Report of Independent Auditors and
Combined Financial Statements and
Supplementary Information

Public Utility District No. 1 of Klickitat County

December 31, 2025 and 2024

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinions

We have audited the combined financial statements of Public Utility District No. 1 of Klickitat County, Washington (the District), which compromise the combined statements of net position as of December 31, 2025 and 2024, and the related combined statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the combined financial position of the District as of December 31, 2025 and 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the total OPEB liability and related ratios, the schedule of proportionate share of the net pension liability, and the schedule of contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Information

Management is responsible for the other information included in the annual report. The other information comprises the schedule of debt service coverage and schedule of cash and liquidity ratios but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2026, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

Baker Tilly US, LLP

Portland, Oregon
June 26, 2026

Public Utility District No. 1 of Klickitat County –
MCAG No. 1785
Directory of Officials
December 31, 2025 and 2024

Office	Official	Term	Term Expiration
Board of Commissioners			
President	Dan G. Gunkel	6 years	December 2026
Vice President	Douglas B. Miller	6 years	December 2028
Secretary	Stoner W. Bell	6 years	December 2030

Office	Official	Address
Appointed Officials		
General Manager	Gwyndalyn H. Miller	1313 S. Columbus Goldendale, WA 98620
Attorney	Ogden Murphy Wallace PLLC Athan E. Tramountanas	701 Fifth Avenue, Suite 5600 Seattle, WA 98104

Management's Discussion & Analysis

This section provides an overview and analysis of key data presented in the basic combined financial statements for the years ended December 31, 2025 and 2024, with additional comparative data for 2023. Information within this section should be read in conjunction with the basic combined financial statements and accompanying notes.

About Public Utility District No. 1 of Klickitat County

Public Utility District No. 1 of Klickitat County (the District) consists of the electric system, nine water systems, and five wastewater systems. The District also operates two additional water and wastewater systems that are owned by other public entities. The District's service area covers approximately 1,680 square miles in Klickitat County. Additionally, the District serves small areas in the surrounding counties of Yakima, Skamania, and Benton. As of December 31, 2025, the District had 14,366 electric, 1,294 water, and 911 wastewater customers. The District operates two additional water and wastewater systems for other entities, which provide service to an additional 14 water and 450 wastewater customers in Dallesport, Washington. The District's electric wholesale activities and transmission business line are significant parts of the District's electric system business. Wholesale revenues are generated from the sale of Renewable Natural Gas (RNG) production from the H. W. Hill Renewable Natural Gas Facility. Wholesale revenue was also received from the White Creek Wind I power sale contract, related to the District's 13% share of generated output from this 205 MW project. The transmission business line is comprised of 230 kV transmission lines and substations that carry renewable generation produced by others to the BPA transmission system. The District's retail electric customers are supplied through several sources. Purchases from Bonneville Power Administration supply 90% of the District's load and 10% comes from the District's shares of the McNary Dam and Packwood hydroelectric projects.

Overview of the Combined Financial Statements

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

The combined financial statements, presented in a comparative format for the years ended December 31, 2025 and 2024, are comprised of:

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

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

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

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

Condensed Comparative Financial Information

Combined Statements of Net Position

	2025	2024	2023
Capital assets	$ 258,268,536	$ 256,904,546	$ 252,228,105
Current, restricted and other assets and deferred outflows of resources	84,512,381	81,478,471	61,296,399
Total assets and deferred outflows of resources	$ 342,780,917	$ 338,383,017	$ 313,524,504
Noncurrent liabilities and deferred inflows of resources	$ 152,940,862	$ 160,961,743	$ 150,344,682
Current liabilities	14,399,342	20,991,389	19,137,682
Total liabilities and deferred inflows of resources	167,340,204	181,953,132	169,482,364
Net investment in capital assets	128,106,412	120,662,630	122,178,856
Restricted – net pension asset	2,312,297	2,195,056	2,935,477
Unrestricted	45,022,004	33,572,199	18,927,807
Total net position	175,440,713	156,429,885	144,042,140
Total liabilities, deferred inflows of resources, and net position	$ 342,780,917	$ 338,383,017	$ 313,524,504

Financial Highlights – 2025

- Through prudent financial management activities of District staff, the District has maintained strong financial performance while striving to meet and/or exceed financial policy requirements. The District ended the year with a Debt Service Coverage Ratio of 4.06, excluding subordinate lien debt, and 3.08 for all outstanding electric debt. The year ended with 368 days cash on hand compared to a budget of 272 days. Please see the 'Schedule of Debt Service Coverage' and 'Schedule of Cash and Liquidity Ratios' pages of this Financial Report for additional detail, which supports these calculations.

- The District maintained strong liquidity during 2025 with a Days Liquidity on Hand result of 443 days, exceeding the budget of 333 days. The District has maintained an $11 million operating line of credit to provide additional liquidity for the District. This line was partially utilized to fund current work for the District's improvements to the EE Clouse Substation, but was paid to a $0 balance prior to the year end with receipt of payment from Bonneville Power Administration (BPA). This line was renewed in December 2025, leaving the District with an unused $11 million operating line of credit.

- In March 2025, the District refunded the remaining 2015A Revenue Bonds, netting overall savings to the District while retaining the original payoff timeline in 2034.

- The District continues to benefit from the production of Renewable Natural Gas (RNG) and the revenue stability provided by the fixed price sales contract. The RNG facility contributed nearly $26 million in revenue during 2025, exceeding budgeted revenue by $2.8 million. Revenue increased from 2024 due to increased RNG production volume due to continued focus on optimizing the landfill gas collection system feeding the RNG facility, and successful utilization of an automated well-field tuning system.

- The District operates 16 water and wastewater systems. Water and wastewater rates are annually reviewed for each individual system, and, in 2025, these changes ranged from 0% to an increase of 20%.

- The District continues to prioritize vegetation management, with expenditures of $2.38 million in 2025. Various contractors were retained for trimming, mulching, hazard tree removal, and spraying, along with in-house personnel.

- The District implemented an electric rate increase in 2025 equal to a 4.5% total electric rate revenue increase. This increase was implemented across different rate classes to align expenses incurred by each rate class with the costs associated to the District. This increase included a pass-through of approximately 3% due to wholesale power cost increases from BPA, as well as 1.5% inflation-related costs incurred by the District. Electric rates were last increased in 2024, and this increase is reflective of the staggered implementation of BPA increases the District has planned.

- The District's rate stabilization fund balance at year-end 2025 was $4 million, which continues to exceed the fiscal policy requirement of $2.4 million. The District has maintained financial stability and does not project significant changes that would require the utilization of this fund.

- Long-term contracts for capacity held on the District owned 230kV transmission system provide over $5 million annually in consistent revenue. These contracts continue to provide stable and predictable revenues for the benefit of District ratepayers.

- The District continues to improve net position. During 2025, net position improved by 12.2% as a result of continued focus on maximizing the value of assets. Net position has consistently improved since 2014.

Financial Highlights – 2024

- Through prudent financial management activities of District staff, the District has maintained strong financial performance while striving to meet and/or exceed financial policy requirements. The District ended the year with a Debt Service Coverage Ratio of 3.30, excluding subordinate lien debt, and 2.48 for all outstanding electric debt. The year ended with 319 days cash on hand compared to a budget of 289 days. Please see the 'Schedule of Cash and Liquidity Ratios' pages of this Financial Report for additional detail, which supports these calculations.

- The District maintained strong liquidity during 2024 with a Days Liquidity on Hand result of 368 days, exceeding the budget of 319 days. The District has maintained an $11 million operating line of credit to provide additional liquidity for the District. This line was partially utilized to fund current work for the District's Advanced Metering Infrastructure (AMI) implementation, as well as improvements to the EE Clouse Substation, for which an agreement is in place for repayment from Bonneville Power Administration (BPA). After finalizing the 2024 Electric Revenue Bond transaction, the line of credit portion utilized for AMI implementation was paid in full.

- In October 2024, the District issued the 2024 revenue bonds in the amount of $18.2 million. The issuance provided funds for the purpose of financing and/or reimbursing the District for certain capital improvements to the electric system including repayment of the line of credit utilized for the AMI system implementation.

- The District continues to benefit from the production of Renewable Natural Gas (RNG) and the revenue stability provided by the fixed price sales contract. The RNG facility contributed nearly $24 million in revenue during 2024, exceeding budgeted revenue by $1.6 million. Revenue increased from 2023 due to a full year of production sold at improved long-term contract pricing and increased RNG production volume due to continued focus on optimizing the landfill gas collection system feeding the RNG facility and successful utilization of an automated well field tuning system.

