



2023

ANNUAL REPORT

# CONNECTING OUR COMMUNITY

2023 continued to be a year of infrastructure work and applying millions of dollars in grant funding into our water, power and now telecom infrastructure. The PUD completed 156 pole replacements as part of our partnership with Hood Canal Communications and CERB to buildout middle mile fiber along Hood Canal. 71 customers have connected so far to the new fiber network on the PUD-owned portion between the Eldon Store and Forest Drive. This fiber buildout has been more than a decade in the making, following the local grassroots advocacy of the West Canal Broadband Group and dedicated customers in the area. While the PUD does not intend to grow our fiber business, this project has been one of the highlights of our careers. It was difficult and stressful to pull off but we're so glad our team and HCC's team put in the effort. This project will pay dividends for decades to come as more neighborhoods eventually connect to broadband over time.

In addition to the fiber work, our electric crew and contractors replaced several miles of distribution line this year, converting several miles of line from overhead to underground, and replacing several aged poles. We also relocated overhead line off of Hwy 101 along Octopus Hole and undergrounded it through the Star White and Hill Way developments to reduce our exposure to landslides and tree outages. That FEMA-granted project was over two years in the making, and we are pleased to complete another grid resiliency project in partnership with our friends at Washington's Emergency Management Department.

Our water crew replaced hundreds of feet of mainline as part of their in-house capital work for the year and rehabilitated the last of our water systems' well houses this year. This is in addition to the grant-funded construction projects completed at Lake Arrowhead water system (iron & manganese treatment), Agate Beach (water reservoir and booster station structure), and generator installations.

A lot of work goes in behind the scenes to design and plan for projects before they ever get started. Finding the funding is just one step in a sometimes-multi-year process to work with regulatory agencies and stakeholders to design and permit these projects. The Duckabush Relocation Project is one of these. After two years, the project will finally be out to bid in 2024 to relocate the power lines out of the estuary and allow the U.S. Army Corps of Engineers, Washington Department of Fish & Wildlife, and Hood Canal Salmon Enhancement Group to begin their work to restore the estuary for salmon and other wildlife. Once WSDOT constructs their bridge in a few years, the PUD will then relocate the power lines to their final location attached to the bridge structure. Additionally, our Manzanita Substation that will replace the 1960's Union Substation is ready for construction in 2024. These are two big projects that have taken a lot of effort on our engineering staff's behalf to get ready for construction and we just want to recognize the significant effort they have put into these projects.

Thanks to all the planning and input from our crews, management team, consultants and commissioners, 2024 will be another very productive year.



