

RESOLUTION NO. 1721

**A Resolution Of The Commission Of Public Utility District No. 1 Of Okanogan County
Adopting A Financial Policy For The District**


WHEREAS, The Commission recognizes the need for rigorous financial planning in order to meet its obligations under Title 54 RCW, to maintain long term rate stability and adequate operating funds, and to anticipate and respond to changes in the business climate and economic environment; and

WHEREAS, Prudent financial policies enable the District to provide stable, reliable and responsive utility services at the lowest possible cost to its customers over the long run; and

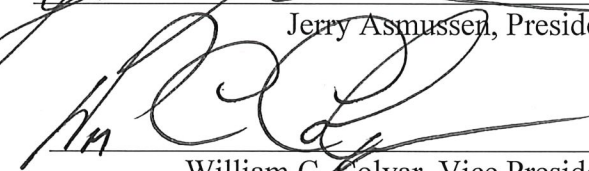
WHEREAS, The Commission has developed a Financial Policy that will help better meet the strategic goals and needs of the District and its customers.

NOW, THEREFORE, BE IT RESOLVED that the Board of Commissioners of Public Utility District No. 1 of Okanogan County hereby approves and adopts the Financial Policy set forth in Exhibit A, attached hereto.

DATED this 24th day of August 2020.



Jerry Asmusen, President



William C. Colyar, Vice President

ATTEST:



Scott Vejraska, Secretary

APPROVED as to form:



Heidi E. Appel, General Counsel

Okanogon County Public Utility District Financial Policy



Effective: August 24, 2020
Adopted Resolution: Resolution No. 1721

1. FINANCIAL POLICY

The Okanogon County Public Utility District's goal is to achieve a strong financial condition and the highest level of financial management. The Board of Commissioners (the Board), General Manager (GM), and the District staff will work together to ensure that all financial matters of the District are addressed with integrity and with the best interest of its customers in mind. This Financial Policy provides guidance for the Board and staff to use in making sound financial decisions that ensure services are maintained, public funds are responsibly managed, and the Board's vision for the District is achieved. This policy is designed to:

- Protect the assets of the District.
- Ensure the availability of sufficient financial resources for the District to meet both its immediate and long-term objectives.
- Provide transparency into the processes the organization uses to remain fiscally sound.
- Provide a framework of operating standards, roles, and responsibilities for fiscal matters.
- Ensure fiscal compliance with federal, state, and local legal and reporting requirements.
- Ensure the maintenance of accurate records of the District's financial activities.

The Financial Policy provides direction on the following topics:

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1.01 General Financial Management Policy

The District is committed to the highest standards of financial management. The Board, GM, and staff will comply with the guidelines set forth within the District's Financial Policy. These policies are intended to be applied in conjunction with requirements outlined in federal, state, and local legal requirements, as well as the Washington Administrative Code and the Generally Accepted Accounting Principles (GAAP). In the case of conflict between this policy and the previously noted regulations, the external regulations will supersede.

1.02 Financial Policy Adoption and Review

The Board is responsible for ensuring that the Financial Policy is up-to-date. To maintain effective and current guidance, the Board delegates responsibility to the GM to work with the appropriate staff members to review the Financial Policy on an annual basis. As necessary, the GM will propose revisions to the Board that reflect:

- Changes in applicable legal and regulatory requirements
- Changes in the District's services and operations
- Changes in the District's financial strategy or philosophy

The Financial Policy and any subsequent amendments will be adopted by a majority vote of the Board.

2. PLANNING AND REPORTING

2.01 Financial Planning Policy

The Board is responsible for reviewing and approving the District's major planning documents. On an annual basis, the GM and staff will prepare and present the following plans and forecasts for approval by the Board:

- Annual Budget (see 2.02 Budget Policy)
- Retail Energy and Broadband Sales Forecasts (see 2.05)
- Capital Work Plans

Rate studies are to be conducted every three to five years, as needed (see 3.01 for more details).

2.02 Budget Policy

The Board is responsible for approving and overseeing the District's Budget to ensure it is:

- Aligned with and supports the organization's mission, values, and strategic priorities; and

- Financially sustainable, responsible, and compliant with all applicable laws and regulations.

This policy is designed to establish the process for developing, reviewing, and monitoring the District's annual Operating Budget.

Budget Development

As prescribed by State Law (RCW 54.16.080), the Board will adopt and approve the District's Budget on an annual basis.