- The District operates 16 water and wastewater systems. Water and wastewater rates are annually reviewed for each individual system, and, in 2024, these changes ranged from a decrease of 40% to an increase of 15%.

- The District continues to prioritize vegetation management, with expenditures of $2.2 million in 2024. Various contractors were retained for trimming, mulching, hazard tree removal, and spraying, along with in-house personnel.

- The District implemented an electric rate increase in 2024 equal to a 4.5% total electric rate revenue increase. This increase was implemented across different rate classes to align expenses incurred by each rate class with the costs associated to the District. This increase included a pass-through of approximately 3% due to wholesale power cost increases from BPA, as well as 1.5% inflation-related costs incurred by the District. Electric rates were last increased in 2023, and this increase is reflective of the staggered implementation of BPA increases the District has planned.

- The District's rate stabilization fund balance at year-end 2024 was $4 million, which continues to exceed the fiscal policy requirement of $2.4 million. The District has maintained financial stability and does not project significant changes that would require the utilization of this fund.

- Long-term contracts for capacity held on the District owned 230kV transmission system provide over $5 million annually in consistent revenue. These contracts continue to provide stable and predictable revenues for the benefit of District ratepayers.

- The District continues to improve net position. During 2024, net position improved by 8.6% as a result of continued focus on maximizing the value of assets. Net position has consistently improved since 2014.

Financial Analysis

Capital Activity

2024 to 2025:
The District's total net capital asset values increased during 2025 by approximately $1.4 million. There was an increase in total utility plant of $12.4 million. This increase was driven in part by the expansion to the EE Clouse Substation, and materials for infrastructure maintenance. The increase in accumulated depreciation of $11 million decreased the overall net capital assets. The District has accelerated the depreciation rate for our metering infrastructure, as Advanced Metering Infrastructure (AMI) will require replacement on a faster schedule than previous technology.

2023 to 2024:
The District's total net capital asset values increased during 2024 by approximately $4.7 million. There was an increase in total utility plant of $14.9 million. This increase was driven in part by the District's AMI project, expansion to the EE Clouse Substation, and materials for infrastructure maintenance. The increase in accumulated depreciation of $10.3 million decreased the overall net capital assets. The sizeable increase in depreciation year over year is related to the increase of District assets related to the Renewable Natural Gas project, which added more than $35 million to existing plant assets, along with continued electric system additions.

Debt Activity

2024 to 2025:
In March of 2025, the District completed the delayed refunding of the remaining 2015A Bonds. These Bonds were defeased and refunded to provide savings to the District while maintaining the original 2034 repayment schedule. The District also renewed its existing line of credit with Washington Federal in 2025. This line was utilized for approximately $2 million to replenish cash held by the District for spending related to the District's EE Clouse Substation Expansion project. Debt related to the EE Clouse Substation Expansion was fully repaid by the BPA, with no balance at the renewal of the line. Additionally, the District repaid approximately $7.5 million in long-term debt during 2025.

2023 to 2024:
The District issued the 2024 revenue bonds in October, securing over $18 million to fund capital projects, as well as reimburse prior capital improvements. The District also maintained its existing line of credit with Washington Federal in 2024. This line was utilized for approximately $3.8 million to replenish cash held by the District for spending related to the District's EE Clouse Substation Expansion project. Debt related to the EE Clouse Substation Expansion is to be fully repaid by the BPA. The District repaid $3.4 million of debt drawn in 2023 from this line, with funds from the 2024 revenue bonds. Additionally, the District repaid approximately $7.4 million in long-term debt during 2024.The District also priced the 2025 refunding bonds with a future delivery in 2025. The 2025 refunding will refinance existing revenue bonds providing interest savings to the District.

Current, Restricted, and Other Activity

2024 to 2025:
The District has maintained an elevated stock level of materials and supplies on hand considered to be adequate to maintain reliability for existing customers, as well as to continue additional service installations and other capital improvements within the District's service territory, while not being reliant on long-lead delivery times, potential changes to supply availability, and volatility surrounding tariffs on imports.

2023 to 2024:
The significant delays to delivery of materials and supplies affecting the utility industry have lessened during 2024. However, the District has maintained an elevated stock level of materials and supplies on hand considered to be adequate to maintain reliability for existing customers, as well as to continue additional service installations and other capital improvements within the District's service territory, while not being reliant on long-lead delivery times, and potential changes to supply availability.

Overall Results of Operations

2024 to 2025
Overall net position of the District increased by 12.2%. Operating revenue increased from 2024 due to a rate increase, as well as increased volume of RNG produced at the H.W. Hill Renewable Natural Gas Facility. Operating expenses saw an increase of approximately 3.3%, relating to increased depreciation, along with increases to power expenses from BPA. The District has continued efforts on right-of-way clearing and hazard tree removal for fire mitigation, and continues to utilize data from its Advanced Metering Infrastructure to ensure maintenance and upgrades are concentrated in the most impacted service areas of the District.

2023 to 2024
Overall net position of the District increased by 8.6%. Operating revenue increased from 2023 due to a rate increase and growth in the District's residential customer base, as well as a pricing change for the offtake of RNG produced at the H.W. Hill Renewable Natural Gas Facility. Operating expenses saw an increase of approximately 4.7% largely due to additional payments due related to the RNG offtake agreement in place. The District has continued efforts on right-of-way clearing and hazard tree removal for fire mitigation, in addition to the installation of its Advanced Metering Infrastructure, which has benefited the District regarding both accuracy of meter readings and outage troubleshooting.

Electric System Operating Results

	2025	2024	2023
Operating revenues	$ 76,683,862	$ 74,362,096	$ 69,697,007
Operating expenses	63,981,193	62,013,402	59,188,242
Operating income	12,702,669	12,348,694	10,508,765
Net non-operating expense	(4,377,468)	(3,332,127)	(3,323,963)
Capital contributions	11,029,663	3,764,075	2,716,328
Change in net position	$ 19,354,864	$ 12,780,642	$ 9,901,130

Operating Revenues

2024 to 2025:
Operating revenues increased by $2.3 million or 3% from 2024. This included minor increases within our retail class customers, a decrease of $815 thousand from White Creek Wind revenues relating to timing of transactions, an increase of $2 million from increases in RNG production sales, and other operating revenue increases totaling $700 thousand.

2023 to 2024:
Operating revenues increased by $4.6 million or 6% from 2023. This included decreases from industrial revenue totaling $1.9 million, increases to wholesale and transmission revenues totaling $2.5 million, increases from RNG production sales totaling $4.5 million, and decreases to other operating revenues, mainly tied to carbon allowance sales of $1.4 million.

Operating Expenses

2024 to 2025:
Operating expenses increased by nearly $2 million or 3.2% from 2025. Wholesale power purchases increased by $1.1 million, while expenses for the District's generation and production business lines decreased by $650 thousand. Administrative and general expenses increased $220 thousand, mostly related to the District's pension expense relating to the Washington State Participating Employer Financial Information (PEFI) Report. Additionally, the District has accelerated the depreciation rate for our metering infrastructure, as Advanced Metering Infrastructure (AMI) will require replacement on a faster schedule than previous technology, incurring an additional $950 thousand of recognized depreciation expense.

2023 to 2024:
Operating expenses increased by $2.8 million or 5% from 2023. Wholesale power purchases decreased by $2.2 million, accounting for a large-load cryptocurrency customer that disconnected from service, while expenses for the District's generation and production business lines increased by $3.4 million in conjunction with additional output from those products. Additionally, administrative and general expenses increased $1.6 million for costs related to bond financing activity, software purchases, and increases to the cost of benefits and various insurance policies held by the District.

Net Non-Operating Expense

2024 to 2025:
Net non-operating expense increased $1.0 million in 2025, relating to interest owed on new 2024 Bond Debt, as well as recognizing the refunding of the remaining 2015A Bonds.

2023 to 2024:
Net non-operating expense increased $8 thousand in 2024, which was closely tied to strong interest earnings offsetting an anticipated property sale during the year.

Capital Contributions

2024 to 2025:
Capital contributions received from customers by the District totaled $11 million in 2025, an increase of nearly 192% or $7.3 million from 2024. Contributions in 2025 included repayment from Bonneville Power Administration for the EE Clouse Substation of nearly $7 million. Other contributions are primarily customer requested activity for overall line extensions and new customer projects, which are recovery driven.