*Kristin Masteller*

**Kristin Masteller**  
GENERAL MANAGER



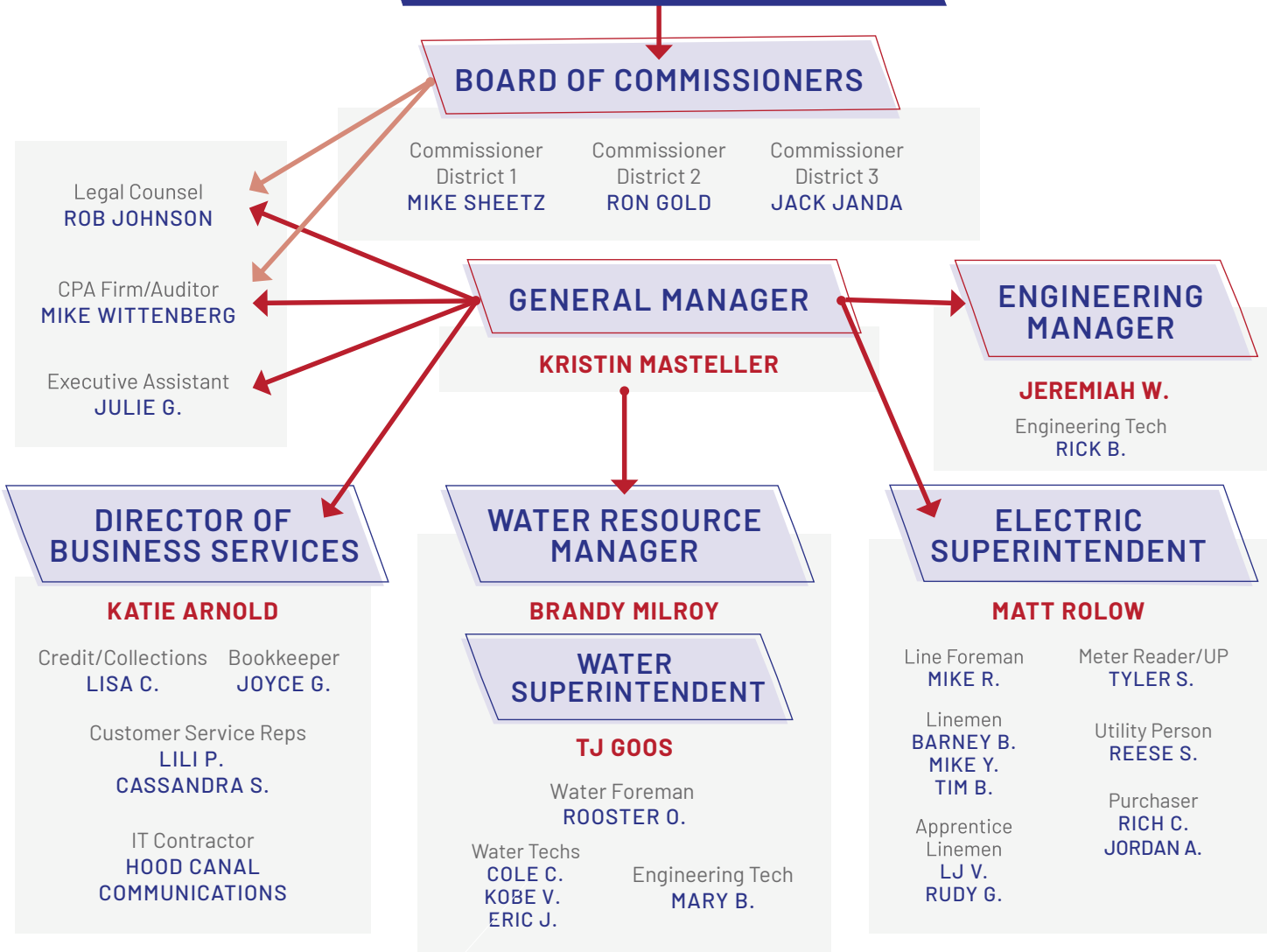
*Jack Janda*

**Jack Janda**  
BOARD PRESIDENT





## PUD 1 RATEPAYERS



# PUD 1 COMMISSIONERS



**MIKE SHEETZ**

**DISTRICT 1**  
(Union & Alderbrook)  
Term: 2023-2028

Mike Sheetz is securing his second term as Commissioner for the District. Contact Mike Sheetz at (360) 898-7934.



**RON GOLD**

**DISTRICT 2**  
(Skokomish Valley & West Union)  
Term: 2021-2026

Ron Gold is currently serving his fourth term as Commissioner for the District. Contact Ron Gold at (360) 490-1560.



**JACK JANDA**

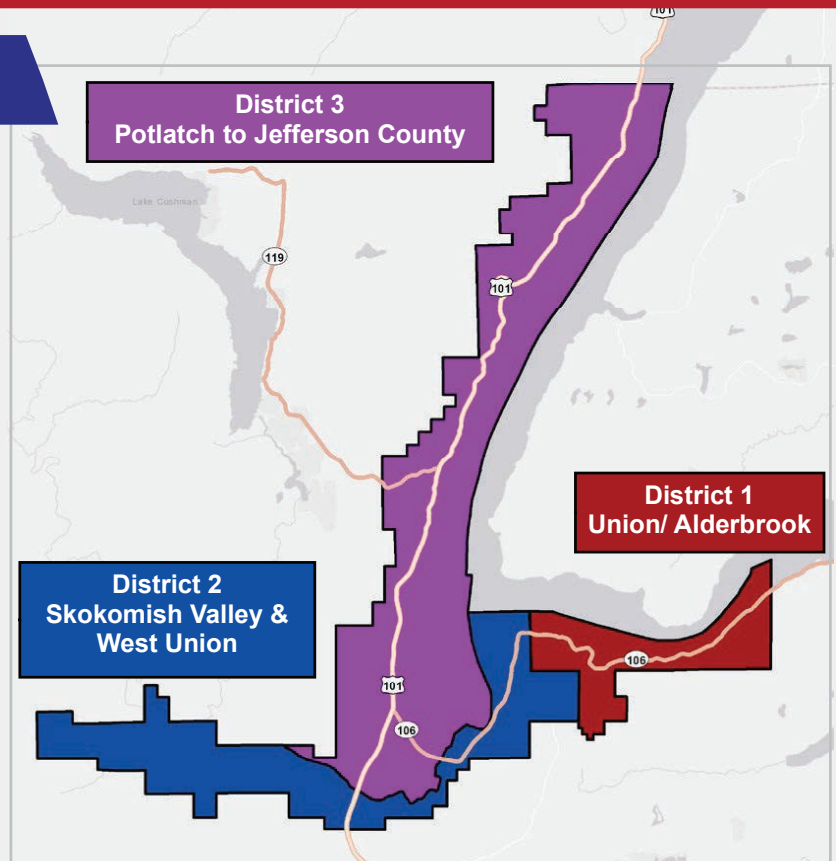
**DISTRICT 3**  
(Potlatch to Jefferson Co.)  
Term: 2019-2024

