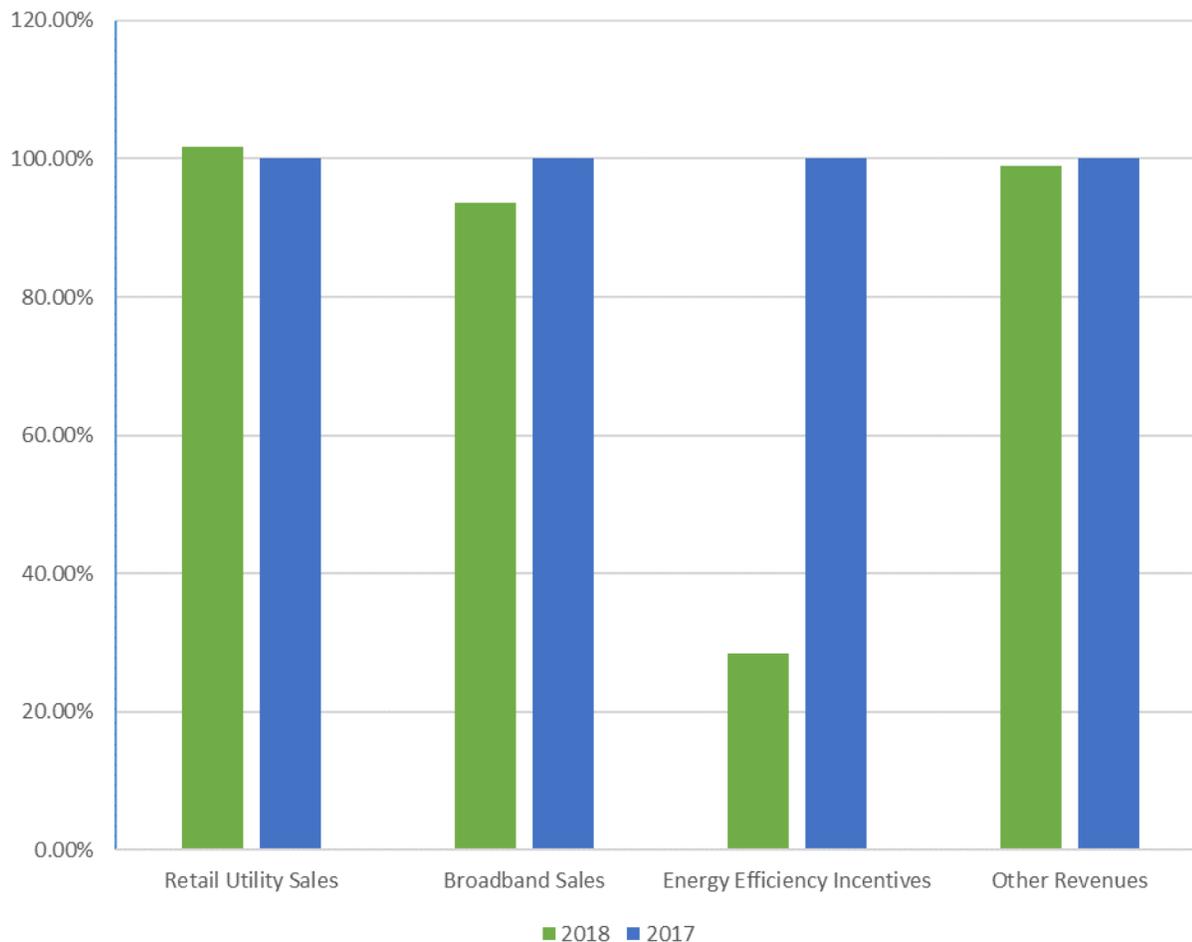
Operating Revenues

Operating revenues in 2018 stayed flat compared to 2017 despite rate increases in all three divisions. In December of 2018, the District experienced widespread outages throughout the county due to major windstorms that hit from December 10th through the 24th. Those storms contributed to a decrease in KWH retail sales to electric customers of 10.9% in December of 2018 compared to December of 2017. Overall revenue sales to retail customers in 2018 increased by \$1.04 Million while other operating revenues decreased in 2018 by \$1.06 Million. The decrease in other operating revenues was primarily due to a decrease in BPA Energy Efficiency Incentives of \$1.02 Million. The District’s electric customers increased by 256 billable meters and water customers increased by 57 billable meters in 2018.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following chart is a graphical representation of the District’s 2018 operating revenues as a percentage of 2017 operating revenues:



Operating Expenses

During 2018, operating expenses increased by a modest \$487 Thousand, a .8% increase over 2017. The District has a sales agreement with Bonneville Power Administration (BPA), a federal power-marketing agency, to purchase power through September 30, 2028. BPA adopted a 5.4% average increase in wholesale power rates that went into effect towards the end of 2017. This rate increase was the main driver of a \$1.52 Million increase in purchase power cost in 2018 over purchase power cost in 2017.

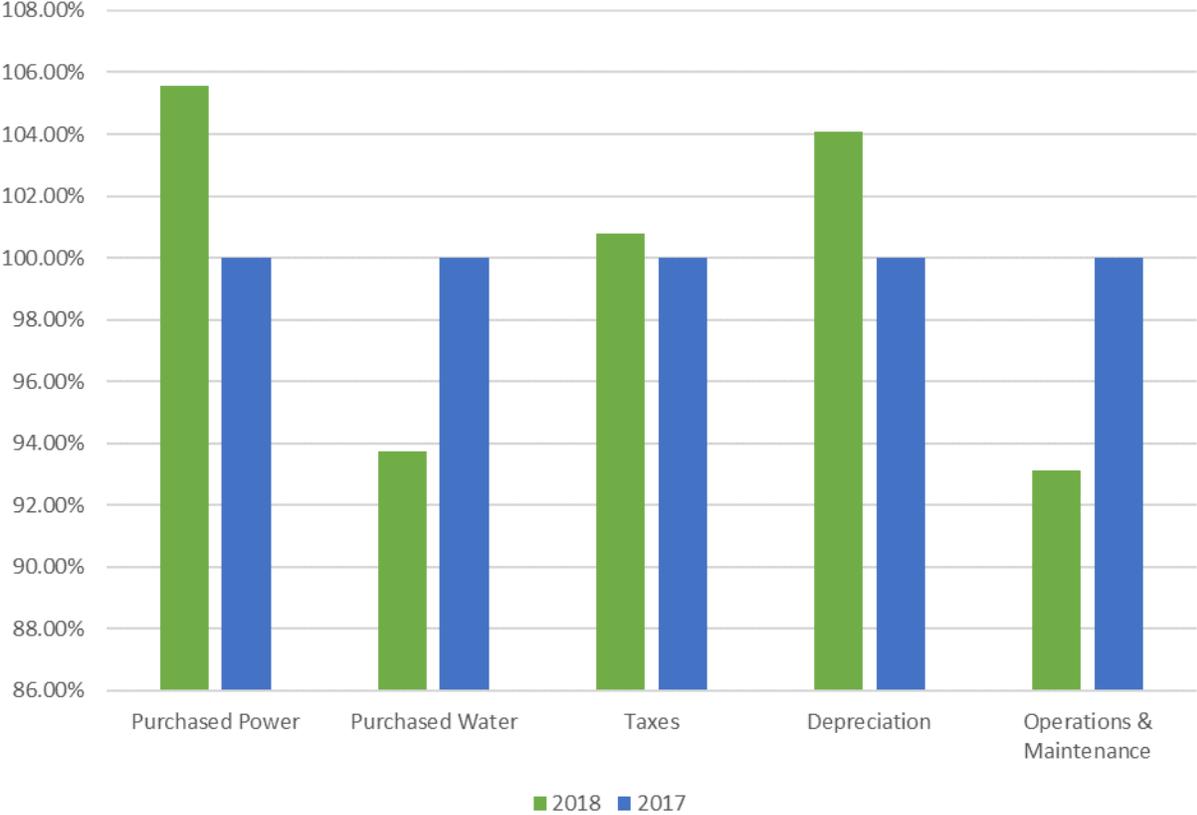
Total operations and maintenance expenses decreased by \$1.42 Million in 2018. Employee benefits which are recorded as part of operations expense decreased by \$577 Thousand in 2018. This decrease is related to a reduction in pension expense due to the required GASB 68 adjustments offset by higher medical costs in 2018. Along with the reduction in employee benefits expense, internal labor allocated to

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

MANAGEMENT’S DISCUSSION AND ANALYSIS

maintenance of overhead and underground lines decreased in 2018 due to increased work performed on capital projects including the work recorded to the storm work orders for the December windstorms.

The following chart is a graphical representation of the District’s 2018 operating expenses as a percentage of 2017 operating expenses:



Capital Contributions

Revenues from capital contributions decreased in 2018 by \$448 Thousand. Capital contributions had been elevated in 2017 due to a large project completed for CenturyLink that year.

Summary of Financial Position

In summary, the overall financial condition of the District improved during 2018 over 2017. Total revenues decreased by \$552 Thousand and total expenses increased by \$627 Thousand in 2018. The District’s ending net position was \$159 Million, an increase of \$3.7 Million over 2017.