2023 to 2024:
Capital contributions received from customers by the District totaled $3.7 million in 2024, an increase of 39% or $1 million from 2023. Contributions are primarily customer requested activity for overall line extensions and new customer projects, which are recovery driven. The increase in 2024 included reimbursement from FEMA for $426 thousand related to severe storm damage incurred in 2022, in addition to grant funds and a facility study MOU.

Water and Wastewater Systems Operating Results

	2025	2024	2023
Operating revenues	$ 1,807,882	$ 1,666,795	$ 1,556,781
Operating expenses	2,402,450	2,250,039	2,181,200
Operating loss	(594,568)	(583,244)	(624,419)
Net non-operating revenue	119,752	126,142	123,476
Capital contributions and grants	130,780	64,205	166,710
Change in net position	$ (344,036)	$ (392,897)	$ (334,233)

Operating Revenues

2024 to 2025:
Operating revenues increased by $141 thousand or 8.4% from 2024. This increase is due to various rate increases across the systems to ensure financial stability of each individual system.

2023 to 2024:
Operating revenues increased by $110 thousand or 7% from 2023. This increase is due to various rate increases across the systems to ensure financial stability of each individual system.

Operating Expenses

2024 to 2025:
Operating expenses increased by $152 thousand or 6.8%. This increase was largely due to increased labor costs, including additional allocations relating to internal District engineering and administrative staff, to ensure compliance with state and federal regulations, as well as increased price of material to operate the facilities effectively.

2023 to 2024:
Operating expenses increased by $69 thousand or 3%. This increase was largely due to increased labor costs to ensure compliance with state and federal regulations, as well as increased price of material to operate the facilities effectively.

Net Non-Operating Revenues

2024 to 2025:
Net non-operating income decreased $6 thousand over 2024 as a result of decreased interest income earnings across all water and wastewater systems.

2023 to 2024:
Net non-operating income increased $3 thousand over 2023 as a result of improved interest income earnings across all water and wastewater systems.

Capital Contributions and Grants

2024 to 2025:
Capital contributions received by the District in 2025 totaled nearly $131 thousand, an increase of 104% from 2024. Contributions to these systems are connection fees for new customers, and grant funding for capital improvements.

2023 to 2024:
Capital contributions received by the District in 2024 totaled nearly $64 thousand, a decrease of 69% from 2023. Contributions to these systems are connection fees for new customers.

The District Looking Forward

The District prides itself on providing reliable and affordable services to its ratepayers. To maintain system reliability and resilience, the District will continue to invest in upgrading equipment throughout its service territory to maintain reliability, as well as mitigate risks due to damage incurred by storms and strong winds. The District will continue to mitigate potential fire risks by focusing on right-of-way tree trimming and clearing throughout the service territory. The District will continue to maintain a strong focus on cybersecurity as part of its overall risk management efforts, with systems and controls in place to protect critical infrastructure. In addition, the District conducts routine cyber security training for staff to promote awareness, reduce vulnerability to threats, and support the ongoing protection of District assets and customer information.

The long-term fixed price contract for output from the RNG plant continues to provide revenue certainty for the District. Maintaining the reliability and efficiency of the production facility, along with optimizing and maximizing methane flow to the facility will remain a high priority for District staff. Surplus funds as a result of RNG operations will be utilized for the benefit of District customers, continuing the District's focus on keeping rates affordable to ratepayers.

On April 9, 2025, the District provided formal notice to BPA of its election to continue as a BPA Load Following customer under the post-2028 contract period. This decision secures access to low-cost federal power for the District from October 2028 through September 2044. As a Load Following customer, the District is well positioned to comply with evolving state and federal renewable energy requirements and meet its load obligations during high load events in the region.

In addition, the District has received interest from potential large commercial customers. These opportunities, if realized, are expected to strengthen the District's financial position while providing tangible benefits to existing customers.

Financial Statements

Public Utility District No. 1 of Klickitat County – MCAG No. 1785
Combined Statements of Net Position
December 31, 2025 and 2024

	2025	2024
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	$ 49,734,046	$ 40,561,116
Notes receivable	13,749	2,867
Accounts receivable, net	2,353,811	2,201,765
Unbilled revenue	2,045,232	2,261,700
Other receivables	6,790,788	6,216,690
Materials and supplies	4,512,414	4,922,481
Prepayments	1,124,286	1,286,332
Current portion of prepaid power contract	1,180,362	1,180,362
Total current assets	67,754,688	58,633,313
CAPITAL ASSETS		
Total plant in service	430,795,293	417,541,689
Construction work in progress	12,922,040	13,796,749
Total utility plant	443,717,333	431,338,438
Accumulated provision for depreciation	(185,448,797)	(174,433,892)
Net capital assets	258,268,536	256,904,546
OTHER ASSETS		
Other assets and prepaid power contract	1,955,904	3,136,609
Net pension asset	2,312,297	2,195,056
Derivative asset	161,827	124,442
Special funds, power cost stabilization – designated	4,000,000	4,000,000
2024 bond construction fund - restricted	2,761,031	6,407,441
Regulatory asset – issuance costs	346,806	366,903
Total other assets	11,537,865	16,230,451
DEFERRED OUTFLOWS OF RESOURCES		
Pension	2,911,449	2,949,857
Other post employment benefit obligations (OPEB)	470,557	224,421
Accumulated decrease in fair value of hedging derivatives	12,985	65,104
Deferred loss on refunding	1,824,837	3,375,325
Total deferred outflows of resources	5,219,828	6,614,707
Total assets and deferred outflows of resources	$ 342,780,917	$ 338,383,017

See accompanying notes.

Public Utility District No. 1 of Klickitat County – MCAG No. 1785
Combined Statements of Net Position
December 31, 2025 and 2024

	2025	2024
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 3,597,965	$ 5,822,043
Current portion of long-term debt	7,360,362	7,670,487
Consumer deposits	327,141	303,135
Line of credit	-	4,213,029
Other current and accrued liabilities	3,113,874	2,982,695
Total current liabilities	14,399,342	20,991,389
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	126,523,271	134,969,595
Net pension liability	551,758	911,909
Advanced billings	480,000	-
Total OPEB liability	1,467,095	1,250,749
Derivative liability	12,985	65,104
Total noncurrent liabilities	129,035,109	137,197,357
DEFERRED INFLOWS OF RESOURCES		
Pension	1,057,770	972,036
Other post-employment benefits	380,480	350,317
Deferred gain on refunding	864,359	9,276
Regulatory liability – rate stabilization	4,000,000	4,000,000
Accumulated increase in fair value of hedging derivatives	161,827	124,442
Regulatory liability – contribution in aid of construction (CIAC)	17,441,317	18,308,315
Total deferred inflows of resources	23,905,753	23,764,386
NET POSITION		
Net investment in capital assets	128,106,412	120,662,630
Restricted for Net Pension	2,312,297	2,195,056
Unrestricted	45,022,004	33,572,199
Total net position	175,440,713	156,429,885
Total liabilities, deferred inflows of resources, and net position	$ 342,780,917	$ 338,383,017

See accompanying notes.

Public Utility District No. 1 of Klickitat County – MCAG No. 1785

Combined Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31, 2025 and 2024

	2025	2024
OPERATING REVENUES		
Electric system		
Sales to retail customers	$ 37,694,794	$ 37,464,682
RNG sales	25,753,376	23,703,692
Sales to wholesale and transmission customers	11,207,488	11,863,785
Water/wastewater systems	1,807,882	1,666,794
Other operating revenues	2,028,204	1,329,938
Total operating revenues	78,491,744	76,028,891
OPERATING EXPENSES		
Power expense	18,575,422	17,486,375
Operations expense	20,847,728	21,569,838
Maintenance expense	4,663,118	4,473,845
Administrative and general expense	6,266,994	6,046,247
Depreciation and amortization expense	13,079,926	12,101,555
Tax expense	2,950,455	2,585,581
Total operating expenses	66,383,643	64,263,441
OPERATING INCOME	12,108,101	11,765,450
NON-OPERATING REVENUE (EXPENSE)		
Interest income	2,333,350	1,933,613
Other non-operating revenues	111,875	46,271
Interest expense	(5,233,218)	(4,694,214)
Other expenses	(1,469,723)	(491,655)
Total non-operating expense	(4,257,716)	(3,205,985)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	7,850,385	8,559,465
CAPITAL CONTRIBUTIONS AND GRANTS	11,160,443	3,828,280
CHANGE IN NET POSITION	19,010,828	12,387,745
NET POSITION, beginning of year	156,429,885	144,042,140
NET POSITION, end of year	$ 175,440,713	$ 156,429,885

See accompanying notes.