Jack Janda is currently serving his fourth term as Commissioner for the District. Contact Jack Janda at (360) 490-1800.

## PUD 1 VOTING DISTRICTS

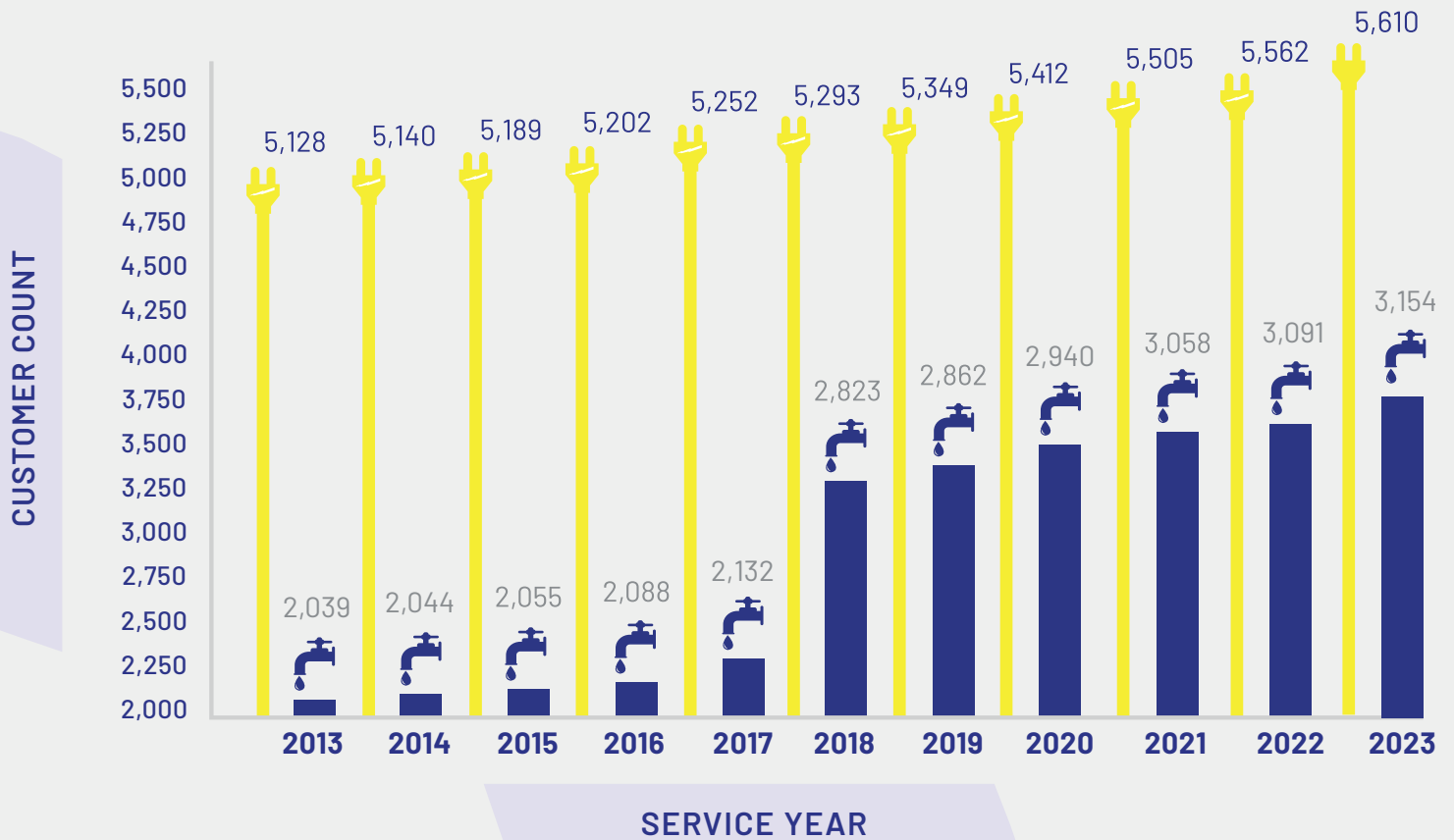
Mason County PUD No. 1 is a publicly owned entity governed by a Board of Commissioners elected by you, our ratepayers. The District is divided into three smaller voting districts and one commissioner is elected from each of these districts. They each serve a six-year term. The commission sets District policy, approves budgets and expenditures, as well as the strategic plan.