District management monitors the effectiveness of its financial operations by measuring results against the financial strategic objectives adopted by the District’s governing body. The financial strategic objectives direct District management to develop financial plans that position the District for current and future years while being fiscally responsible to the District’s ratepayers. The strategic objectives are as follows:

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Provide stable rates - stable rates consist of no more than a 1% rate adjustment over the previous 5 year average;
- Cash reserves at or above 120 days cash on hand
- Cash balance within \$500,000 of budget
- Maintain a 1.75 Debt Service Coverage Ratio (DSCR)

These objectives were met for 2018.

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

Capital Asset and Long-Term Debt Activity

Capital Assets

At the end of 2018, the District had a total investment in gross capital assets of \$300.8 Million, which was an increase of 3.94% over 2017. Projects in the Electric Division included distribution pole replacements, underground replacements and transmission rebuilds including the completion of the Airport to Lairds Corner Transmission Rebuild. Other major projects capitalized in 2018 included the Forks Vehicle Storage Building and the replacement of underground conductor at Freshwater Park. Projects for the Water Division included upgrades to water mains and services throughout all water systems.

Construction work in progress increased \$1.4 Million in 2018 due to work on major projects including the Olympic Highway Pipeline Upgrade in the Fairview water system.

Additional information on the District's capital assets is presented in Note 3.

Long Term Debt

In August of 2018, the District issued \$9,170,000 in Electric Revenue Bonds. The bond proceeds will be used to finance additions and improvements in the District's Electric Division. No additional debt was incurred by the Water Division in 2018. At the end of 2018, the District had \$41.8 Million in bonds outstanding and \$4.3 Million in Drinking Water Loans outstanding, an increase in total long term debt of 20.4% over 2017.

More detailed information regarding the District's long term debt is presented in Note 5.

Bond Ratings

In 2018, the District's credit rating was affirmed by Moody's at Aa3.

Requests for Financial Information

Please direct questions relating to this financial report or additional financial information to the District's Controller at PO Box 1000, Carlsborg, WA 98324.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

STATEMENT OF NET POSITION

For the year ended December 31, 2018

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	9,586,738
Investments	16,649,116
Accounts Receivable, Net	4,574,821
Other Accounts Receivable, Net	230,440
Accrued Unbilled Revenues	2,825,162
Materials and Supplies	5,296,716
Prepayments	1,075,684
Interest Receivable	108,004

Restricted Assets

Debt Service Funds	1,931,031
--------------------	-----------

TOTAL CURRENT ASSETS

42,277,712

NONCURRENT ASSETS

Restricted Assets

Rural Economic Development Fund	550,124
Debt Service Reserve Funds	3,444,672
Construction Fund 2018	62,576
Construction Fund Invested 2018	8,025,500

Total Restricted Assets

12,082,872

Utility Plant

Non-Depreciable	9,072,050
Depreciable, Net	161,702,649

Total Utility Plant, Net

170,774,699

Other Noncurrent Assets

Non-Utility Plant	1,226,517
Preliminary Surveys	84,265

Total Other Noncurrent Assets

1,310,782

TOTAL NONCURRENT ASSETS

184,168,353

TOTAL ASSETS

\$ 226,446,065

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflow-Pension	1,119,253
Deferred Outflow-Other Post Employment Benefits	105,404
Deferred Outflow-Loss on Refunding	280,655

TOTAL DEFERRED OUTFLOWS OF RESOURCES

\$ 1,505,312

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	5,802,357
Customer Deposits	1,049,426
Accrued Taxes	1,507,842
Accrued Liabilities	2,330,508

Payables from Restricted Assets

Accrued Interest Payable	448,220
Current Portion of Long-Term Debt	2,407,337

TOTAL CURRENT LIABILITIES

13,545,690

NONCURRENT LIABILITIES

Revenue Bonds Payable	39,805,761
Drinking Water State Revolving Fund Loans	3,968,040
Customer Advances for Construction	714,233
Accrued Other Post-Employment Benefits	1,911,804
Accrued Net Pension Liability	6,145,686
Unearned Revenues	37,316

TOTAL NONCURRENT LIABILITIES

52,582,840

TOTAL LIABILITIES

\$ 66,128,530

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows-Pension	2,592,202
--------------------------	-----------

TOTAL DEFERRED INFLOWS OF RESOURCES

\$ 2,592,202

NET POSITION

Net Investment in Capital Assets	133,092,863
Restricted For:	
Debt Service	4,940,297
Rural Economic Development Fund	550,124
Future Capital	34,360
Unrestricted	20,613,001

TOTAL NET POSITION

\$ 159,230,645

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

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended December 31, 2018

OPERATING REVENUES

Utility Sales	\$ 63,085,456
Other Operating Revenues	1,628,822
TOTAL OPERATING REVENUES	<u>64,714,278</u>

OPERATING EXPENSES

Purchased Power	28,841,875
Purchased Water	294,618
Operating Expenses	15,783,638
Maintenance	3,541,957
Taxes	3,199,840
Depreciation	9,771,003
TOTAL OPERATING EXPENSES	<u>61,432,931</u>

NET OPERATING INCOME	<u>3,281,347</u>
-----------------------------	-------------------------

NON-OPERATING REVENUES AND EXPENSES

Interest Income	338,786
Interest and Amortization on Long-Term Debt	(1,165,194)
Debt Issuance Expense	(112,324)
Gain on Investments	59,647
Unrealized Gain on Investments	24,418
Miscellaneous Non-operating Income	137,795
Miscellaneous Non-operating Expenses	(3,053)
Loss on Disposal of Plant	(76,893)
TOTAL NON-OPERATING REVENUES AND EXPENSES	<u>(796,818)</u>

CAPITAL CONTRIBUTIONS	1,210,127
------------------------------	-----------

CHANGE IN NET POSITION	<u>3,694,656</u>
-------------------------------	-------------------------

Net Position, Beginning of the Year as Previously Reported	155,548,786
Accumulated Effect of Change in Accounting Principle	(12,797)
Net Position, Beginning of the Year as Adjusted	<u>155,535,989</u>

NET POSITION, ENDING	<u>\$ 159,230,645</u>
-----------------------------	------------------------------

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

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 66,053,607
Cash Paid to Suppliers	(36,155,749)
Cash Paid to Employees	(12,782,387)
Taxes Paid	(3,342,096)
Other Cash Receipts	137,061
Other Cash Payments	(3,053)
Net Cash Provided From Operating Activities	13,907,383

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Utility Plant	(12,882,065)
Proceeds from Sale of Utility Plant	39,586
Capital Contributions	1,548,087
Proceeds from Revenue Bond	10,218,602
Principal paid on Revenue Bonds/Drinking Water Loans	(2,127,366)
Debt Issuance Expense Paid on Capital Debt	(112,324)
Interest Paid on Debt	(1,301,870)
Net Cash Used by Capital and Related Financing Activities	(4,617,350)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	278,106
Investments-Purchased	(16,618,260)
Investments-Proceeds	14,025,000
Net Cash Provided by Investing Activities	(2,315,154)

NET INCREASE (DECREASE) IN CASH

6,974,879

Cash and cash equivalents, including restricted cash - Beginning of the Year 16,625,762

Less Restricted Cash (14,013,903)

Cash and cash equivalents - End of the Year **\$ 9,586,738**

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

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

STATEMENT OF CASH FLOWS (CONTINUED)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$	3,281,346
Adjustments to reconcile Operating Income To Net Cash Provided by Operating Activities		
Add (Deduct):		
Depreciation		9,771,003
Other Non-Operating (Receipts) Payments		134,742
Change in Accounts Receivable		300,257
Change in Unbilled Revenues		208,109
Change in Other Receivables		822,414
Change in Materials		191,303
Change in Prepayments		(163,032)
Change in Deferred Charges		67,813
Change in Accounts Payable		526,859
Change in Customer Deposits		19,951
Change in Accrued Taxes		(142,823)
Change in Accrued Liabilities		469,873
Change in Other Post-Employment Benefits (OPEB)		142,108
Change in Pension Expense (GASB 68)		(1,710,403)
Change in Unearned Revenues		(12,137)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	<u>13,907,383</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES

- Customer installed services brought into plant and included in Capital Contributions totaled \$201,433 and had no effect on cash.
- The District had an increase in fair value of investments as of December 31, 2018 of \$24,418.
- The deferred inflows and deferred outflows related to GASB 68 had no cash effect in 2018. The pension deferred outflow was \$1,119,253 and the pension deferred inflow was \$2,592,202.
- The deferred outflow related to GASB 75 had no cash effect in 2018. The deferred outflow was \$105,404.

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

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Public Utility District No. 1 of Clallam County (“District”) is a municipal corporation providing electric, water, and wastewater (sewer) service. The District was voted into existence on November 5, 1940. In July 1944 the District acquired electric facilities and began providing service. In the following year, the District began providing water service and in 1990 began providing sewer utility service.

The District is governed by a three-member board of elected commissioners and is comprised of an electric system, nine water systems, and four sewer systems. The accompanying combined financial statements include the financial position of the electric, water and sewer systems and the results of their operations. For the purpose of these statements, all interdepartmental transactions for services rendered between the systems have been eliminated upon consolidation.

District financing arrangements require the restriction of certain funds through debt covenants. Under the authority of Chapter 43.09 RCW, the District is required to follow accounting procedures prescribed by the State of Washington.