Public Utility District No. 1 of Klickitat County – MCAG No. 1785
Combined Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 78,475,192	$ 75,509,978
Payments to suppliers for goods and services	(39,750,848)	(38,128,147)
Payments to employees for services	(11,320,776)	(10,427,730)
Taxes paid	(2,950,455)	(2,327,170)
Net change in cash flows from operating activities	24,453,113	24,626,931
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other non-operating income	192,640	47,048
Net change in cash flows from noncapital financing activities	192,640	47,048
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(37,181,270)	(7,424,642)
Issuance of long-term debt	31,001,190	20,315,337
(Payments) draws on the line of credit	(4,213,029)	429,032
Debt issuance cost	(379,218)	-
Interest payments	(6,529,785)	(5,048,003)
Capital contributions and grants	10,293,445	2,961,281
Utility plant additions net of costs of removal and salvage proceeds	(14,443,916)	(16,732,525)
Net change in cash flows from capital and related financing activities	(21,452,583)	(5,499,520)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,333,350	1,933,613
Net change in cash flows from investing activities	2,333,350	1,933,613
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,526,520	21,108,072
CASH AND CASH EQUIVALENTS, beginning of year	50,968,557	29,860,485
CASH AND CASH EQUIVALENTS, end of year	$ 56,495,077	$ 50,968,557
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 49,734,046	$ 40,561,116
Special funds cash and cash equivalents	4,000,000	4,000,000
2024 restricted bond funds	2,761,031	6,407,441
	$ 56,495,077	$ 50,968,557

See accompanying notes.

Public Utility District No. 1 of Klickitat County – MCAG No. 1785
Combined Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
OPERATING INCOME	$ 12,108,101	$ 11,765,450
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation and amortization expense	13,079,926	12,101,555
Pension credit	(353,250)	(642,391)
OPEB credit	373	(16,213)
Amortization of prepaid power contract	1,180,705	1,180,356
Regulatory assets – issuance costs amortization	20,097	30,575
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Receivables and unbilled revenue	(520,558)	(493,923)
Materials and supplies	410,067	(595,981)
Prepayments	162,046	55,471
Accounts payable	(2,224,078)	1,045,250
Consumer deposits	24,006	(24,990)
Other current and accrued liabilities	85,678	221,772
Advanced billings	480,000	-
Total adjustments	12,345,012	12,861,481
Net cash from operating activities	$ 24,453,113	$ 24,626,931

See accompanying notes.

Note 1 – Organization and Significant Accounting Policies

Organization and combined financial statements – Public Utility District No. 1 of Klickitat County, Washington (the District) is a municipal corporation governed by an elected three-person Board of Commissioners. The District's reporting entity is comprised of the combined electric system, nine water systems, and five wastewater systems. All significant intercompany balances and transactions have been eliminated from the combined amounts reported. The District has no component units. The District's service area covers approximately 1,680 square miles in Klickitat County. The District also serves small areas in the surrounding counties of Yakima, Skamania, and Benton. As of December 31, 2025, the District had 14,366 electric, 1,294 water, and 911 wastewater customers. Wholesale revenues were generated from the sale of Renewable Natural Gas (RNG) production from the H. W. Hill Renewable Natural Gas Facility. Wholesale revenue was also received from the White Creek Wind I power sale contract, related to the District's 13% share of generated output from this 205 MW project.

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

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

Accounts receivable and allowance for uncollectible accounts – Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances, that may be unable to meet their financial obligations, and a reserve is recorded based on historical experience. The allowance for uncollectible accounts at December 31, 2025 and 2024, was $73,174 and $56,541, respectively.

Other receivables – Other receivables consist of amounts due from customers for small material purchases, certain aid in construction billings, repairs to damaged plant and equipment from accidents caused by others, funding requests to granting or loaning agencies, customers who take primary electric service from the District or have a power sales contract, and other miscellaneous items that may require invoicing that would not normally be entered into the customer service billing system. The District has not recorded an allowance for uncollectible accounts against other receivables as management believes the receivables are fully collectible.

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

Capital assets (utility plant) – Utility plant is stated at original cost, contract price, or acquisition value if donated (see Note 3). Costs include labor, materials, and related indirect costs, such as engineering and transportation. Additions, renewals, and betterments with a minimum cost of $5,000 per item are capitalized. Repairs and minor replacements are charged to operating expenses. In the case of disposals, unless there is a major retirement or a general plant asset is retired, the cost of property, and any removal cost less salvage are charged to accumulated depreciation when property is retired. Depreciation is computed using straight-line group rates: 3% for distribution plant, 2.75% for transmission plant, and 1.67% to 2.5% for generating plant. Depreciation of water and wastewater plant has been computed over useful lives of 25 to 40 years. General plant composite rates range from 2.2% to 14.4%.

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

It is the District's policy to document and apply as appropriate the normal purchases and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity and option contracts that require physical delivery and that are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity are considered to be derivatives under GASB Statement No. 53 and do not generally meet the "normal purchases and normal sales" criteria. See Note 10 for further discussion of the District's derivative instruments and risk management.

Debt expense, unamortized premium, and deferred gain or loss on refunding – Bond issue costs are generally expensed as incurred. However, the District utilized regulatory accounting for bond issuance costs and as such, amortizes them consistent with rate making decisions. Bond premiums are amortized to interest expense, using the weighted average method over the term of the bonds. Gain or loss on refunding is amortized over the shorter of the remaining life of the refunding or refunded bonds.

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

Compensated absences – In June 2022, GASB issued Statement No.101, *Compensated Absences*. This Statement offers guidance on standardized recognition and measurement criteria for compensated absences. District employees are entitled to Personal Time Off (PTO) based upon length of continuous service which is payable upon resignation, retirement, or death. There is a 700-hour cap on PTO accrual, determined according to the employees' anniversary dates. Additionally, employees may submit a request for cash out or transfer of accrued PTO, up to twice per calendar year if PTO balance is in excess of the 160 hour minimum. Transfers may go into Volunteer Employee Beneficiary Association (VEBA) or deferred compensation, as allowed. At employees' anniversary date, the 700-hour cap will be reviewed and hours in excess of cap will be forfeited. At separation, if an employee is not eligible to retire, they may cash out their PTO bank at a schedule governed by years of service. Compensated absences are recorded within other current and accrued liabilities on the statement of net position.

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

Net position – Net position consists of:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, and unspent bond proceeds less outstanding balances of any bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component consists of net position on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

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

Deferred outflows / inflows of resources – Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The separate financial statement element, deferred inflows of resources, represents a generation of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

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

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

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

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

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

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

Adoption of new accounting standards – In June 2024, GASB issued Statement No.102, *Certain Risk Disclosures*. This Statement requires disclosures regarding concentrations and constraints known to the Government that make the reporting unit vulnerable to the risk of a substantial impact if certain events occur.

GASB Statement No. 102 was implemented by the District for the fiscal year ended December 31, 2025. Management has determined that there is no impact to the District's current financial accounting and reporting for the types of transactions identified in these statements.

Note 2 – Deposits and Investments

Cash and cash equivalents consist of the following at December 31, 2025:

	Designated Cash and Cash Equivalents	Unrestricted Cash and Cash Equivalents	Restricted Cash and Cash Equivalents	Total 2025
Special funds, power cost stabilization	$ 4,000,000	$ -	$ -	$ 4,000,000
Cash – general funds	-	49,734,046	-	49,734,046
Cash – restricted bond funds	-	-	2,761,031	2,761,031
Totals	$ 4,000,000	$ 49,734,046	$ 2,761,031	$ 56,495,077

Cash and cash equivalents consist of the following at December 31, 2024:

	Designated Cash and Cash Equivalents	Unrestricted Cash and Cash Equivalents	Restricted Cash and Cash Equivalents	Total 2024
Special funds, power cost stabilization	$ 4,000,000	$ -	$ -	$ 4,000,000
Cash – general funds	-	40,561,116	-	40,561,116
Cash – restricted bond funds	-	-	6,407,441	6,407,441
Totals	$ 4,000,000	$ 40,561,116	$ 6,407,441	$ 50,968,557

Interest rate risk – The District's investment policy limits investment maturities to less than five years from the date of purchase unless authorized by the General Manager or their designee for a specific purpose. During 2025 and 2024, investments were in the State Treasurer's LGIP, which has a weighted average portfolio maturity of less than 90 days, as well as a Money Market Plus Public Funds account at an FDIC-insured financial institution.