Board of Commissioner meetings are open to the public and held virtually and in person. Customers and members of the public are encouraged to attend board meetings, which are typically held the second and fourth Tuesdays of each month at 1:00 p.m. The information is listed on the PUD's homepage at [www.mason-pud1.org](http://www.mason-pud1.org) or can be provided by calling the PUD office. Board packets and special meeting announcements are also posted on the homepage of the website for public viewing.

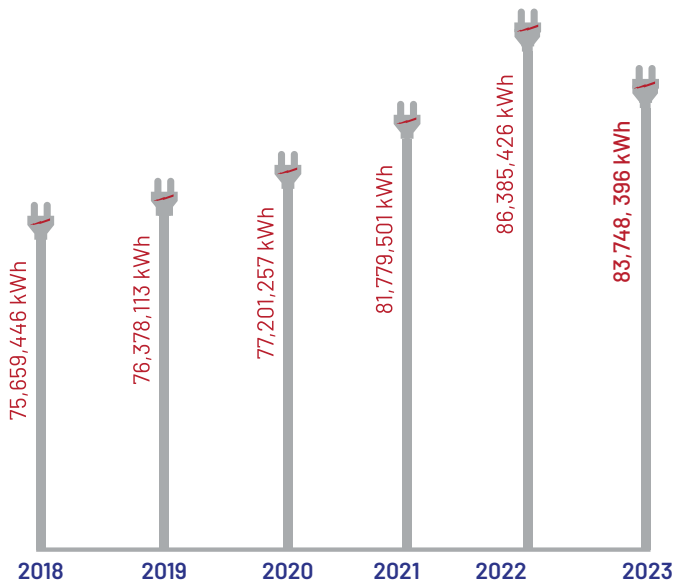




## WATER AND ELECTRIC CUSTOMER COUNTS

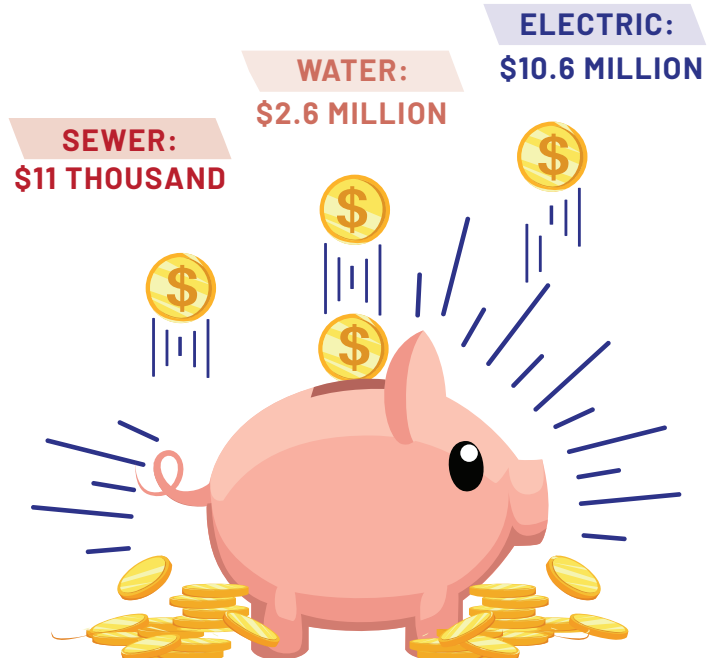


## KILOWATTS SOLD



KILOWATTS SOLD PER YEAR

## 2023 OPERATING BUDGETS



# SAFETY AWARDS



56,014

HOURS WORKED  
IN 2023



3

REPORTABLE INCIDENTS,  
FOUR DAYS OF TIME LOSS



1

3RD PLACE SAFETY  
AWARD FROM NORTHWEST  
PUBLIC POWER  
ASSOCIATION



2023

GOLD STATUS  
SAFETY AWARD FROM  
AMERICAN PUBLIC POWER  
ASSOCIATION



PUD Mayday Drill Safety Training with Life Flight Network and Hoodport Fire Department.