Basis of Accounting and Presentation

The accounting policies of the District conform to Generally Accepted Accounting Principles (GAAP) as applicable to proprietary funds of governments. The District adheres to the accounting standards and pronouncements of the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for governmental entities. Accounts are maintained in accordance with the Uniform System of Accounts for Public Utilities and Licenses as published by the Federal Energy Regulatory Commission (FERC). The District uses the full accrual basis of accounting recognizing revenues when earned and expenses as incurred. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with principal operations of the District. All other revenues and expenses are reported as non-operating revenues and expenses.

New Accounting Standard

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this statement is to improve the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This statement replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit OPEB, these statements identify the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also addressed. The District implemented GASB Statement No. 75 for fiscal year 2018. The collective financial impact resulting from the implementation is a restatement of 2017's beginning net position balances by \$12,797 to account for the change in the District's OPEB liability incurred in prior years. Additional information and disclosures related to OPEB may be found in Note 7.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

Cash and Cash Equivalents

The District considers cash equivalents as short-term (less than three months), highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value due to market forces.

Investments

It is the District's policy to record investments at fair value. For various risks related to the investments see Note 2.

Accounts Receivable and Provision for Doubtful Accounts

Management reviews accounts receivable and provides for estimated uncollectible accounts. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis. Customer accounts receivable is presented in the Statement of Net Position net of the provision for uncollectible account balance. The District's provision for uncollectible accounts was \$93,308 as of December 31, 2018.

Customer accounts receivable contain credit balances for advance payments from Average Payment Plan residential customers. The total dollar amount of the credit balances was \$471,560 at December 31, 2018 and has been reclassified as accounts payable.

Materials and Supplies

Materials and supplies inventories are valued on a weighted average cost basis.

Restricted Assets

Certain funds have been restricted either for compliance of debt covenants or through resolution. The assets held in these funds are limited and classified to their use including debt service and economic development.

Total Utility Plant, Net

Utility Plant Assets are recorded at cost and include both direct and indirect costs of construction or acquisition. The District has a capitalization policy for general plant purchases over \$1,000 with a useful life of greater than one year. The cost of maintenance and repairs is expensed as incurred; renewals, replacements and improvements are capitalized.

Composite rates are used for groups of infrastructure assets and, accordingly, no gain or loss is recorded on the retirement of an asset unless it represents a major retirement. Property, plant and equipment are depreciated based on the straight-line method over estimated useful lives summarized in the table below.

Electric Plant – Transmission	20 – 40 years
Electric Plant – Distribution	15 – 40 years
Electric General Plant	3 – 50 years
Water Plant – Distribution	5 – 50 years
Water General Plant	2 – 40 years

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

Sewer Plant – Collection & Transmission

20 – 50 years

Utility Plant disposals are recorded to accumulated depreciation. For additional information on plant assets see Note 3.

Allowance for Funds Used During Construction (AFUDC)

An allowance for funds used during construction is capitalized as a component of cost of construction projects and is credited to interest expense. This allowance represents the cost to finance construction. The allowance totaled \$183,357 for 2018.

Non-Utility Plant

Non-Utility plant represents capital assets that do not directly relate to the District's primary business purposes.

Preliminary Survey Charges

Costs incurred for proposed projects are recorded as Preliminary Survey Charges pending construction of the facility. Charges relating to projects ultimately constructed are transferred to utility plant; charges relating to projects abandoned are charged to expense. The Preliminary Survey Charges are presented as noncurrent assets in the Statement of Net Position. As of December 31, 2018, the account totaled \$84,265. Major pending projects include a storage study for the Evergreen water system and the Morse Creek diversion transfer study in the Fairview water system.

Compensated Absences

Employees earn Paid Time Off (PTO) as a benefit to their employment. The District accrues unpaid PTO in Accrued Liabilities on the Statement of Net Position as it is earned. In accordance with District policy, PTO may accumulate to no more than 1,000 hours and is payable upon separation of service. As of December 31, 2018, the District's PTO liability was \$1,236,141. In October of 2018, the District implemented a Compensatory Time Bank (CTB) available to all Bargaining Unit employees which will run yearly from May 1 – April 30. Maximum accumulation in the CTB is 40 hours per year and will be solely comprised of 20 overtime hours. Any hours remaining in the CTB at April 30 will be cashed out at the employee's current rate of pay. The balance in the CTB at December 31, 2018 was \$50,457.

Revenue Recognition and Unbilled Revenues

Revenues are based on monthly cyclical customer billings. This system of billing results in earned but unbilled revenues at year-end, which are included in the financial statements. Estimated earned but unbilled revenues were \$2,825,162 as of December 31, 2018.

Contributed Capital

Non-exchange transactions are those in which the government either gives value (benefit) to another party without directly receiving equal value in exchange or receives value (benefit) without directly giving equal value. Non-exchange transactions are recorded as non-operating revenue. The District reported Contributed Capital of \$1,210,127 for the year ended December 31, 2018. In 2018, contributions reported by the Electric

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

Division were \$951,586. The Water Division had contributions of \$254,890, and the Wastewater Division had contributions of \$3,651.

Pensions

The District is a member of the Washington State Public Employees' Retirement System (PERS) cost-sharing plan. 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 or deductions from those plans' fiduciary net position have been determined on the same basis as 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, while investments are reported at fair value.

Use of Estimates

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Specific estimates include allowance for doubtful accounts, unbilled revenue, depreciation, pension and post-employment benefit obligations. Actual results may differ from those estimates.

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 force majeure, changes in normal weather, collective bargaining labor disputes, changing local and national economic conditions, the financing and completion of significant capital projects, changing federal and state laws, regulations and requirements, and market risks inherent in buying of power.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS AND INVESTMENTS

As of December 31, 2018, the District had \$40,249,757 in deposits and investments.

Investment Type	Maturities	Fair Value
Cash and Cash Equivalents		9,586,738
Designated Cash		2,824,930
LGIP		3,163,473
U.S. Treasury	1/31/2019	1,998,282
FFSL CD-Construction Fund	4/5/2019	8,025,500
U.S. Treasury	4/30/2019	2,987,694
U.S. Treasury	7/31/2019	1,989,296
U.S. Treasury	10/31/2009	1,663,521
U.S. Treasury	4/30/2020	2,006,105
U.S. Treasury	7/31/2020	6,004,218
Total Investments		\$ 40,249,757

Reconciliation of Statement of Net Position	
Cash and Cash Equivalents	9,586,738
Investments	16,649,116
Debt Service Fund	1,931,031
Debt Service Reserve Fund	3,444,672
Construction Fund 2018 Invested	8,025,500
Construction Fund 2018 Cash	62,576
Rural Economic Development Fund	550,124
Total	\$ 40,249,757

Deposits

Custodial Credit Risk – For a deposit, this 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 the possession of an outside party.

As required by state law, all District cash is deposited with Washington state banks and savings and loan institutions or invested in obligations of the U. S. Government or governmental agencies, the Washington State Local Government Investment Pool (LGIP), or other investments allowed by RCW 39.59. The District’s Investment Policy prohibits investments in banker’s acceptances and repurchase agreements.

District deposits and certificates of deposit (CD) are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

Investments

Washington State Local Government Investment Pool – As of December 31, 2018, the District had \$3,163,473 invested with the LGIP. The LGIP portfolio meets the requirements set forth in GASB 79 to report the investment at amortized cost, which approximates fair value of the pool shares. Since the pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is deemed to be a cash equivalent. The District considers all investments with the LGIP to be cash and cash equivalents.

Fair Market Value – The District's investments on the Statement of Net Position have been adjusted to reflect available market values as of December 31, 2018 obtained from available financial industry valuation services. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs;
- Level 3 inputs are significant unobservable inputs.

All of the District's fair market measurements are classified as Level 1.

Investment Risks:

Interest Rate Risk – The risk that the District may face should interest rate variances affect the fair value of investments. The District's investment policy requires matching investment maturities with the anticipated cash flow requirements. The policy limits average "time to maturity" to two years, excluding bond reserve funds.

Concentration Risk – The risk of loss attributable to the magnitude of an investment in a single issuer. The District's investment policy requires diversification of investments by institution with the exception of US Treasury and the District's operating accounts.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's Investment Policy conforms with state law, which restricts investments of public funds to the following:

- Debt securities and obligations of the U.S. Treasury, U.S. government agencies and certain other US government sponsored corporations
- CDs and other evidences of deposit at financial institutions qualified by the PDPC
- Investment-grade general obligation debt of state and local governments and public authorities
- Washington State Treasurer's Local Government Investment Pool (LGIP)

At December 31, 2018, the District had investments in US Treasury Notes which were rated Aaa by Moody's Investor Services and AA+ by Standard & Poor's. The District has a third-party safekeeping agreement for investments through U.S. Bank.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 –UTILITY PLANT AND DEPRECIATION

Utility Plant activity for the year ended December 31, 2018, was as follows:

	Balance 2017	Increases	Decreases	Balance 2018
<u>Electric Plant Assets</u>				
Utility Plant-Non Depreciable				
Construction Work In Progress	\$ 3,425,714	\$10,405,654	\$10,536,159	\$ 3,295,209
Land & Land Rights	3,155,162	71,652	-	3,226,814
Total Non-Depreciable	6,580,876	10,477,306	10,536,159	6,522,023
Utility Plant-Depreciable				
Transmission	20,422,420	1,058,762	180,228	21,300,954
Distribution	171,348,294	6,506,658	1,725,098	176,129,854
General Plant	57,015,035	3,779,266	241,502	60,552,799
Other	19,794	-	-	19,794
Total Depreciable	248,805,543	11,344,686	2,146,828	258,003,401
Less Accumulated Depreciation	111,456,842	9,645,354	2,262,336	118,839,860
Net Electric Plant	<u>\$143,929,577</u>	<u>\$12,176,638</u>	<u>\$10,420,651</u>	<u>\$145,685,564</u>
<u>Water Plant Assets</u>				
Utility Plant-Non Depreciable				
Construction Work In Progress	\$ 510,611	\$ 2,167,417	\$ 611,145	\$ 2,066,883
Land & Land Rights	441,547	-	-	441,547
Total Non-Depreciable	952,158	2,167,417	611,145	2,508,430
Utility Plant-Depreciable				
Transmission & Distribution	30,957,215	751,816	91,731	31,617,300
General Plant	1,168,134	39,229	-	1,207,363
Other	-	-	-	-
Total Depreciable	32,125,349	791,045	91,731	32,824,663
Less Accumulated Depreciation	9,904,243	867,452	69,170	10,702,525
Net Water Plant	<u>\$ 23,173,264</u>	<u>\$ 2,091,010</u>	<u>\$ 633,706</u>	<u>\$ 24,630,568</u>

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

(continued from prior page)	Balance 2017	Increases	Decreases	Balance 2018
<u>Sewer Plant Assets</u>				
Utility Plant-Non Depreciable				
Construction Work In Progress	\$ -	\$ 10,492	\$ -	\$ 10,492
Land & Land Rights	<u>31,105</u>	<u>-</u>	<u>-</u>	<u>31,105</u>
Total Non-Depreciable	31,105	10,492	-	41,597
Utility Plant-Depreciable				
General Plant	<u>874,235</u>	<u>-</u>	<u>-</u>	<u>874,235</u>
Total Depreciable	874,235	-	-	874,235
Less Accumulated Depreciation	<u>429,498</u>	<u>27,767</u>	<u>-</u>	<u>457,265</u>
Net Sewer Plant	<u>\$ 475,842</u>	<u>\$ (17,275)</u>	<u>\$ -</u>	<u>\$ 458,567</u>
<u>Total Utility Plant</u>				
Utility Plant-Non Depreciable				
Construction Work In Progress	\$ 3,936,325	\$12,583,563	\$11,147,304	\$ 5,372,584
Land & Land Rights	<u>3,627,814</u>	<u>71,652</u>	<u>-</u>	<u>3,699,466</u>
Total Non-Depreciable	7,564,139	12,655,215	11,147,304	9,072,050
Utility Plant-Depreciable				
Transmission	20,422,420	1,058,762	180,228	21,300,954
Distribution	202,305,509	7,258,474	1,816,829	207,747,154
General Plant	59,057,404	3,818,495	241,502	62,634,397
Other	<u>19,794</u>	<u>-</u>	<u>-</u>	<u>19,794</u>
Total Depreciable	281,805,127	12,135,731	2,238,559	291,702,299
Less Accumulated Depreciation	<u>121,790,584</u>	<u>10,540,573</u>	<u>2,331,506</u>	<u>129,999,651</u>
Total Combined Plant	<u>\$167,578,683</u>	<u>\$14,250,373</u>	<u>\$11,054,357</u>	<u>\$170,774,699</u>

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

The District has historically accounted for accumulated depreciation as outlined by the Federal Energy Regulatory Commission (FERC). Please see the table below for detail on the change in accumulated depreciation in 2018.

Accumulated Depreciation Reconciliation	
Beginning Accumulated Depreciation	121,790,584
Increases to Accumulated Depreciation	
Depreciation Expense on Statement of Revenue, Expenses, and Changes in Net Position	9,771,003
Depreciation Expense transferred to Transportation Clearing Account	747,864
Depreciation Expense transferred to Misc Intangible Clearing Account	5,410
Salvage	16,296
Total Increases to Accumulated Depreciation	10,540,573
Decreases to Accumulated Depreciation	
Book Cost Retired	2,331,506
Total Decreases to Accumulated Depreciation	2,331,506
Ending Accumulated Depreciation	<u><u>\$129,999,651</u></u>

In January 2016, the Board of Commissioners passed a resolution to dispose of surplus real estate including the District's former administrative headquarters, water department offices, and the water warehouse building in Port Angeles. In August 2016, the water warehouse was sold, resulting in a gain on disposal of plant of \$201 Thousand. As of December 31, 2018, the remaining property is still listed with a local realtor and recorded as non-utility property on the Statement of Net Position.

NOTE 4- LEASE COMMITMENTS

Operating Leases

The District is committed under various rental leases considered operating leases for accounting purposes. The largest of these is an agreement with the Port of Port Angeles for the District's warehouse facility located in the City of Port Angeles. The District recorded lease expense of \$97,656 for the year ended December 31, 2018. Future minimum rental commitments for rental leases are as follows:

Fiscal Year Ending December 31:	
2019	\$101,798
2020	102,576

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM LIABILITIES

The following changes occurred in the District's long-term liabilities in 2018:

	Original Issue Amount	Beginning Balance 12/31/17	Additions	Reductions	Ending Balance 12/31/18	Due Within One Year
<u>Electric System</u>						
2010 Electric Revenue Bonds						
5.25% due 2011-2030	11,230,000	8,070,000	-	500,000	7,570,000	520,000
2014 Electric Revenue Bonds						
5.0% due 2018-2034	14,225,000	14,225,000	-	545,000	13,680,000	575,000
2016 Electric Refunding Bonds						
3.0% - 4.0% Due 2018 - 2028	8,080,000	8,080,000	-	625,000	7,455,000	645,000
2018 Electric Revenue Bonds						
2.0% - 5.0% Due 2019 - 2038	9,170,000	-	9,170,000	-	9,170,000	305,000
Plus : Unamortized Premium		3,175,817	1,048,602	248,657	3,975,761	
<u>Water System</u>						
2003 Water Revenue Bond						
4.36% due 2004-2018	1,075,000	95,029	-	95,029	-	-
2005 Drinking Water Loan						
1.0% due 2010-2025	3,535,000	1,451,451	-	181,431	1,270,020	181,432
2010 Drinking Water Loan						
1.0% due 2015-2034	2,047,525	870,198	-	51,188	819,010	51,188
2011 Drinking Water Loan						
1.5% due 2016-2035	2,673,267	1,684,159	-	93,565	1,590,594	93,564
2012 Drinking Water Loan						
1.0% due 2018-2036	3,073,935	686,906	-	36,153	650,753	36,153
Total Bonds Payable	\$ 55,109,727	\$ 38,338,560	\$ 10,218,602	\$ 2,376,023	\$ 46,181,138	\$ 2,407,337
Net Pension Liability		9,154,869	6,145,686	9,154,869	6,145,686	
Total OPEB Liability	**	1,664,292	247,512	-	1,911,804	
Compensated Absences		1,156,521	1,442,414	1,312,337	1,286,598	
Total Long Term Liabilities	\$ 55,109,727	\$ 50,314,242	\$ 18,054,214	\$ 12,843,229	\$ 55,525,226	\$ 2,407,337

** Beginning Net OPEB Liability balance was restated due to the effect of a change in accounting principle.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

Remaining scheduled payments, as of December 31, 2018, of principal and interest on long-term debt are as follows:

Years Ending December 31	Electric System Principal	Interest	Water System Principal	Interest	Total
2019	\$ 2,045,000	\$ 1,700,875	\$ 362,337	\$ 51,257	\$ 4,159,469
2020	2,110,000	1,616,400	362,337	47,166	4,135,902
2021	2,200,000	1,525,456	362,337	43,074	4,130,868
2022	2,280,000	1,429,244	362,337	38,983	4,110,564
2023	2,370,000	1,329,256	362,337	34,892	4,096,485
2024 - 2028	13,385,000	4,932,238	1,267,390	118,535	19,703,162
2029 - 2033	9,155,000	2,137,444	904,527	56,170	12,253,141
2034 - 2038	4,330,000	436,000	346,776	6,891	5,119,667
Total	\$ 37,875,000	\$ 15,106,913	\$ 4,330,377	\$ 396,969	\$ 57,709,258

Electric and water debt payments were \$2.1 Million in principal and \$1.35 Million in interest in 2018.

As of December 31, 2018, the District has a total of \$5.4 Million in restricted assets related to bonded debt of the District. This represents debt service and debt service reserve funds as required by the bond covenants.

As a minimum requirement of the District's bond covenants, an operating revenue to debt service ratio of 1.25 must be maintained. As of December 31, 2018, management believes the District is in compliance with all bond covenants including those regarding federal arbitrage.

Electric Debt

In December 2010, the District issued \$11,230,000 in Electric Taxable Build America Bonds with an interest rate of 5.25% maturing over the next 20 years. These bonds are treated as qualified bonds subject to a credit payable from the U.S. Treasury equal to 35% of interest payable on each interest payment date. As a result of sequestration, the 35% credit was reduced in 2018 by 6.6% to a rate of 32.69%. This money was borrowed to finance various capital additions.

In October 2014, the District issued \$14,225,000 in Electric Revenue Bonds with an interest rate of 5% maturing over the next 20 years. The money financed improvements to the electric system including the construction or additions to three buildings: the administration building, an engineering addition to the Carlsborg operations center, and a meter/substation shop.