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

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

Concentration of credit risk – District policies allow the entire portfolio to be invested in direct United States Government guaranteed obligations or in the LGIP. No other investment may exceed half of portfolio market value. The LGIP, a 2a7-like pool as defined by GASB Statement No. 31 and the Securities and Exchange Commission, invests in high quality, short-term investments; all LGIP money market securities must be rated A-1 by Standard & Poor's Corporation or P1 by Moody's Investor Services, Inc. The LGIP weighted average maturity must not exceed 90 days and no single investment may exceed 762 days in maturity. Withdrawals in excess of $10 million are available on a one-day notice. The LGIP Annual Report is available on the Washington State Treasurer's website.

Note 3 – Capital Assets (Utility Plant)

The following are changes in capital assets for the year ended December 31, 2025:

Description	Balance 01/01/25	Increases	Decreases	Balance 12/31/25
Capital assets not being depreciated				
Organization	$ 14,767	$ -	$ -	$ 14,767
Franchises and consents	211,427	-	-	211,427
Land and land rights	2,807,130	30,661	-	2,837,791
Construction work in progress	13,796,749	16,823,931	(17,698,640)	12,922,040
	16,830,073	16,854,592	(17,698,640)	15,986,025
Capital assets being depreciated				
Electric plant				
Distribution plant	156,168,156	10,114,295	(660,907)	165,621,544
Transmission plant	59,784,857	508,320	(36,081)	60,257,096
Generating plant	155,553,552	2,473,463	-	158,027,015
Water and wastewater plant	26,336,124	207,663	(3,190)	26,540,597
General plant	16,665,676	1,013,862	(394,482)	17,285,056
	414,508,365	14,317,603	(1,094,660)	427,731,308
Total capital assets	431,338,438	31,172,195	(18,793,300)	443,717,333
Accumulated depreciation	(174,433,892)	(12,350,975)	1,336,070	(185,448,797)
Net capital assets	$ 256,904,546	$ 18,821,220	$ (17,457,230)	$ 258,268,536

The following are changes in capital assets for the year ended December 31, 2024:

Description	Balance 01/01/24	Increases	Decreases	Balance 12/31/24
Capital assets not being depreciated				
Organization	$ 14,767	$ -	$ -	$ 14,767
Franchises and consents	211,427	-	-	211,427
Land and land rights	1,924,514	882,616	-	2,807,130
Construction work in progress	12,260,394	13,762,403	(12,226,048)	13,796,749
	14,411,102	14,645,019	(12,226,048)	16,830,073
Capital assets being depreciated				
Electric plant				
Distribution plant	146,366,774	10,363,229	(561,847)	156,168,156
Transmission plant	59,116,748	745,080	(76,971)	59,784,857
Generating plant	154,464,671	1,088,881	-	155,553,552
Water and wastewater plant	25,871,348	470,133	(5,357)	26,336,124
General plant	16,162,176	737,673	(234,173)	16,665,676
	401,981,717	13,404,996	(878,348)	414,508,365
Total capital assets	416,392,819	28,050,015	(13,104,396)	431,338,438
Accumulated depreciation	(164,164,714)	(11,349,508)	1,080,330	(174,433,892)
Net capital assets	$ 252,228,105	$ 16,700,507	$ (12,024,066)	$ 256,904,546

Depreciation on transportation and other equipment is allocated to clearing accounts and subsequently charged to construction work orders or maintenance expense.

Note 4 – Other Assets and Prepaid Power Contract

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

	2025	2024
Prepaid power contract, net of current portion	$ 1,148,255	$ 2,328,960
Preliminary investigation charges	807,649	807,649
	$ 1,955,904	$ 3,136,609

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

Note 5 – Line of Credit

Effective November 28, 2023, the District executed a $11 million line of credit agreement with a commercial lender. Interest on the line of credit is variable and is set monthly at the SOFR rate plus 300bps. The line expired on December 31, 2025, at which time the District paid all outstanding principal and accrued interest. The obligation was secured by the District's net revenues, as defined by the lender, and was subordinate to any outstanding senior lien debt. The agreement also required compliance with certain financial covenants, including a debt service coverage ratio. As of December 31, 2025 and 2024, the outstanding balance on the line of credit was $0 and $4,213,029, respectively. Effective January 1, 2026, the District renewed the line of credit, which is scheduled to mature on December 1, 2027.

Note 6 – Long-Term Debt

The following are changes in long-term debt for the year ended December 31, 2025:

	Balance 01/01/2025	Additions	Payments/ Amortization	Balance 12/31/2025	Due Within One Year
Electric revenue bonds	$ 135,809,809	$ 27,630,000	$ 37,419,909	$ 126,019,900	$ 7,236,600
Unamortized bond premium	6,120,227	3,371,190	2,197,151	7,294,266	-
W/WW loans	710,046	-	140,579	569,467	123,762
Total long-term debt	$ 142,640,082	$ 31,001,190	$ 39,757,639	$ 133,883,633	$ 7,360,362

The following are changes in long-term debt for the year ended December 31, 2024:

	Balance 01/01/2024	Additions	Payments/ Amortization	Balance 12/31/2024	Due Within One Year
Electric revenue bonds	$ 124,848,946	$ 18,245,000	$ 7,284,137	$ 135,809,809	$ 7,529,909
Unamortized bond premium	4,339,699	2,070,337	289,809	6,120,227	-
W/WW loans	850,551	-	140,505	710,046	140,578
Total long-term debt	$ 130,039,196	$ 20,315,337	$ 7,714,451	$ 142,640,082	$ 7,670,487

Substantially all electric revenues are pledged as security for the electric revenue bonds and substantially all water/wastewater (W/WW) revenues are pledged as security for the water/wastewater revenue bonds. Water/wastewater loans are secured by water/wastewater assets. Electric revenue bonds carry fixed interest rates ranging from 1.92% to 5.00% for December 31, 2025, and from 0.99% to 5.00% for December 2024. The electric system also has one loan that carries a fixed interest rate of 3.50%. The water/wastewater revenue bonds have a 5.0% fixed rate. The loans from the Public Work Trust Fund (PWTF) carry fixed rates of 0.0%, the State Revolving Fund (SRF) loans have fixed rates of 0.5%, and the USDA of 2.125%. Electric revenue bonds mature through 2044, water/wastewater bonds mature through 2056, and the PWTF and SRF loans mature through 2055. As of December 31, 2025, there is $2.7 million of restricted revenue bond funds representing revenue bond reserve requirements and debt service accounts for the various indentures. There are a number of other limitations and restrictions contained in the various bond indentures.

On March 5, 2025 the District issued $27,630,000 of Electric System Revenue Refunding Bonds Series 2025A and $3,371,190 of related premium. The 2025A Bonds were issued to defease and refund on a delayed basis, the District's outstanding 2015A Electric System Bonds and achieve debt service savings. The District realized a refunding loss of $1,640,675 that was expensed in the current year. The net present value savings, or economic gain, from the refunding is $935,849.

Future maturities are as follows as of December 31, 2025:

Electric Revenue Bonds

Year(s)	Principal	Interest	Totals
2026	$ 7,236,600	$ 4,992,596	$ 12,229,196
2027	8,065,800	4,703,885	12,769,685
2028	8,347,500	4,415,837	12,763,337
2029	7,660,000	4,124,240	11,784,240
2030	7,965,000	3,813,314	11,778,314
2031-2035	42,115,000	13,673,147	55,788,147
2036-2040	35,530,000	5,582,075	41,112,075
2041-2045	9,100,000	564,500	9,664,500
	$ 126,019,900	$ 41,869,594	$ 167,889,494

Water/Wastewater PWTF, SRF, and USDA Loans

Year(s)	Principal	Interest	Totals
2026	$ 123,762	$ 6,015	$ 129,777
2027	92,587	5,332	97,919
2028	78,326	4,648	82,974
2029	33,231	3,970	37,201
2030	33,332	3,724	37,056
2031-2035	81,409	15,443	96,852
2036-2040	26,229	12,391	38,620
2041-2045	29,134	9,486	38,620
2046-2050	32,371	6,249	38,620
2051-2055	35,962	2,658	38,620
2056-2060	3,124	66	3,190
	$ 569,467	$ 69,982	$ 639,449

Note 7 – Retirement Benefits

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* as of and for the year ended December 31, 2025:

Aggregate Pension Amounts – All Plans		
Net pension asset	$	2,312,297
Net pension liability		551,758
Deferred outflows of resources		2,911,449
Deferred inflows of resources		1,057,770
Pension expense		367,348

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

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

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

The DRS comprehensive annual financial report may also be downloaded from the DRS website at www.drs.wa.gov.