## ROBERT E. ROUNDTREE RISING STAR AWARD

AMERICAN PUBLIC POWER ASSOCIATION'S NATIONAL CONFERENCE

Katie Arnold, PUD 1's Director of Business Services and District Treasurer, received the Robert E. Roundtree Rising Star Award during the American Public Power Association's National Conference in Seattle, Washington. The award is also a scholarship presented to future leaders in public power who are recognized by their peers for being creative problem solvers that perform their job responsibilities in an outstanding manner. As 2023's winner, Katie will receive a stipend to travel in 2024 to one of APPA's conferences or training programs to advance her education and development in public power. Congratulations, Katie!





*Drive Thru* MASON COUNTY PUD1 **CUSTOMER AND COMMUNITY APPRECIATION EVENT!**





# CUSTOMER APPRECIATION



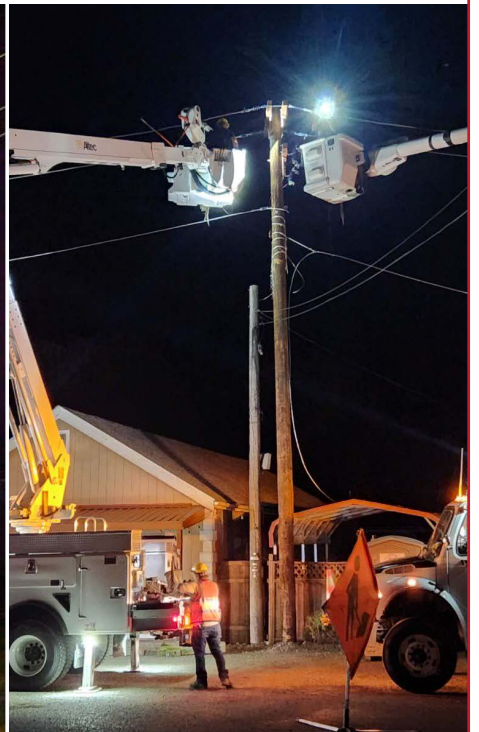


# CUSTOMER APPRECIATION





# PUD 1 ELECTRIC





## IMPROVING THE SYSTEM

We continue our annual work plans emphasizing rebuilding sections of aging underground line in problem areas, as well as completing overhead-to-underground conversions. One of our focuses for improving the system is on pole replacements, which helps with broadband deployment in our rural area. Thanks to fiber deployment and grant funds, we were able to replace several poles in 2023. 156 poles were replaced along U.S. Hwy 101 in Jefferson County as part of the Hood Canal Communications and PUD 1 Broadband Project this year. Approximately \$1.5 million in new poles were replaced entirely through grant funds, which included a \$100,000 ARPA grant from the Jefferson County Board of Commissioners and an additional \$30,000 contribution from Jefferson County PUD to help get Brinnon School connected with fiber.

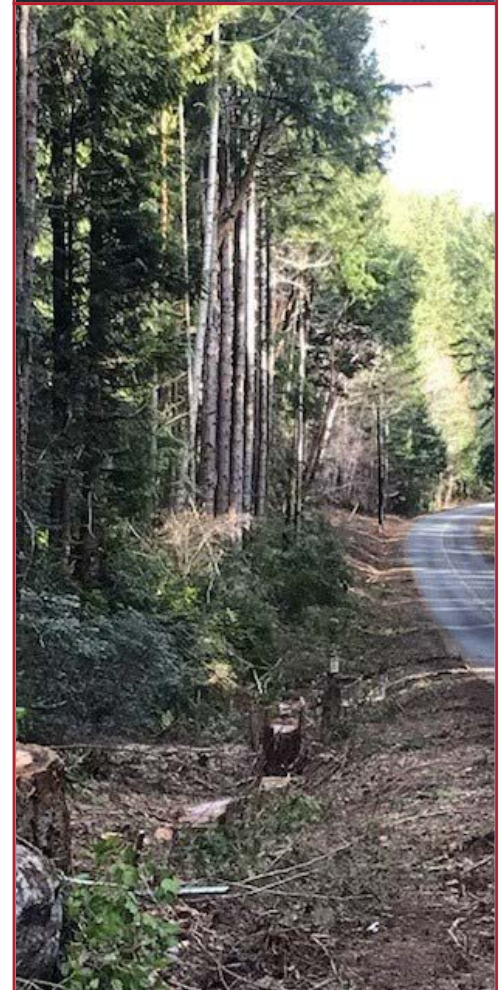
The electric crew also completed several rebuilds of sections of line in problem areas. One of the T3ba'das Substation feeders was reconducted, Finch Creek, Love Road, Four Wheel Drive Road, and the end of Sunnyside Road were also rebuilt in 2023.