In July 2016, the District issued \$8,080,000 in Electric Revenue Bonds with a coupon rate ranging from 3% to 4% maturing through 2028. These funds were used to refund the District's 2008 Electric Revenue Bonds. The refunding of the 2008 bonds resulted in a loss of \$356,015 which was recorded as a Deferred Outflow and a premium of \$1,048,570 recorded as a Noncurrent Liability on the Statement of Net Position both of which are being amortized over the life of the new bonds. The resultant net present value savings to the District of this refunding was \$770,202.

In August 2018, the District issued Electric Revenue Bonds in the amount of \$9,170,000 with a premium of \$1,048,601. The bonds have an interest rate ranging from 2% to 5% and will mature through 2038. The bonds were issued to finance certain improvements to the District's Electric Division including the

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

construction of new operations and equipment buildings on the west end of Clallam County. A portion of the bond proceeds was placed in a debt service reserve fund with the balance going to a bond construction fund as required by the bond covenants. As of December 31, 2018, the 2018 bond construction fund had a balance of \$8,088,076.

Water Debt

In October 2003, the District issued \$1,075,000 in Water System Revenue and Refunding Bonds with an interest rate of 4.36% over 15 years. Proceeds were used to finance various water system capital expenditures and refinance existing Water Revenue and Refunding Bonds. These bonds matured in 2018.

In 2005, the District entered into a State of Washington Drinking Water State Revolving Fund Loan with the Washington State Public Works Board in the amount of \$3,535,000 at an interest rate of 1% and a term not to exceed 20 years. The final payment is due October 2025. The District closed out the loan in 2007 borrowing \$3,394,930 of the available \$3,535,000. Proceeds were used to replace an existing water treatment plant.

In March 2010, the District entered into a second loan agreement with the Washington State Public Works Board. The amount of the Drinking Water State Revolving Fund loan was \$2,068,000 at 1% interest. The loan amount was amended to \$2,047,525 in January, 2013. Upon completion of the project for which the funds were used in 2015, 50% of the principal was forgiven. The remaining balance is due in annual installments through 2034. The money was used for the construction of wells in the lower portion of the District's Fairview water system.

In 2011, the District was awarded a third Drinking Water State Revolving Fund loan from the Washington State Public Works Board. The loan amount was \$2,673,267 with an interest rate of 1.5%. The District executed this loan agreement in January 2013. Upon completion of the project in 2015, 30% of this loan's principal was forgiven. The proceeds of this loan were used for work on the wells in the lower portion of the Fairview water system.

During 2012 the District was awarded a fourth Drinking Water State Revolving Fund loan from the Washington State Public Works Board. The loan amount was \$3,073,935 with an interest rate of 1%. The District executed this loan agreement in February 2013. The proceeds of the loan were used to complete the construction of the two well sites in the Fairview water system and was designated to be used for a new pipeline and control valves. In 2016, the scope of work was amended to include the replacement of temporary booster pumps with a permanent solution also within the Fairview water system. As of December 31, 2017, the District had drawn \$723,059 of the proceeds. No additional funds were drawn on the loan in 2018, however work on the new pipeline was completed late in the year and funds were drawn to reimburse for those costs in early 2019.

In 2016, the District submitted an application for a fifth Drinking Water State Revolving Fund loan in the amount of \$649,935. The loan was approved in February 2017 with an interest rate of 1.5%. The loan will be used to fund additional construction management on two projects within the Fairview water system: the Deer Park Road Pumping project and the Olympic Highway Pipeline Upgrade project. As of December 31, 2018, no loan proceeds had been used.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - PENSION PLANS

The following table represents the District's aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year ended December 31, 2018.

Aggregate Pension Amounts - All Plans	
Pension liability	\$ 6,145,686
Deferred outflows of resources	1,119,253
Deferred inflows of resources	2,592,202
Pension expense (credit)	(130,439)

State Sponsored Pension Plans

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

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

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

Public Employees' Retirement System

Public Employees' Retirement System (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 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January - August 2018:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%
September - December 2018:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%

PERS Plan 2/3 – provides retirement, disability and death benefits. Retirement benefits are determined as 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

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

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 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January – August 2018:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%
September – December 2018:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%

The District’s actual PERS plan contributions for the year ended December 31, 2018 were as follows:

PERS Plan Contributions	
PERS 1	15,071
PERS Plan 1 UAAL	628,919
PERS 2/3	931,320
TOTAL	\$ 1,575,310

Actuarial Assumptions

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

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

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

- **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:** 7.40%

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 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout the member's lifetime.

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

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

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 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4 percent 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 plan liability). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent 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 Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, 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.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

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

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%. Also provided are the District’s proportionate share of the net pension liability if calculated using a discount rate 1% lower (6.4%) or 1% higher (8.4%) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$5,133,427	\$4,177,126	\$3,348,776
PERS 2/3	\$9,004,237	\$1,968,560	(\$3,799,911)

Pension Plan Fiduciary Net Position

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

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

At December 31, 2018, the district reported a total pension liability of \$6,145,686 for its proportionate share of the net pension liabilities.

Pension Liability	
PERS 1	4,177,126
PERS 2/3	1,968,560
TOTAL	\$ 6,145,686

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.101966%	0.093531%	-0.008435%
PERS 2/3	0.124233%	0.115295%	-0.008938%

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

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 Non-employer Allocations*.

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

Pension Expense

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

Pension Expense	
PERS 1	(45,478)
PERS 2/3	(84,961)
TOTAL	\$ (130,439)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>PERS 1</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings on pension plan:	\$ -	\$ 165,997
Contributions subsequent to the measurement date:	336,243	-
Total:	\$ 336,243	\$ 165,997

<u>PERS 2/3</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience:	\$ 241,294	\$ 344,659
Net difference between projected and actual investment earnings on pension plan:	-	1,207,999
Changes of Assumptions:	23,029	560,236
Changes in proportion and differences between contributions and proportionate share of contributions:	35,836	313,311
Contributions subsequent to the measurement date:	482,851	-
Total:	\$ 783,010	\$ 2,426,205

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

TOTAL	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience:	\$ 241,294	\$ 344,659
Net difference between projected and actual investment earnings on pension plan:	-	1,373,996
Changes of Assumptions:	23,029	560,236
Changes in proportion and differences between contributions and proportionate share of contributions:	35,836	313,311
Contributions subsequent to the measurement date:	819,094	-
Total:	\$ 1,119,253	\$ 2,592,202

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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	Year ended December 31:	PERS 2/3
2019	\$ 7,263	2019	\$ (184,104)
2020	(36,288)	2020	(515,444)
2021	(108,890)	2021	(1,122,971)
2022	(28,082)	2022	(303,529)
Thereafter	-	Thereafter	-
Total:	\$ (165,997)	Total:	\$ (2,126,046)

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 - OTHER POST-EMPLOYMENT BENEFITS

Other Post-Employment Benefits (OPEB) are benefits to retired employees beyond those provided by their pension plans. The following table represents the District's OPEB amounts subject to the requirements of GASB 75 for the year ended December 31, 2018:

	2018
OPEB Liabilities	\$ 1,911,804
OPEB Assets	-
Deferred Outflows of Resources	105,404
Deferred Inflows of Resources	-
OPEB Expense	142,108

General Information about the OPEB Plan

Plan Description

The District administers a single-employer defined benefit healthcare plan to eligible employees and their dependents. District employees are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plans 1, 2 and 3 of the PERS as follows:

- Age 65 with 5 years of service
- Age 55 with 20 years of service

Coverage for the retired employee must be continuous from his/her active employment to retirement. Subsequent employment by the employee after retirement from the District will terminate the availability of coverage for that employee, provided provisions of the Continuation Omnibus Budget Reconciliation Act of 1985 (COBRA) are met. Spouse employment, which provides health coverage for a District retiree, will also terminate the availability of coverage under the District's health plan for the retiree, consistent with COBRA. Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement. Survivors of members who die are not eligible for medical benefits.

Benefits Provided

The insurance benefits offered to retirees are provided through the Public Utility Risk Management Services (PURMS) which covers both active and retired members. Such benefits include insurance coverage for medical, prescription drug, dental and vision. Retirees are required to pay the full amount of the premiums for their elected insurance coverage to the District on a monthly basis. In turn, the District pays PURMS for the cost of covered claims for those retirees. The District's explicit subsidy of the cost of claims paid over the premiums paid in by the retirees for 2018 was \$6,521.