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

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

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component. 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) as of December 31 were as follows:

PERS Plan 1 Actual Contribution Rates	2025	2024
Employer	9.11%	9.53%
Employee	6.00%	6.00%

The District's actual contributions to the plan were $258,040 and $273,203 for the years ended December 31, 2025 and 2024, respectively.

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

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

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and nonduty 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 dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

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. 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 2025 were as follows:

PERS Plan 2 / 3 Actual Contribution Rates	2025	2024
Employer	9.11%	9.53%
Employee	6.36%	6.36%

The District's actual contributions to the plan were $643,064 and $655,392 for the years ended December 31, 2025 and 2024, respectively.

Actuarial Assumptions – The 2025 total pension liability/(asset) (TPL/A) for each of the DRS plans was determined by an actuarial valuation completed as of June 30, 2024 with the results rolled forward to June 30,2025. The 2024 total pension liability/(asset) (TPL/A) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2024 with a valuation date of June 30, 2023. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Demographic Experience Study and the 2023 Economic Experience Study.

For 2025, additional assumptions for subsequent events and law changes are current as of the 2024 actuarial valuation report. For 2024, additional assumptions for subsequent events and law changes are current as of the 2023 actuarial valuation report. The TPL/A was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2024. Plan liabilities/(assets) were rolled forward from June 30, 2023, to June 30, 2024, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

The total pension liability (asset) as of June 30, 2025, was determined using the following actuarial assumptions:

- **Inflation**: 2.75% total economic inflation; 3.25% salary inflation.
- **Salary increases**: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return**: 7.00%.

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

Discount Rate – The discount rate used to measure the total pension liability for all DRS plans was 7.00%.

To determine that rate, an asset sufficiency test included an assumed 7.00% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.00% 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. 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 7.00% 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 7.00% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.00% approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class – Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2025 and 2024 are summarized in the table below. The inflation component used to create the table is 2.50% and represents the WSIB's most recent long-term estimate of broad economic inflation.

	2025		2024	
Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	19%	2.10%	19%	2.10%
Tangible Assets	8%	4.50%	8%	4.50%
Real Estate	18%	4.80%	18%	4.80%
Global Equity	30%	5.60%	30%	5.60%
Private Equity	25%	8.60%	25%	8.60%
	100%		100%	

Sensitivity of NPL – The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability (assets) would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
PERS 1 Liability	$ 931,038	$ 551,758	$ 219,121
PERS 2/3 Asset	$ 3,752,290	$ (2,312,297)	$ (7,293,017)

Pension Plan Fiduciary Net Position – Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense (Credit), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2025, the District reported a net pension liability of $551,758 for PERS 1 and net pension asset of $2,312,297 for PERS 2/3 for its proportionate share of the total net pension liability (asset). At December 31, 2024, the District reported a net pension liability of $911,909 for PERS 1 and net pension asset of $2,195,056 for PERS 2/3 for its proportionate share of the total net pension liability (asset).

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

	Proportionate Share 6/30/25	Proportionate Share 6/30/24	Change in Proportion
PERS 1	0.046799%	0.051322%	-0.004523%
PERS 2/3	0.060592%	0.066586%	-0.005994%

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

The collective net pension liability was measured as of June 30, 2025, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2024, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense/(Credit) – For the years ended December 31, 2025 and 2024, the District recognized a pension credit of $367,348 and $168,858, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2025 and 2024, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2025		2024	
PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (37,931)	$ -	$ (72,968)
Contributions subsequent to the measurement date	486	-	115,399	-
Total	$ 486	$ (37,931)	$ 115,399	$ (72,968)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,690,614	$ -	$ 1,247,278	$ 5,082
Net difference between projected and actual investment earnings on pension plan investments	-	520,712	-	629,041
Changes of assumptions	893,616	63,851	1,212,114	139,078
Changes in proportion and differences between contributions and proportionate share of contributions	14,258	511,138	35,745	271,803
Contributions subsequent to the measurement date	312,475	-	339,321	-
Total	$ 2,910,963	$ 1,095,701	$ 2,834,458	$ 1,045,004

Combined PERS 1 & PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,690,614	$ -	$ 1,247,278	$ 5,082
Net difference between projected and actual investment earnings on pension plan investments	-	482,781	-	556,073
Changes of assumptions	893,616	63,851	1,212,114	139,078
Changes in proportion and differences between contributions and proportionate share of contributions	14,258	511,138	35,745	271,803
Contributions subsequent to the measurement date	312,961	-	454,720	-
Total	$ 2,911,449	$ 1,057,770	$ 2,949,857	$ 972,036

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 ending December 31, 2025. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PERS 1
Year Ended December 31, 2026	$ 36,195
2027	(26,367)
2028	(27,382)
2029	(20,377)
2030	-
Total	$ (37,931)

	PERS 2/3
Year Ended December 31, 2026	$ 722,804
2027	227,378
2028	218,657
2029	26,424
2030	216,337
Thereafter	91,187
Total	$ 1,502,787

Note 8 – Post-Employment Benefits Other than Pension

Plan description – The District administers a single-employer defined benefit healthcare plan. The plan provides postretirement medical and dental benefits for eligible retirees who are 65 years old with 5 years of service or 55 years old with 20 years of service. Survivors of members who die prior to retirement are not eligible for medical benefits. Benefit provisions are established through District policy. The District's postemployment health care plan does not issue a publicly available financial report.

As of the valuation date of January 1, 2025, membership includes 84 active participants, 25 retirees and surviving spouses, and 17 spouses of current retirees.

Funding policy – Contribution requirements are established through District policy. The premium paid for spouse coverage is based on whether or not the retiree is eligible for Medicare. The following premiums were in place as of January 1, 2025:

	Medical	Dental
Pre-65		
Retiree Only	$ 847	$ 51
Retiree + Spouse	$ 1,716	$ 106
Post-65		
Retiree Only	$ 635	$ 51
Retiree + Spouse	$ 1,287	$ 106

Total OPEB liability, OPEB expense, deferred outflows of resources, and deferred inflows of resources related to OPEB – The District's total OPEB liability of $1,467,095 was measured as of December 31, 2024, and was determined by an actuarial valuation as of January 1, 2025. The District's total OPEB liability of $1,250,749 was measured as of December 31, 2023, and was determined by an actuarial valuation as of January 1, 2023.

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

	December 31, 2025	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 296,558	$ 48,980
Changes in assumptions or inputs	88,561	331,500
Contributions made subsequent to measurement date	85,438	-
	$ 470,557	$ 380,480

	December 31, 2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 34,433	$ 71,273
Changes in assumptions or inputs	112,495	279,044
Contributions made subsequent to measurement date	77,493	-
	$ 224,421	$ 350,317

Deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending December 31,	2025	$ (28,490)
	2026	(27,961)
	2027	10,634
	2028	(305)
	2029	21
	Thereafter	50,740
		$ 4,639

Actuarial assumptions – The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	January 1, 2025	January 1, 2023
Measurement Date	December 31, 2024	December 31, 2023
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions		
Discount Rate	4.08%	3.26%
Inflation	2.40%	2.35%
Projected Salary Increase	3.25%	3.25%

Mortality rates for healthy retirees and beneficiaries were based on the MP-2017 Sex-distinct tables, as appropriate, with adjustments for mortality improvements based on Scale BB.

Health care cost trend – The health care cost trend starts at 2.50% in the first year and in future years varies between 6.60% and 3.80%, due to the timing of the excise tax scheduled to affect health care benefits. The trend then settles to an ultimate rate of 2.50%. Dental costs are assumed to increase 4.0% in all future years.

Discount rate – The discount rate used to measure the total OPEB liability was 4.08% and 3.26% percent for the December 31, 2024 and 2023, measurement dates, respectively. This rate is consistent with the Bond Buyer 20-year General Obligation Bond index.