Initial budget estimates are based on historical information as well as current expenditure projections through the end of the year, along with details like projected staff salary increases and operating expense increases related to planned goals and projects for the following fiscal year (January 1 to December 31). In addition, the budget document will provide for the following:

- Revenue and expense assumptions upon which the Budget is based
- Prior year actual, current year budgeted, new year recommended expenditures and revenues by department
- Descriptions of significant expenditure and revenue changes and related operational impacts by the department

On or before the first Board meeting of October, the GM or Director of Finance will present the draft budget for discussion at a public hearing. The Board may accept the Budget as shown or may request variations. A detailed summary denoting specific reasons for decisions should be attached to the draft budget for discussion.

The GM and Director of Finance will then revise the draft and present the amended draft budget at the next available Board meeting. The Board will approve the Budget on or before December 31.

Once adopted by the Board, this becomes the District's official operating Budget for the following fiscal year, and the Board and employees will work within the financial limits stated or implied by this document. The Budget is also a flexible document that provides a comprehensive framework of resource allocations for the implementation of the District's strategic goals for the fiscal year. Amendments can be recommended at any time throughout the fiscal year, as needs arise. Budget amendments will also be approved by the Board.

The Budget will be made publically available via the District's website.

Basis of Budget

Budgets will be prepared using the accrual basis of accounting.

Monitoring the Budget

The GM and the Director of Finance will monitor the District's revenue and expenditures, compare actual and budgeted amounts, and report on the progress.

2.03 Reporting Policy

The Board, with support from the GM and the Director of Finance, will ensure adequate financial reporting to meet the needs of the Board, act in compliance with all relevant regulations, and ensure transparency with the public.

Annual Financial Statements

The District's accounting records will be maintained per methods prescribed by the State Auditor under the authority of the RCW, Chapter 43.09. The District's financial statements will be prepared annually after the closing of the fiscal year, using the accrual basis of accounting. The GM, with support from the Director of Finance, will oversee the preparation of the annual report, and engage the independent auditor services on an annual basis.

The audited financial statements will be submitted to RUS 120 days after the end of every fiscal year, as required by the lending agreement.

The annual compliance letter (signed by the GM) will be submitted to RUS 45 days after the end of every fiscal year, as required by the lending agreement.

Key Performance Indicators (KPI)

The GM and Director of Finance will report Key Performance Indicators (KPI) as a tool for the Board to measure and track the financial health of the District and identify and implement changes to correct underperformance. The following KPI will be reported to the Board:

- **Operating Ratio:** This ratio calculates operating expenses as a percentage of revenue to demonstrate the efficiency of the District's operations and the ability of the District's management to keep costs down.
- **Actual Expense vs. Budgeted Expenses:** This KPI is a comparison of actual expenses to date with total budgeted expenses times % of year complete to determine if actual spending is tracking with the budget.
- **Actual Revenue vs. Actual Expenses:** This the difference between YTD revenue and YTD expense. This difference is available to fund debt service and capital outlay.
- **Quick Ratio:** The calculation for this KPI is cash plus accounts receivable divided by current liabilities. This ratio measures the District's ability to utilize its highly liquid assets to immediately meet the District's short-term financial responsibilities.
- **Debt to Total Assets Ratio:** This ratio is calculated by dividing total Long Term Debt outstanding by Total Assets. This ratio reveals the percent of assets which is financed by debt.
- **Days of Cash on Hand:** Operating expenses less depreciation is divided by 365 to obtain a daily cash requirement. Unrestricted funds is then divided by the daily cash requirement in order to determine the number of days those unrestricted funds would last without receiving new income.
- **Debt Service Coverage Ratio:** This ratio is calculated by dividing the net revenues (defined by bond resolution) by the total annual debt service payment. This ratio provides a measurement of

available cash flow to pay current debt obligations.

- **Total TIER (TIMES INTEREST EARNED RATIO):** This ratio is calculated by adding back the non-operating charges to Net Income and dividing that by interest paid. This is a debt ratio that measures how well a business can cover its interest expense.

Financial Reports

On a monthly basis, the GM or Director of Finance will present financial reports for the Board. The monthly reports will include:

- Income statement
- Balance sheet
- Cash expenditures
- Cash reserve summary (restricted and unrestricted)
- Key Performance Indicators
- Summary of capital expenditures
- Budget to actual summary
- Investment Schedule
- Customer and Kwh statistics

The financial reports should clearly articulate the District's year-to-date revenue and expenditures and variation from budget estimates, indicating any significant deviations. The GM or Director of Finance will indicate what effect any variations will have on the budget projections and provide this information to the Board.

Public Availability

All published financial reports will be available via the District's website.