The retiree premiums are being implicitly subsidized by the inclusion of active lives in calculating the premium. If retiree premiums were calculated based only on retiree health claims experience, the calculated value would be higher for non-Medicare retirees.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

Employees Covered by Benefit Terms

As of December 31, 2018, the following employees were covered by the benefit terms:

	2018
Inactive employees or beneficiaries currently receiving benefit payments	47
Inactive employees entitled to but not yet receiving benefits	-
Active employees	147

Contributions

The OPEB relationship between the District and its retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the District and the plan members. This understanding is based on communications between the District and its employees and the historical pattern of practice in regard to the sharing of benefit cost. The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

Total OPEB Liability

The District's total OPEB liability was measured as of December 31, 2017, and was determined by an actuarial valuation dated January 1, 2017 rolled forward to the December 31, 2017 measurement date. The reporting date is December 31, 2018. GASB 75 allows a lag of up to one year between the measurement date and the reporting date with no adjustment required.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Methodology	Individual Entry Age Normal Cost Method		
Inflation Rate	2.30%		
Salary Increases	3.05% salaries are expected to grow by promotions and longevity		
Discount Rate	3.44% based on 20 year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher		
Election Assumptions	44% medical, 92% dental, 64% vision		
Healthcare Cost Trend	<u>Year</u>	<u>Pre-65</u>	<u>Post-65</u>
	2017	6.9%	7.5%
	2018	6.4%	6.8%

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

2019	5.8%	6.0%
2020	5.4%	5.4%
2021	5.3%	5.3%
2022	5.2%	5.2%

Retirement, termination and mortality rates were all updated to the rates published in the 2007-2012 demographic experience study performed by the Office of the Washington State actuary for PERS members.

Changes in Total OPEB Liability

Changes in Total OPEB Liability	Increase (Decrease) Total Liability
Balance as of December 31, 2016	\$ 1,664,292
Changes for the year:	
Service cost	87,675
Interest on total OPEB liability	65,787
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	117,382
Expected benefit payments	(23,332)
Balance as of December 31, 2017	\$ 1,911,804

Sensitivity Analysis

The following presents the total OPEB liability of the District, calculated using the discount rate of 3.44%, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.44%) or 1 percentage point higher (4.44%) than the current rate.

	1% Decrease 2.44%	Discount Rate 3.44%	1% Increase 4.44%
Total December 31, 2017 OPEB Liability	\$ 2,323,450	\$ 1,911,804	\$ 1,593,278

The following presents the total OPEB liability of the District, calculated using the current healthcare cost trend rates as well as what the District's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates.

	1% Decrease	Current Trend Rate	1% Increase
Total December 31, 2017 OPEB Liability	\$ 1,530,221	\$ 1,911,804	\$ 2,432,549

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the District recognized OPEB expense of \$142,108. At December 31, 2018, the District's reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources based on the December 31, 2017 measurement date:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ -	\$ -
Changes of assumptions	105,404	
Total	\$ 105,404	\$ -

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement Period Ending December 31:

2018	\$ 11,978
2109	11,978
2020	11,978
2021	11,978
2022	11,978
Thereafter	45,514
	\$ 105,404

NOTE 8 - SELF INSURANCE

The District is a member of the Public Utility Risk Management Services (PURMS) Self-Insurance fund, 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. PURMS operates under Ch. 48.62 RCW, and 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.

PURMS consists of 19 members. The risks shared by the members are defined in the Self Insurance Agreement. 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 business of the pools is conducted by Pacific Underwriters as Administrator, and an Administrative Committee comprised of a representative of each member.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

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.

PURMS and its risk pools are audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS submits annual audited financial statements to the State Risk Manager's Office. PURMS also engages an outside accounting firm to perform annual claims audits for each risk pool.

Settled claims for all risks have not exceeded coverage in any of the past three years.

Liability Risk Pool

The liability risk pool has a \$1 million liability coverage limit per occurrence. In addition, the fund maintains \$35 million of excess general liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$25 million is also maintained over the first excess layer of \$35 million. The fund maintains \$1 million in directors and officer's liability coverage with excess coverage of \$35 million.

Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated reserve level or at any time during the year that the actual reserves drop to \$500,000 less than the designated reserve level of \$3.5 million. In 2018, the District paid \$151,373 in interim assessments.

Property Risk Pool

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

The designated property pool reserve balance is \$750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below \$500,000. The District paid \$36,918 during 2018 in interim assessments.

Health & 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 & Welfare Risk Pool ("H&W Pool") in accordance with the terms of the Health & Welfare Coverage of the SIA ("H&W Coverage") and the terms of each member's respective Coverage Booklet provided to its employees.

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. For 2018, the Individual Stop Loss Point was \$275,000 per employee and the Aggregate Stop Loss Point was \$20,183,127 for the combined claims costs of the employees of all participants of the H&W Pool.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

PURMS Notification to Risk Pool Members of their Respective Potential Future Assessment Shares of the “Claim Reserves Receivable”

Annually, PURMS informs each risk pool member of its share of the actuarially-based “Claims Reserves Receivable” for each risk pool in which it participates, determined in accordance with a 10 year look-back period. The District’s shares of the Claims Reserve Receivable for each pool as of December 31, 2018 are as follows:

Liability Pool	\$287,998
Property Pool	\$29,668
Health & Welfare Pool	\$338,550

Unemployment

The District is self-insured for unemployment insurance and reimburses the State of Washington for any claims paid. There were \$8,032 in unemployment claims paid in 2018.

NOTE 9 - CONSERVATION PROGRAMS

As defined by the Energy Independence Act (EIA), the District is a large utility (greater than 25,000 customers) in Washington State and is therefore subject to the requirements of the EIA. The EIA requires qualifying utilities to conduct a Conservation Potential Assessment (CPA) evaluating all of the technically and economically feasible energy savings potential within the utility’s service territory over a ten-year period. The utility then has to establish an energy savings target equal to one-fifth (1/5) of the ten-year potential and achieve energy savings greater than or equal to the target over the following two-year period. If the target is not achieved, the utility would be subject to fines. The savings shortfall rolls over to the following biennium and should be satisfied in addition to the new established energy savings target. This process is repeated every even numbered year.

In December 2017, the District adopted a conservation target of 9,198 MWh for the 2018/19 biennium. During 2018, the District achieved 5,807 MWh of energy savings towards the 2018/2019 target. Along with that and according the EIA rules, the District had excess energy saving from the 2016/2017 biennial target in the amount of 1,840 MWh that were rolled over to apply to the 2018/19 target. This resulted in a total of 7,647 MWh achieved toward the 9,198 MWh biennial target as of December 2018. The savings were achieved through local programs and regional efforts coordinated by the Northwest Energy Efficiency Alliance. Programs included residential and commercial LED lighting, and ducted and ductless heat pumps as well as small window retrofits and heat pump water heaters. The average residential household usage in the District’s service territory was 14,673 kWh per year. The energy savings achievement in 2018 was equivalent to powering 395 homes for one year.

The District has an agreement with the Bonneville Power Administration (BPA) to participate in the Energy Efficiency Incentive (EEI) program. The EEI is a credit that is available to BPA regional wholesale power customers that take action to further conservation. Customer incentives paid by the District are reimbursed by the BPA upon submission of qualifying invoices and documentation. The determined amount by the BPA for the District’s EEI budget for FY 2018-2019 (October 1, 2017-September 30, 2019) was \$1,540,650 less a bilateral transfer to Grays Harbor PUD of \$40,000 bringing the total EEI balance available to \$1,500,650. In 2018, the amount received in incentives from the BPA was \$407,465. The District’s energy savings program related expenditures totaled \$1,356,683 for 2018. The District’s strategy for claiming EEI funds is to

NOTES TO THE FINANCIAL STATEMENTS

deplete the balance as soon as funds become available from BPA resulting in the initial months of the two-year period receiving the majority of the claims for reimbursement. Consequently, EEI incentives were significantly higher in 2017 than in 2018.

NOTE 10 - PURCHASED POWER AND WATER CONTRACTS

Bonneville Power Administration (BPA)

In 2009, the District executed a Load Following Regional Dialog Power Sales Agreement with BPA for the period beginning October 1, 2011 and expiring September 30, 2028. This contract works within BPA's Tiered Rate Methodology providing firm power necessary to meet the District's loads less generating resources.

Under this contract, the District has a contract-defined right to purchase an amount of power at "Tier 1" cost-based rates, also called the High Water Mark (HWM). BPA will conduct a study every two years to determine the rate period high water mark (RHWM) for each utility, distributing a percentage based allocation of their Tier 1 system. The District will still have the right to have BPA meet their net requirement load (the District's load minus its own resources), but BPA will meet net requirement load above the HWM at "Tier 2" market-based rates.

On September 30, 2011, the District notified BPA of its election to have all the Above-RHWM load for FY's 2012-2014 and FY's 2015-2019 served with Firm Requirements Power purchased from BPA at the Tier 2 Short Term and Vintage Rates, respectively. The District intends to serve its Above-RHWM load for FY 2012-2019 with a combination of its share and acquired shares of Packwood Hydro and BPA Tier 2 power purchases. Tier 2 rates will be set to cover the full cost of the additional power BPA buys to meet those additional loads.

BPA finalized the last biannual study to determine the RHWM on September 30, 2017, which showed that the District's forecasted energy needs had decreased for the FY 2018-2019 period. When a utility has excess Tier 2 resources, BPA will remarket the excess energy on behalf of the utility. The Tier 2 energy needs for FY 2018-2019 were initially based on an energy forecast performed in 2012, with the related purchases made by BPA obligating the District on October 31, 2013. For 2018, BPA remarketed 8,349 MWh providing a credit of \$203,748 on their monthly billings to the District.