Changes in total OPEB liability – Changes in the total OPEB liability for the years ended December 31 are shown below:

	2025	2024
Balance, beginning of year	$ 1,250,749	$ 1,162,649
Changes for the year		
Service cost	70,858	62,399
Interest on total OPEB liability	41,831	44,244
Effect of economic/demographic gains or losses	299,431	-
Effect of assumptions changes or inputs	(118,281)	53,519
Benefit payments	(77,493)	(72,062)
Balance, end of year	$ 1,467,095	$ 1,250,749

Sensitivity analysis – Below is a sensitivity analysis around the discount rate of 4.08% as well as the healthcare trend rate assumed in the actuarial assumptions:

Discount Rate	1% Decrease 3.08%	Current Rate 4.08%	1% Increase 5.08%
Total OPEB liability	$ 1,648,391	$ 1,467,095	$ 1,315,291

Healthcare Cost Trend	1% Decrease	Current Rate	1% Increase
Total OPEB liability	$ 1,281,755	$ 1,467,095	$ 1,700,337

Note 9 – Segment Information – Enterprise Funds

The District operates an electric, nine water, and five wastewater utilities which are primarily financed by user charges. The key financial data for the years ended December 31, 2025 and 2024, is as follows:

Condensed statement of net position:

	Electric System	Water-Wastewater Systems	Total 2025	Total 2024
Assets				
Current, restricted, other assets and deferred outflows	$ 81,023,293	$ 3,489,088	$ 84,512,381	$ 81,478,471
Capital assets	245,726,770	12,541,766	258,268,536	256,904,546
Total assets and deferred outflows	$ 326,750,063	$ 16,030,854	$ 342,780,917	$ 338,383,017
Liabilities				
Current liabilities	$ 13,482,676	$ 916,666	$ 14,399,342	$ 20,991,389
Noncurrent liabilities and deferred inflows	152,495,157	445,705	152,940,862	160,961,743
Total liabilities and deferred inflows	$ 165,977,833	$ 1,362,371	$ 167,340,204	$ 181,953,132
Net position				
Net investment in capital assets	$ 116,035,880	$ 12,070,532	$ 128,106,412	$ 120,662,630
Restricted	2,312,297	-	2,312,297	2,195,056
Unrestricted	42,325,822	2,696,182	45,022,004	33,572,199
Total net position	160,673,999	14,766,714	175,440,713	156,429,885
Total liabilities, deferred inflows and net position	$ 326,651,832	$ 16,129,085	$ 342,780,917	$ 338,383,017

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

	Electric System	Water-Wastewater Systems	Total 2025	Total 2024
Operating revenues	$ 76,683,862	$ 1,807,882	$ 78,491,744	$ 76,028,891
Operating expenses	51,750,161	1,553,556	53,303,717	52,161,886
Depreciation and amortization	12,231,032	848,894	13,079,926	12,101,555
Operating income	12,702,669	(594,568)	12,108,101	11,765,450
Non-operating revenues (expenses)				
Interest income	2,194,598	138,752	2,333,350	1,933,613
Interest expense	(5,216,915)	(16,303)	(5,233,218)	(4,694,214)
Other non-operating revenue (expense), net	(1,355,151)	(2,697)	(1,357,848)	(445,384)
Capital contributions and grants	11,029,663	130,780	11,160,443	3,828,280
Change in net position	19,354,864	(344,036)	19,010,828	12,387,745
Net position, beginning of year	141,319,135	15,110,750	156,429,885	144,042,140
Net position, end of year	$ 160,673,999	$ 14,766,714	$ 175,440,713	$ 156,429,885

Note 10 – Power Risk Management

As of December 31, 2025, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2025	
	Classification	Amount	Classification	Amount
Cash Flow Hedges				
Financial Swap Forward	Deferred Inflow	$ 161,827	Derivative Asset	$ 161,827
Financial Swap Forward	Deferred Outflow	$ 12,985	Derivative Liability	$ 12,985

As of December 31, 2024, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2024	
	Classification	Amount	Classification	Amount
Cash Flow Hedges				
Financial Swap Forward	Deferred Inflow	$ 124,442	Derivative Asset	$ 124,442
Financial Swap Forward	Deferred Outflow	$ 65,104	Derivative Liability	$ 65,104

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

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

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

Surplus Purchased Power Resources – The District purchases power to serve loads in excess of those served by the BPA system. These purchase requirements are for known quantities over each two-year BPA rate period. These purchases are made at a price based on the monthly Mid-Columbia index. The District utilizes financial hedges to effectively lock in the price paid for the majority of this power and as a result protects the District from variability in wholesale power expense.

Credit risk – The District has developed a credit policy that establishes guidelines for setting credit limits and monitoring credit exposure on a continuous basis. The policy addresses frequency of counterparty credit evaluations, credit limits per specific counterparty, and counterparty credit concentration limits. Commodity transactions, both physical and financial, are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness. Counterparty credit limits are based on The Energy Authority's (TEA) proprietary credit rating system and other factors. Credit ratings for counterparties range from "not-rated" to AAA, with a majority of counterparties rated between BBB- and AA.

Basis risk – The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. There are no derivative transactions outstanding that carry basis risk as of December 31, 2025 and 2024. As applicable, all power related transactions are to be settled on the relevant Mid-Columbia index, and all gas transactions are to be settled on the relevant Sumas/Huntingdon index. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

Termination risk – Hedging derivative contracts may be terminated by mutual agreement of the Board and the counterparty, or upon the occurrence of a termination event. Termination events include nonpayment, nondelivery, deterioration of creditworthiness, or other material adverse changes. During the years ended December 31, 2025 and 2024, there were no terminations.

Note 11 – Risk Management and Self-Insurance

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

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

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

Note 12 – Joint Ventures

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

McNary North Fishway Hydroelectric Project – On August 14, 1995, the District and Northern Wasco County PUD entered into an Ownership Agreement to jointly construct and operate the McNary North Fishway Hydroelectric Project. The project was completed in September 1997 and is generating approximately 10 MW of electricity. Both the District and Northern Wasco County PUD share equally in the output, as well as the construction and operation costs of the Project. The District contributed $600,000 and $800,000 in 2025 and 2024, respectively.

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

Note 13 – Contingencies

Lawsuits – The District is a defendant in various lawsuits from time to time; it is the opinion of District management that resolution of these matters will not have a material adverse effect on the financial condition of the District. See also Note 11.

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

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

Note 14 – Power Contracts

Effective October 1, 2017, the District entered into a Load-Following Power Sales Agreement with the Bonneville Power Administration (BPA), which is scheduled to expire on September 30, 2028. On April 9, 2025, the District committed to a successor Load-Following agreement with BPA that will be effective from October 1, 2028, through September 30, 2044. The BPA Load-Following agreement, together with the District's entitlement to generation from the McNary Dam and Packwood Lake Hydroelectric Projects, is expected to provide the resources necessary to meet the power supply requirements of the District's retail customers.

Note 15 – Generation Assets

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

The H.W. Hill Landfill Gas Facility was first developed to produce electricity from the regional landfill. In 2018 the facility was redeveloped as a Renewable Natural Gas Facility, converting the captured landfill gas into compressed natural gas, which is injected into the nearby natural gas pipeline and utilized by downstream parties as renewable vehicle fuel. The District recognized $25,753,376 and $23,703,692 in revenues related to the output from the facility during the years ended December 31, 2025 and 2024, respectively.

Note 16 – Union Contracts

The District has a contract with the International Brotherhood of Electrical Workers (IBEW) as well as the Water/Wastewater Workers which covers these workers employed by the District. The District signed a new contract with the unions in April 2025, which expires in March 2028.