## NEW INFRASTRUCTURE

Substations are a big part of our focus in coming years. The Manzanita Substation groundwork design is completed for the PUD's property on the corner of McReavy Rd. and Manzanita Drive in Union and will start in early 2024. This substation will replace the 60+ year old Union substation on Dalby Rd. This substation is being funded through operational revenue, meaning the PUD is not borrowing money to construct it. Most of the site prep and infrastructure leading to the substation has already been completed over the last several years. The goal is to have it constructed in 2024 and energized in early 2025.

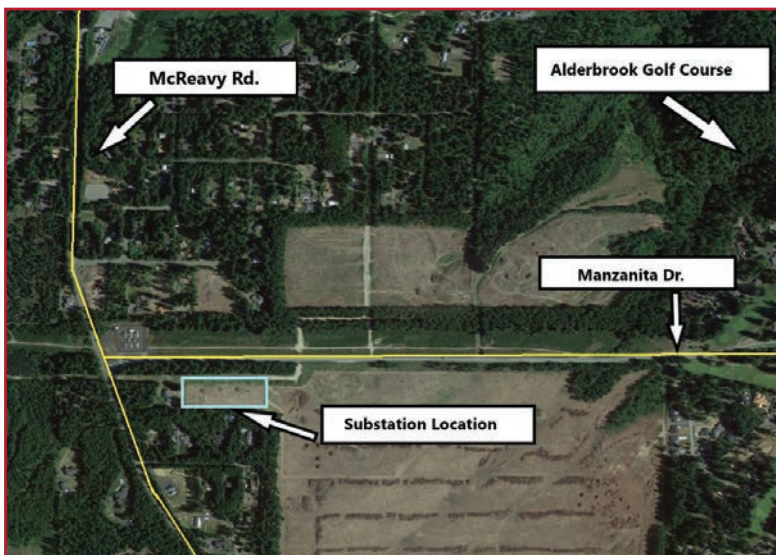
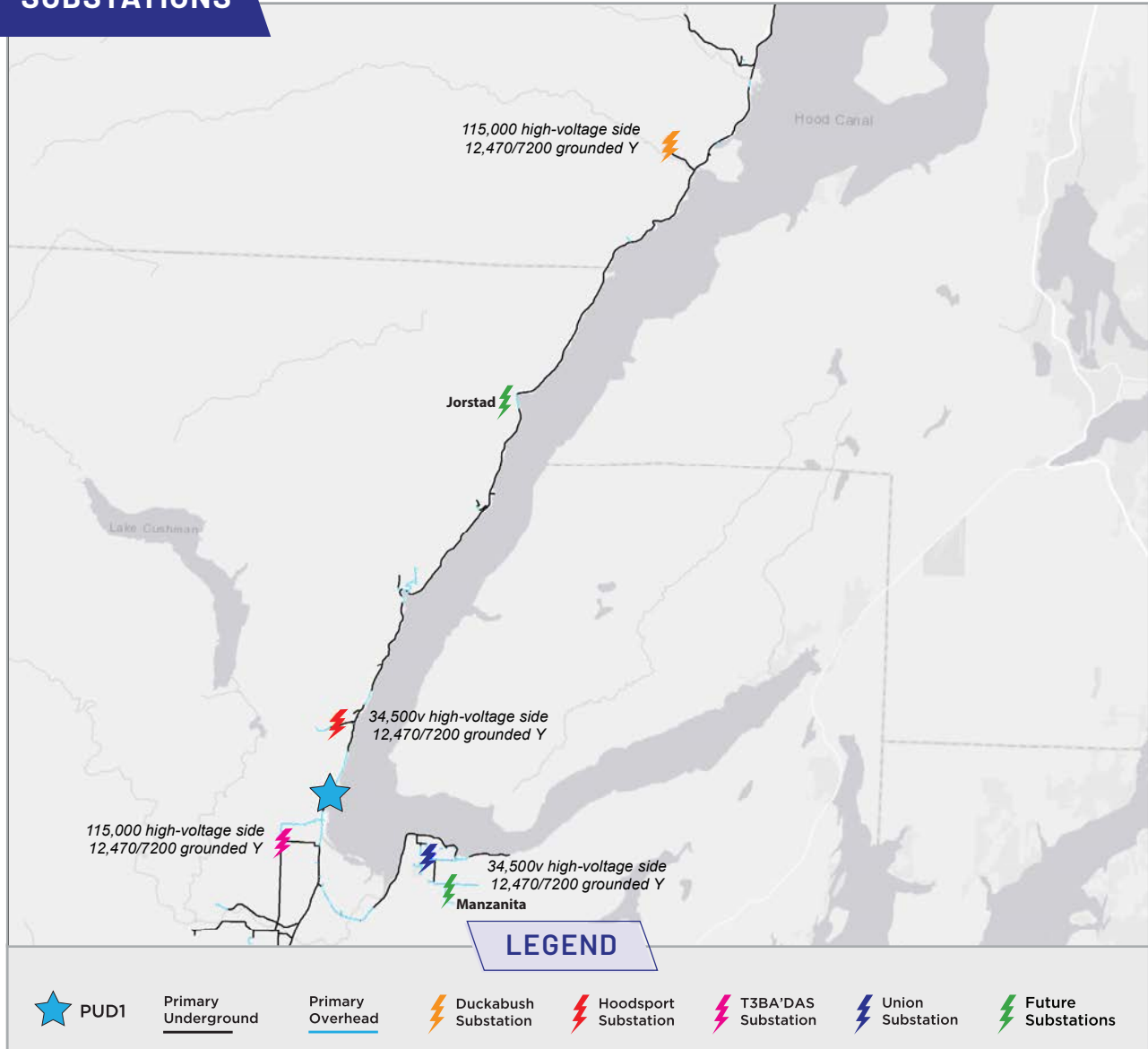
The PUD is actively working on federal appropriations and grant funding to help move the Jorstad Substation forward without impacting electric rates. PUD staff submitted an \$8 million grant application to FEMA's BRIC program and was invited to submit a full application for 2024 consideration.