Annual Amounts Priced at Tier 2 Rates (aMW)		
<u>BPA Fiscal Year</u>	<u>2018</u>	<u>2019</u>
Tier 2 Short Term Obligation	0.000	0.000
Rate per MWh	\$27.20	\$24.97
VR-1 2014 Obligation	1.000	1.000
Rate per MWh	\$51.40	\$53.02
VR-1 2016 Obligation	1.000	2.000
Rate per MWh	\$46.50	\$48.02
Remarketing Tier 2	0.826	1.330
Remarketing Value	\$25.20	\$23.00

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

In September 2016, the District elected to purchase Tier 2 power at the Short Term rate for the 3rd purchase period election (2020-2024) under the BPA contract. This was based on an estimate of the Above-RHWM load exposure which is determined from both assumptions on future RHWM's and a forecast of the total retail load for FY's 2020-2024.

The District purchases Resource Support Services (RSS) from BPA contracted through the FY 2019 rate period to facilitate the integration of its Packwood Hydro generating resource.

Federal law requires Bonneville to recover all of its costs through the rates it charges its customers. Bonneville makes various filings with FERC to confirm that rates are sufficient to cover costs. Under Bonneville's adopted power and transmission rate provisions, its rates are subject to revision in order to enable Bonneville to recover its actual costs of service. The rate provisions for the Load-Following Service Product include a cost recovery adjustment clause (CRAC) and a dividend distribution clause (DDC).

The Bonneville Power Administration responded to three 2007 Ninth Circuit court rulings regarding the 2000 Residential Exchange Program Settlement Agreements and their treatment in the 2002 wholesale power rates. BPA's decision was to return past overcharges to the region's consumer-owned utilities and re-establish Residential Exchange Program benefits to most of the region's investor-owned utilities. The District received power bill credits of \$947,220 in 2018 recorded as a reduction in power purchase cost.

The District also entered into contract with BPA for network transmission service effective May 31, 1997, which provides adequate transmission capacity to meet the District's annual system peak load. The transmission contract expires on September 30, 2031.

Energy Independence Act (Initiative 937)

The District purchases renewable energy credits (REC) to comply with the Washington State Renewable Portfolio Standard (RPS), part of the Energy Independence Act signed into law in 2006 for implementation starting in 2012. A REC represents the legal rights to the renewable attributes associated with the generation of one MWh of qualified renewable energy.

For 2018, the State RPS mandates the District to purchase qualifying renewable resources or the equivalent RECs based on 9% of the total retail load, resulting in a compliance target of 55,953 MWh. The District has current and future contracts for the distribution of RECs with Bonneville Power Administration, Raft River Energy, and Bonneville Environmental Foundation. The qualifying fuel sources used for compliance are wind, geothermal, and biogas (dairy digesters). The District paid a total of \$1,271,601 for the purchase of RECs to meet the regulatory obligation.

Water

The District is a party to a "Wholesale Water Contract" with the City of Port Angeles (City) through August 16, 2036. The rates are tied to the City's Residential Rate Structure. Gales Addition Reservoir is 89% of the cost per 100 cubic feet under the City's residential rate and the Baker Street Intertie is 85% of the cost per 100 cubic feet under the City's residential rate. Water rates for 2018 were as follows:

Gales Addition Reservoir (High Zone) Jan 2018 – Dec 2018 billing cycle	\$2.1452/100 cubic feet/month
Baker Street Intertie (Low Zone)	

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

Jan 2018 – Dec 2018 billing cycle

\$2.0488/100 cubic feet/month

The District's purchased water expense under this contract was \$294,618 in 2018.

NOTE 11 - ASSOCIATION WITH ENERGY NORTHWEST

Energy Northwest (formerly Washington Public Power Supply System [WPPSS]) is a Washington municipal corporation which has acted as a joint operating agency for various power supply initiatives in the Northwest. The District was a member until August 1984 when it withdrew its membership. The District rejoined Energy Northwest and became a member in May 2008.

The District has remained contractually interested in the following projects:

Energy Northwest Nuclear Projects No. 1, 2, and 3

The District has entered into "net billing agreements" with Energy Northwest and BPA. Under terms of these agreements, the District has purchased a maximum of 1.157%, 1.769%, and 1.001% of the capability of Energy Northwest's Nuclear Project No. 1, Project No. 2 (Columbia Generating Station) and Energy Northwest's 70% ownership share of its Nuclear Project No. 3, respectively, and has sold this capability to BPA. BPA is unconditionally obligated to pay the District, and the District is unconditionally obligated to pay Energy Northwest, the pro rata share of the total annual costs of each project. This includes the debt service on revenue bonds issued to finance the project whether the projects are completed, operable or operating and notwithstanding the suspension, reduction, or curtailment of the projects' output. The District's respective shares may be increased by not more than 25% upon default of other public agency participants.

In September 2018, Energy Northwest's CEO presented information on the Columbia Generating Station (CGS) and the project participants' obligations. According to the presentation, participants' obligations will continue so long as the CGS is operable, or if CGS bonds, obligations, and liabilities are outstanding. The current operating license is valid until 2043, and assuming the current decommissioning plan is followed, site restoration is anticipated to be complete by 2105. Currently, outstanding bonds mature no later than July 2044.

Packwood Lake Hydroelectric Project

The District is a 7% participant in Energy Northwest's 27.5 MW Packwood Project, located in the Cascade Mountains south of Mount Rainier. The Packwood Agreement with Energy Northwest obligates participants to pay annual costs and receive actual project output.

In 2011, the District signed agreements with Kittitas, Ferry, Skamania, and Wahkiakum PUD's acquiring their share of the project output and increasing its total share to 10.25%. The District will bring its share of output to load. The District's cost for the share of output for participation in Packwood was \$287,316 for 2018.

The Project's 50-year license had expired in 2010 and the Project was granted a continuance to operate under the existing license on a year-to-year basis until the new license was issued. FERC approved a 40-year operating license effective 10/1/2018. Energy Northwest proposes no capacity or facility additions to the project but will make several operational changes to enhance aquatic habitat.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. (NoaNet)

The District, along with 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 2017, NoaNet issued a note in the principal amount of \$2,000,000 to finance general operating expenses, issued a bond in the not-to-exceed amount of \$5,000,000 to finance equipment and capital projects, and issued a bond in the amount of \$10,200,000 to repay an outstanding note to finance capital expenditures. Those obligations remain outstanding as the end of 2018. The note and bonds are not guaranteed by NoaNet's membership. Rather, NoaNet's Bylaws provide that each member may be assessed in accordance with its percentage interest in NoaNet should NoaNet not be able to pay debt service on any of the obligations. The District's percentage interest in NoaNet is 10.57%

In late 2018, NoaNet approached its members regarding a loan to provide bridge financing for a portion of NoaNet's costs pending receipt of a loan from a bank or other revenues. Subsequently, in early 2019, the District and seven other member utilities agreed to pay for certain capital expenditures of NoaNet under the terms set forth in a Payment Agreement dated April 1, 2019. Under the Agreement, the District has agreed to pay up to \$200,000 to NoaNet, on demand, during the period of April 1, 2019, through September 30, 2020. NoaNet will make quarterly (April 1, July 1, October 1, and January 1) interest payments on the outstanding principal at the LIBOR Daily Floating Rate plus 2.5%, commencing the first quarter after a payment is made by the District. NoaNet will make equal quarterly principal payments commencing July 1, 2020, with all outstanding principal and interest due in full by July 1, 2025. As of the issuance of these financial statements, NoaNet has made no request for these funds.

NoaNet recorded a change in net position (excluding member assessments) of (\$5,362,411) (unaudited) for 2018. In accordance with Accounting Principles Board Opinion No. 18 *The Equity Method of Accounting for Investments in Common Stock*, as well as a position statement issued by the Washington State Auditor concerning the appropriate accounting treatment for NoaNet, a proportionate share of these losses has not been recorded by the District since NoaNet had a net position of \$60,130,892 (unaudited) as of December 31, 2018. The District also reports no investment or liability balances related to its NoaNet membership.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, 21507 42nd Avenue, SeaTac, WA 98198.

NOTE 13 – TELECOMMUNICATION SERVICES

The District has installed a fiber optic system in its service area for use by the electric utility. The District has connected its fiber optic system with NoaNet's fiber optic communications network and makes excess capacity available to retail internet service providers. The District recorded broadband revenues of \$341,131 for the year ended December 31, 2018. The District recorded operations and maintenance expenses for broadband of \$83,208 in 2018. The District has a total capital investment of \$5,302,822 as of December 31, 2018, including \$83,712 invested during 2018.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

Broadband operations and capital activity for 2018 were as follows:

For Year Ending December 31, 2018	
Operating Revenue	
Wholesale fiber services to ISP's	181,043
Retail fiber services	157,918
Installation charges	100
Total Operating Revenues	\$ 339,061
Operating Expenses	
Operating expenses	18,510
Administrative and general	64,698
Total Operating Expenses	\$ 83,208
NonOperating Revenue	
Customer Contributions	2,070
Capital Investment	
Current year change in plant	\$ 83,712
Cumulative plant	\$5,302,822

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The District is guarantor on weatherization loans made by two local financial institutions to District customers for eligible improvements included in the District's conservation plan. The total outstanding balance on these loans as of December 31, 2018, was \$829. There were no defaults on these loans in 2018.

NOTE 15 – SUBSEQUENT EVENTS

The Board of Commissioners passed a resolution in December 2018 for an average 3.8% increase in electric rates effective for all bills rendered on or after April 1, 2019. In December 2016, the Board of Commissioners passed a resolution for an average 7% yearly increase in water and wastewater rates for a three year period effective for all bills rendered on or after February 1 in the respective year.