Required Supplementary Information

Public Utility District No. 1 of Klickitat County
Schedule of Changes in Total OPEB Liability and Related Ratios
Last Ten Years

	December 31,							
	2025	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability								
Service cost	$ 70,858	$ 62,399	$ 74,999	$ 71,878	$ 75,576	$ 60,399	$ 68,258	$ 61,916
Interest cost	41,831	44,244	28,828	28,527	35,869	46,672	51,068	53,391
Effect of economic/demographic gains or losses	299,431	-	(13,838)	-	61,441	(64,464)	(124,771)	-
Effect of assumptions changes	(118,281)	53,519	(218,350)	8,235	(77,024)	110,561	(196,362)	46,736
Benefit payments	(77,493)	(72,062)	(66,515)	(49,461)	(61,626)	(62,325)	(89,518)	(98,983)
Net change in total OPEB liability	216,346	88,100	(194,876)	59,179	34,236	90,843	(291,325)	63,060
Total OPEB liability, beginning of period	1,250,749	1,162,649	1,357,525	1,298,346	1,264,110	1,173,267	1,464,592	1,401,532
Total OPEB liability, end of period	$ 1,467,095	$ 1,250,749	$ 1,162,649	$ 1,357,525	$ 1,298,346	$ 1,264,110	$ 1,173,267	$ 1,464,592
Covered employee payroll	$ 11,097,039	$ 10,576,324	$ 9,903,130	$ 9,330,796	$ 8,224,647	$ 7,634,303	$ 7,149,496	$ 6,861,924
Total OPEB liability as a percent of covered payroll	13.22%	11.83%	11.74%	14.55%	15.79%	16.56%	16.41%	21.34%

Public Utility District No. 1 of Klickitat County
Schedule of Proportionate Share of the Net Pension Liability
Last Ten Years

PERS 1

	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Proportion of the net pension asset	0.046799%	0.051322%	0.055498%	0.053142%	0.054483%	0.052127%	0.053025%	0.050830%	0.052794%	0.057652%
Proportionate share of the net pension liability	$ 551,758	$ 911,909	$ 1,266,871	$ 1,479,669	$ 665,365	$ 1,840,367	$ 2,038,999	$ 2,270,085	$ 2,505,117	$ 3,096,184
Covered-employee payroll	$ 11,097,039	$ 10,576,324	$ 9,903,130	$ 9,330,796	$ 8,682,282	$ 7,469,617	$ 6,679,129	$ 6,888,007	$ 6,684,510	$ 6,630,605
Proportionate share of the net pension liability as percentage of covered-employee payroll	5%	9%	13%	16%	8%	25%	31%	33%	37%	47%
Plan's fiduciary net position	$ 9,610,758,000	$ 9,364,420,000	$ 9,225,521,000	$ 9,093,254,000	$ 9,625,832,000	$ 7,726,256,000	$ 7,851,279,000	$ 7,677,378,000	$ 7,496,920,000	$ 7,126,401,000
Plan fiduciary net position as a percentage of the total pension liability	89%	84%	80%	77%	89%	69%	67%	63%	61%	57%

PERS 2/3

	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Proportion of the net pension asset	0.060592%	0.066586%	0.071620%	0.069363%	0.069964%	0.068077%	0.068431%	0.065435%	0.067908%	0.073869%
Proportionate share of the net pension liability (asset)	$ (2,312,297)	$ (2,195,056)	$ (2,935,477)	$ (2,572,522)	$ (6,969,540)	$ 870,665	$ 664,697	$ 1,117,243	$ 2,359,477	$ 3,719,245
Covered-employee payroll	$ 11,097,039	$ 10,576,324	$ 9,903,130	$ 9,330,796	$ 8,682,282	$ 7,469,617	$ 6,679,129	$ 6,888,007	$ 6,684,510	$ 6,630,605
Proportionate share of the net pension liability (asset) as percentage of covered-employee payroll	-21%	21%	-30%	-28%	-80%	12%	10%	16%	35%	56%
Plan's fiduciary net position	$ 72,839,330,000	$ 67,012,309,000	$ 62,501,051,000	$ 58,833,978,000	$ 59,057,337,000	$ 44,751,593,000	$ 42,531,828,000	$ 38,685,317,000	$ 35,000,803,000	$ 30,482,624,000
Plan fiduciary net position as a percentage of the total pension liability	106%	105%	107%	107%	120%	97%	98%	96%	91%	86%

Public Utility District No. 1 of Klickitat County
Schedule of Contributions
Last Ten Years

PERS 1

	December 31, 2025	December 31, 2024	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Contractually required contribution (actuarially determined)	$ 258,040	$ 307,222	$ 378,180	$ 325,687	$ 405,835	$ 376,778	$ 371,493	$ 360,069	$ 321,420	$ 318,217
Contributions in relation to the actuarially determined contribution	(258,040)	(307,222)	(378,180)	(325,687)	(405,835)	(376,778)	(371,493)	(360,069)	(321,420)	(318,217)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 11,097,039	$ 10,576,324	$ 9,903,130	$ 9,330,796	$ 8,682,282	$ 7,469,617	$ 6,679,129	$ 6,289,795	$ 6,687,962	$ 6,630,605
Contributions as a percentage of covered-employee payroll	2%	3%	4%	3%	5%	5%	6%	6%	5%	5%

PERS 2/3

	December 31, 2025	December 31, 2024	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Contractually required contribution (actuarially determined)	$ 643,064	$ 655,392	$ 629,696	$ 557,241	$ 622,747	$ 622,765	$ 559,805	$ 533,228	$ 449,348	$ 412,412
Contributions in relation to the actuarially determined contribution	(643,064)	(655,392)	(629,696)	(557,241)	(622,747)	(622,765)	(559,805)	(533,228)	(449,348)	(412,412)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 11,097,039	$ 10,576,324	$ 9,903,130	$ 9,330,796	$ 8,682,282	$ 7,469,617	$ 6,679,129	$ 6,289,795	$ 6,687,962	$ 6,630,605
Contributions as a percentage of covered-employee payroll	6%	6%	6%	6%	7%	8%	8%	8%	7%	6%

Notes to schedules

DRS allocates a certain portion of contributions from PERS Plan 2/3 to PERS Plan 1 in order to fund its unfunded actuarially accrued liability (UAAL).

NOTE - Changes made to presentation
The PERS 1 UAAL is considered a PERS 1 contribution as it is contributed to that plan. This has been added to the PERS 1 contributions and deducted from PERS 2/3.

Supplementary Information

Public Utility District No. 1 of Klickitat County
Schedule of Debt Service Coverage
Years Ended December 31, 2025 and 2024

	2025	2024
OPERATING REVENUES		
Electric system		
Sales to retail customers	$ 37,694,794	$ 37,464,682
Sales to wholesale and transmission customers	11,207,488	11,863,785
RNG Generation Revenues	25,753,376	23,703,692
Water/wastewater systems	1,807,882	1,666,794
Other operating revenues	2,028,204	1,329,938
Total operating revenues	78,491,744	76,028,891
OPERATING EXPENSES		
Power expense	18,575,422	17,486,375
Operations expense	20,847,728	21,569,838
Maintenance expense	4,663,118	4,473,845
Administrative and general expense	6,266,994	6,046,247
Tax expense	2,950,455	2,585,581
Total operating expense, excluding depreciation and amortization	53,303,717	52,161,886
Net operating revenue	25,188,027	23,867,005
INTEREST INCOME	2,333,350	1,933,613
OTHER NON-OPERATING REVENUES (INCLUDING CAPITAL CONTRIBUTIONS AND GRANTS)	11,272,318	3,874,551
BALANCE FOR DEBT SERVICE	$ 38,793,695	$ 29,675,169
Debt service – principal and interest payments – senior/parity and subordinate lien debt	$ 12,539,512	$ 11,957,815
Debt service – principal and interest payments – senior/parity lien debt only	$ 9,562,380	$ 8,980,655
Debt service coverage senior/parity and subordinate lien debt	3.09	2.48
Debt service coverage senior/parity lien debt only	4.06	3.30

Public Utility District No. 1 of Klickitat County
Schedule of Cash and Liquidity Ratios
Years Ended December 31, 2025 and 2024

	2025	2024
DAYS CASH ON HAND		
Unrestricted funds		
Cash and cash equivalents	$ 49,734,046	$ 40,561,116
Power cost stabilization fund	4,000,000	4,000,000
Total unrestricted funds (a)	53,734,046	44,561,116
Expenses		
Operating expenses	66,383,643	64,263,441
Less – Depreciation	(11,899,221)	(12,101,555)
Less – Amortization of prepaid power contract	(1,180,705)	(1,180,356)
Total expenses (b)	53,303,717	50,981,530
Days cash on hand (a / b * 365)	368	319
DAYS LIQUIDITY ON HAND		
Available borrowing capacity – line of credit (c)	$ 11,000,000	$ 6,786,971
Days liquidity on hand ((a + c) / b * 365)	443	368

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Klickitat County, Washington (the District), which comprise the combined statement of net position and the related combined statements of revenues, expenses, and changes in net position, and cash flows, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 26, 2026.

Report on Internal Control Over Financial Reporting

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

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

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

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Report on Compliance and Other Matters

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

Purpose of this Report

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

Baker Tilly US, LLP

Portland, Oregon
June 26, 2026

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