FEMA also paid for the PUD to underground the 3-Phase lines along U.S. 101 by Octopus Hole in Hoodspport. We rerouted that line up to the hillside in the Star White and Hill Way areas and moved it underground. This was a notoriously difficult area for outage repairs. The line crew also converted the most troubled section of overhead distribution lines on our system, the cross-country lines in Hoodspport on North Hill Road that ran through the woods and over a ravine. They moved these underground and within weeks, PUD customers benefited from this project as trees came down on the abandoned overhead lines and broke poles. The power was already safely converted underground, and customers stayed in power during the windstorm. The crew will return to remove the abandoned infrastructure in 2024 when the ground is dry to close this conversion project out.

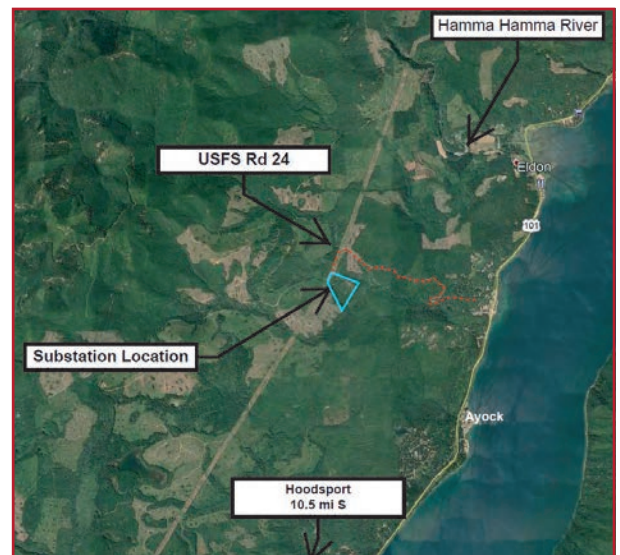




## SUBSTATIONS



Future site for Manzanita Substation in Union.



Future site for Jorstad Substation in Lilliwaup.



## VEGETATION MANAGEMENT

Working in the Olympic Rainforest and along the Hood Canal, we have some of the world’s most pristine scenery as our daily backdrop, but it also creates challenges for electric reliability. The PUD is not able to underground most of the line along Highway 101 and the rainforest canopy hangs over cliffs above the power lines. Tree related outages are inevitable. That being said, the PUD has increased its budget and in-house efforts to trim back the vegetation and remove danger trees to help avoid nuisance outages and wildfires.

Contractors completed 10.6 miles of trimming along the power lines on Hwy 106 this year from E. Jenns Way in Union down to Hunter Farms. They also trimmed “hot spots” that have grown fast and are contacting lines on U.S. Hwy 101 as well as the areas where the new, taller poles raised the power lines higher into the canopy. The contractors also removed six major danger trees leaning over the lines. This is in addition to the numerous tap lines and hot spot trimming that the line crew does each year. Our contractors also removed 10 danger trees that were posing immediate risks to our power lines.