In April, 2019, the District issued revenue bonds in the amount of \$570,000 for the Water division with an interest rate of 3.00% and a maturity date of December 1, 2033. The proceeds will be used to finance the replacement of a reservoir cover to the Gales Addition water reservoir as well as the replacement of a wastewater lift station.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 – SEGMENT INFORMATION

The following condensed financial information is provided by electric, water, and sewer operating segments for the year ended December 31, 2018:

Condensed Statement of Net Position by Segment					
Assets	Electric System	Water System	Sewer System	Interfund Eliminations	Total
Current Assets	\$ 37,676,228	\$ 4,988,042	\$159,555	\$ (546,113)	\$ 42,277,712
Capital Assets, net	146,912,081	24,630,568	458,567		172,001,216
Other Assets	12,196,889	57,848	-	(87,600)	12,167,137
Total Assets	196,785,198	29,676,458	618,122	(633,713)	226,446,065
Deferred Outflows of Resources	1,357,977	147,335	-	-	1,505,312
Total Assets and Deferred Outflows of Resources	\$198,143,175	\$29,823,793	\$618,122	\$ (633,713)	\$227,951,377
Liabilities					
Current Liabilities	\$ 13,231,601	\$ 870,492	\$ 1,422	\$ (557,825)	\$ 13,545,690
Noncurrent Liabilities	47,918,967	4,739,761	-	(75,888)	52,582,840
Total Liabilities	61,150,568	5,610,253	1,422	(633,713)	66,128,530
Deferred Inflows of Resources	2,414,495	177,707	-	-	2,592,202
Net Position					
Net Investment in Capital Assets	113,279,380	19,354,916	458,567	-	133,092,863
Restricted for:					
Debt Service	4,940,297	-	-	-	4,940,297
Rural Economic Development Fund	550,124	-	-	-	550,124
Future Capital	34,360	-	-	-	34,360
Unrestricted	15,773,951	4,680,917	158,133	-	20,613,001
Total Net Position	134,578,112	24,035,833	616,700	-	159,230,645
Total Liabilities, Deferred Inflows of Resources and Net Position	\$198,143,175	\$29,823,793	\$618,122	\$ (633,713)	\$227,951,377

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

Condensed Statement of Revenue, Expenses and Changes in Net Position by Segment

	Electric System	Water System	Sewer System	Interfund Eliminations	Total
Operating revenues	\$ 60,708,205	\$ 4,123,421	\$ 59,240	\$ (176,588)	\$ 64,714,278
Operating expenses					
Purchased resources	28,841,875	294,618	-	-	29,136,493
Operating and maintenance	17,500,720	1,957,628	43,835	(176,588)	19,325,595
Taxes	2,990,253	209,587	-	-	3,199,840
Depreciation	8,927,362	815,875	27,766	-	9,771,003
Operating expenses	58,260,210	3,277,708	71,601	(176,588)	61,432,931
Net Operating Income	2,447,995	845,713	(12,361)	-	3,281,347
Non-operating Revenues and Expenses					
Other non-operating income (expense)	340,571	28,350	1,634	(2,179)	368,376
Interest expense	(1,113,700)	(53,673)	-	2,179	(1,165,194)
Total Non-operating Income (Expense)	(773,129)	(25,323)	1,634	-	(796,818)
Capital Contributions	951,586	254,890	3,651	-	1,210,127
Change in Net Position	2,626,452	1,075,280	(7,076)		3,694,656
Net Position, January 1 as restated	131,951,660	22,960,553	623,776	-	155,535,989
NET POSITION, December 31	\$134,578,112	\$24,035,833	\$616,700	\$ -	\$159,230,645

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

NOTES TO THE FINANCIAL STATEMENTS

Condensed Statement of Cash Flows by Segment					
	Electric System	Water System	Sewer System	Interfund Eliminations	Total
Cash Flows from Operating Activities	\$ 12,229,885	\$ 1,664,038	\$ 13,460	\$ -	\$ 13,907,383
Cash Flows from Financing Activities	(2,044,901)	(2,567,208)	(7,420)	2,179	(4,617,350)
Cash Flows from Investing Activities	(2,368,218)	53,609	1,634	(2,179)	(2,315,154)
Net Increase (Decrease) in Cash	7,816,766	(849,561)	7,674	-	6,974,879
Cash and Cash Equivalents, Beginning of the Year	11,639,518	4,842,023	144,221		16,625,762
Less Restricted Cash	(14,013,903)	-	-		(14,013,903)
Cash and Cash Equivalents, End of the Year	<u>\$ 5,442,381</u>	<u>\$ 3,992,462</u>	<u>\$151,895</u>		<u>\$ 9,586,738</u>
Supplemental Disclosure of Noncash Activities					
Customer Installed Capital Contributions	\$ 201,433	\$ -			\$ 201,433
Decrease in Fair Value of Investments	24,418				24,418
Deferred Outflow-Pension	976,217	143,036			1,119,253
Deferred Inflow-Pension	2,414,495	177,707			2,592,202
Deferred Outflow-Other Post-Employment Benefits	101,105	4,299			105,404

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

REQUIRED SUPPLEMENTAL INFORMATION

**Schedule of Proportionate Share of the Net Pension Liability
PERS 1**

As of June 30th (Last 10 Fiscal Years)

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability:	0.093531%	0.101966%	0.103275%	0.102581%	0.104573%
Employer's proportionate share of the net pension liability:	\$ 4,177,126	\$ 4,838,366	\$ 5,546,354	\$ 5,365,940	\$ 5,267,914
Covered payroll:	\$12,223,134	\$ 12,537,175	\$11,996,769	\$11,325,360	\$ 11,153,818
Employer's proportionate share of the net pension liability as a percentage of covered payroll:	34.17%	38.59%	46.23%	47.38%	47.23%
Plan fiduciary net position as a percentage of the total pension liability:	63.22%	61.24%	57.03%	59.10%	61.19%

PERS 2/3

As of June 30th (Last 10 Fiscal Years)

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability:	0.115295%	0.124233%	0.123539%	0.122737%	0.122887%
Employer's proportionate share of the net pension liability:	\$ 1,968,560	\$ 4,316,503	\$ 6,220,091	\$4,385,463	\$2,483,990
Covered payroll:	\$11,958,974	\$ 12,170,290	\$11,573,312	\$10,863,483	\$10,632,142
Employer's proportionate share of the net pension liability as a percentage of covered payroll:	16.46%	35.47%	53.75%	40.37%	23.36%
Plan fiduciary net position as a percentage of the total pension liability:	95.77%	90.97%	85.82%	89.20%	93.29%

Notes to Schedule:

Until a full 10-year trend is compiled, governments are only required to present information for those years that information is available.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

REQUIRED SUPPLEMENTAL INFORMATION

**Schedule of Employer Contributions
PERS 1**

For Year Ended December 31st (Last 10 Fiscal Years)

	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 643,990	\$ 621,174	\$ 599,504	\$ 537,101	\$ 506,167
Contributions in relation to the statutorily or contractually required contributions	643,990	621,174	599,504	537,101	506,167
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	\$12,595,366	\$12,347,732	\$12,247,603	\$11,737,932	\$10,996,146
Contributions as a percentage of covered payroll	5.11%	5.03%	4.89%	4.58%	4.60%

PERS 2/3

For Year Ended December 31st (Last 10 Fiscal Years)

	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 931,320	\$ 822,057	\$ 763,048	\$ 656,190	\$ 514,521
Contributions in relation to the statutorily or contractually required contributions	931,320	822,057	763,048	656,190	514,521
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	\$12,416,720	\$11,987,494	\$11,904,039	\$11,257,908	\$10,652,582
Contributions as a percentage of covered payroll	7.50%	6.86%	6.41%	5.83%	4.83%

Notes to Schedule:

Until a full 10-year trend is compiled, governments are only required to present information for those years that information is available.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

REQUIRED SUPPLEMENTAL INFORMATION

OPEB Retiree Medical Benefits
Schedule of Changes in Total OPEB Liability and Related Ratios (in 1,000s)
For Measurement Period Ending December 31st (Last 10 Fiscal Years*)

	2018
Total OPEB liability-beginning	\$ 1,664
Service Cost	\$ 88
Interest on total OPEB liability	66
Changes of benefit terms	-
Effect of economic/demographic gains or (losses)	-
Effect of assumption changes or inputs	117
Expected benefit payments	(23)
Net change in total OPEB liability	\$ 248
Total OPEB liability-ending	\$ 1,912
 Covered employee payroll	\$ 12,348
 Total OPEB liability as a % of covered employee payroll	15.48%

Notes to schedule

- * This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District is showing the years for which information is available.
- * Changes of benefit terms: There are no changes in benefit terms.
- * Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period.

PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

REQUIRED SUPPLEMENTAL INFORMATION

DIRECTORY OF PUBLIC OFFICIALS

Elected Commissioners

President

H. Ted Simpson

Vice-President

Will E. Purser

Secretary

David Anderson

Term of Office Expires

December 31, 2018

December 31, 2022

December 31, 2020

Appointed Officials

General Manager

Douglas W. Nass

Financial Manager/Treasurer

Sean M. Worthington

Controller/Auditing Officer

Lori B. Carter

Mailing Address

PUD No. 1 of Clallam County

Post Office Box 1000

Carlsborg, WA 98324