2.04 Audit Policy

Financial Audit

In accordance with statutory requirements and sound governance practices, the Board will engage the services of an independent accountant to complete an annual audit of the District's financial records in accordance with Generally Accepted Accounting Principles (GAAP) as defined by the Governmental Accounting Standards Board (GASB).

The purpose of the independent audit is to provide an objective, impartial assessment of the District's financial records, and assessment of internal control structure designed by the District to ensure that the District's assets are protected from loss, theft, or misuse. The audit will be conducted in accordance with GAAP and financial auditing standards. At the conclusion of the audit, the auditor will present the results of the audit and their opinion to the Board.

Audited financial statements will be posted on the District's website for public access no later than

June 30 of each year.

2.05 Retail Energy and Broadband Sales Forecasts

Energy

The District is responsible for providing a Point of Delivery (POD) Load forecast to Bonneville Power Administration (BPA) on an annual basis. This POD load forecast is both negotiated and approved by BPA no later than June 30 of each year. The BPA approved POD load forecast is submitted to Douglas PUD, which is used to determine the amount of Wells Dam output available to Okanogan PUD. This information is provided via Schedule 1 of the Okanogan Power Sales Contract with Douglas PUD and is due from Douglas PUD 6 months prior to the end of the fiscal year (July 1).

The approved POD load forecast minus transmission losses determine Okanogan PUD's Retail Load Forecast, which is incorporated into the annual Budget.

Broadband

The District's broadband sales forecast is determined on a historical trend basis plus/minus any known opportunities in the upcoming budget year. All budgeted broadband expenses and capital expenditures are set at or below broadband revenue forecast as not to be subsidized by the electric division.

3. REVENUES

3.01 Rate Setting Policy

The Board is responsible for setting utility rates responsibly and transparently.

Rate Setting Philosophy

The chief objective of rate setting is to ensure the recovery of the cost of providing service to customers, that revenue requirements are consistent with the financial goals of the District, including cash requirements, all ratio coverage requirements, debt service coverage, and debt financing limits.

Within this context, the District will strive to follow these general principles when making rate-related decisions:

- Rates should ensure to recover the cost of providing services
- Rates should be fair and developed to minimize the subsidization of one rate class by another
- Rates should be stable and understandable
- Rates should be the product of deliberate effort involving input from management, consultants, and customers

In addition, rates will be established separately for each of the District's divisions- Electric and Broadband. Rates will be developed to sustain each division's respective operations, and cannot be used to subsidize operating costs of the other division.

Rate Studies

The GM is responsible for ensuring that rate studies will be conducted every three to five years to update assumptions and to ensure the long-term solvency and viability of the District. The GM may contract with an external consultant to conduct the study.

The rate study will take into account power cost along with historic budgets, and documented assumptions (including the assumption that average weather conditions will prevail).

Results will be presented to the Board.

Rate Setting Process

As necessary, the GM will make recommendations to the Board for rate changes. The GM will use the following tools as the basis for his/her recommendation:

- Most recent Rate Study: See above.
- Purchased power requirements and pricing conditions
- Work Plan and other applicable long-range plans
- Bureau of Labor and Statistic's Consumer Price Index: Changes in the local and/or national inflation will be taken into consideration.

Any recommended rate changes will be shared with the public at a public hearing. The Board will consider public feedback as part of the decision-making process.

3.02 Uncollectible Accounts Policy

The District will provide a fair representation of accounts receivable in the organization's financial statements, by establishing and following uniform guidelines to determine which delinquent accounts receivable should be considered bad debt and written off. Any inactive account deemed to be uncollectible will be referred to the Board for the final write-off.

4. INVESTMENTS, RESERVES, AND DEBT

4.01 Investment Policy

It is the policy of the District to invest public funds in a manner that will provide the highest

investment return with the maximum security while meeting daily cash flow demands and conforming to all state and county statutes governing the investment of public funds.

Investment Structure

The Board is ultimately responsible for the investment of District funds, and the Board has the authority to direct the management of the District's investment program.

It is the current practice of the District to have the Treasurer invest its funds. According to the District's Investment Policy, the primary objectives of the District's investment procedures are three-fold:

- 1) Legality-The District investments will be in accordance with all statutes governing the investment of public funds as well as applicable provisions of bond resolutions.
- 2) Safety- Safety of principal is the foremost objective. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate risk, including credit risk and interest rate risk.
- 3) Yield- Yield should become a consideration only after the basic requirements of safety and liquidity have been met. Investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed.

Investment Reporting

The Board of Commissioners, GM and Finance Director will obtain and review reports from the Treasurer on a monthly basis. The purpose of this review is to monitor ongoing investment practices and returns on investment and accuracy of transaction reporting as well as remain aware of the District's cash position on an ongoing basis.

4.02 Reserve Policy

The District will maintain sufficient reserve funds to ensure reasonable continuity of operations. Reserves are cash held by the District for a stated purpose, categorized as either unrestricted reserves, designated reserves or restricted reserves and described as follows:

- **Unrestricted Reserves:** The District will maintain an unrestricted reserve, with the primary purpose of providing stability in the event of unexpected changes to revenues or expenses.

The balance of the fund will be sufficient to provide funding for at least 120 days of operating expenses based on the current Budget. The fund must be comprised of available cash for at least 100% of the established minimum 120-day level. Available cash is defined as cash in non-restricted accounts and proceeds available from the operating line of credit.

All expenditures drawn from reserve funds require prior Board approval unless previously authorized by the Board for expenditure within the District's annual Budget. If fund balances fall below the required levels as set by the policy, the District will include a plan to restore reserves to the required levels within its annual Budget.

- **Designated Reserves:** Accounts containing funds that have been designated by the Commission for

a specific purpose. Designated reserve accounts reflect the Board's self-imposed goals or limitations for the use of otherwise expendable funds within the unrestricted reserves of the District.

- **Restricted Reserves:** Accounts containing funds subject to constraints that are either (a) imposed by our creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. A restricted fund is a reserve of money that can only be used for specific purposes. District restricted reserves include the Debt Service Reserve Account, the Bond Principal and Interest Fund, the Customer Deposit Fund, and the Employee Annual Leave Fund.

4.03 Debt Service Policy

It is the policy of the District to maintain a sound debt position and protect the credit quality of its obligations. This policy is designed to ensure that the District's debt is issued both prudently and cost-effectively.

Governing Law

In the issuance and management of debt, the District will comply with all legal requirements imposed by federal, state, and local rules and regulations, as applicable.

- **State Statutes:** The District may contract indebtedness as provided for by chapter RCW 57.20. Indebtedness is subject to the limitations on indebtedness provided for in RCW 57.20 and Article VIII of the Washington State Constitution. Bonds evidencing such indebtedness shall be issued and sold in accordance with RCW 39.46.
- **Federal Rules and Regulations:** The District shall issue and manage debt in accordance with the limitations and constraints imposed by federal rules and regulations, including the Internal Revenue Code of 1986, as amended, the Treasury Department regulations thereunder, and the Securities Acts of 1933 and 1934.
- **Local Rules and Regulations:** The District shall issue and manage debt in accordance with the limitations and constraints imposed by the District Code, the Financial Policy, resolutions, rules, and regulations.
- **Short-Term Debt:** Short-term debt is defined as debt that will be held for a period of two years or less. The District may use short-term debt to cover temporary cash flow shortages. As such, the District will not use short-term borrowing to fund ongoing operating or maintenance costs. Short-term debt will only be considered as a financing option if a detailed plan for the repayment of the borrowing is presented to the Board prior to the issuance of the debt. Short-term debt will be retired within two years of initial borrowing.
- **Long-Term Debt:** Long-term debt is defined as debt that will be held for a period of two years or more. The District will only issue long-term debt for the purpose of financing or refinancing the cost of design, acquisition, and/or construction of major capital projects described in the District's Capital Improvement Plan (CIP), or to refund/refinance outstanding debt. As such, the District will not use long-term borrowing to fund ongoing operating or maintenance costs.
- **Emergency Borrowing:** The District will maintain a line of credit to borrow against in an emergency situation. Per RCW 39.04.280, "emergency" means unforeseen circumstances beyond the control of

the municipality that either: (a) Present a real, immediate threat to the proper performance of essential functions; or (b) will likely result in material loss or damage to property, bodily injury, or loss of life if immediate action is not taken. This includes declared federal or state disasters, as well as local agency-declared disasters.

If an emergency exists, the GM may declare an emergency situation exists. If a federal or state emergency has been declared, the Board should pass a resolution acknowledging the declaration and invoking RCW 39.04.280 as well.

Under emergency circumstances, the GM or Board may initiate the use of the District's emergency line of credit. Any borrowing of the emergency line of credit will be approved by the Board.

- ***Delegation of Debt Authority***

The Board is ultimately responsible for the District's use of debt. As such, the Board will approve indebtedness and the related policy framework that guides debt-related decisions. The Board delegates the overall administrative management responsibility for the District's debt to the GM.

The District may contract with an external adviser to assist with the management of the District's debt in a manner that is consistent with the District's objectives and this policy.