Each year the PUD budgets for 1/7 of the system to be brushed and a separate amount for danger tree removal to be done by contractors, while the in-house crew focuses on the side roads and single tap lines. In 2023, the PUD reapplied for a \$3.6 million grant through the U.S. Forest Service for whole-system vegetation management and the procurement of a new highline bucket truck, chipper and saws. That grant will be announced in Spring 2024. The PUD also applied for a FEMA hazard mitigation grant to speed up hazard tree removal that we have budgeted each year by taking them all down in one season.

## RENEWABLE ENERGY PROJECTS

### SOLAR POWER

The PUD hosts two community solar projects on the PUD’s main campus.



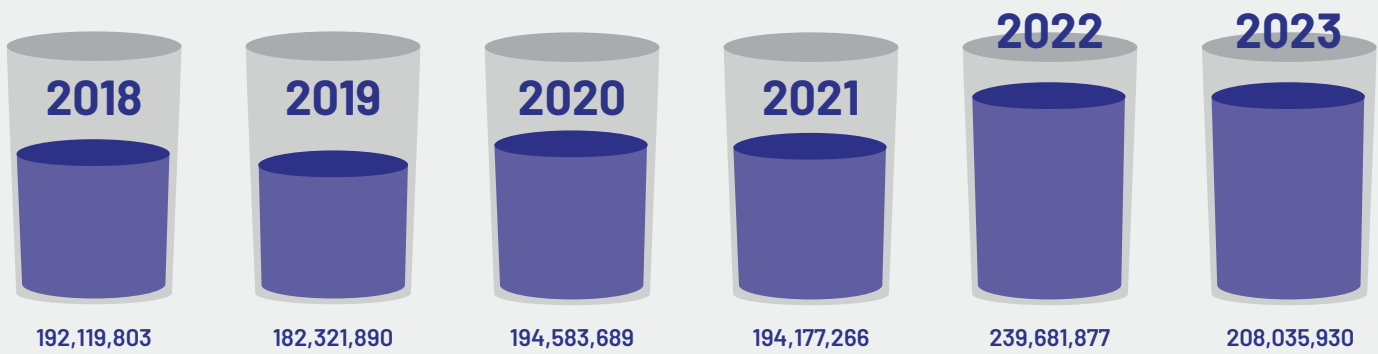
Community Solar 1 was commissioned in 2016. It's 19.25 kW in size and produced over 21,085 kilowatt hours of renewable energy in 2023, equating to a combined total of \$1,635.83 in bill credits. There are 122 customers that participate in this project.



Community Solar II was commissioned in 2020. It is 55.5 kW in size and produced 45,956 kilowatt hours of renewable energy in 2023. 42 customers are general participants in this project, earning a total of \$2,258.35 in combined total bill credits for the year. 10 customers are part of the low-income portion of this project and received a combined total of \$1,134.00 in bill credits.

**In addition to our community solar projects, 45 of our customers have their own rooftop solar arrays, with a nameplate capacity of over 454.983 kilowatts. There were also checks sent out on Solar II for General Participants \$4,249.92 and Low-Income \$2,183.92 for a total of \$6,433.84.**

## GALLONS OF WATER SOLD



## NEW SYSTEMS

**Bolduc Community**, a Group A water system in Shelton, joined PUD 1 this year, adding 24 connections and bringing the 2023 total of PUD-owned systems to 76. The PUD also manages two systems.

Group A systems have 15 or more service connections or serve 25 or more people at least 60 days out of the year. Group B systems are smaller than the Group A.

## WATER SYSTEM PLANNING

**Agate Beach** reservoir and booster station building went out for bid and was awarded. The construction will be completed in January 2024. The last phase of the project is to install the booster station skid, electrical, and backup generator. This phase will go out to bid in 2024 and once completed, the water system will have an additional 26 water connections. This project was 100% funded through a combination of ARPA grant funding and a state appropriation grant through the Department of Commerce.

**Bay East** water system Iron and Manganese Removal Treatment was submitted to Drinking Water State Revolving Fund and was approved with 85% loan forgiveness. The design for this project is underway and will go out to bid either at the end of 2024 or early 2025.

**Canal View** mainline and system improvements design is almost complete and will be out to bid in 2024.

**Highland Park** water system design for a reservoir and booster station at our Manzanita Campus design is 60% complete. We are currently exploring funding sources for this project.

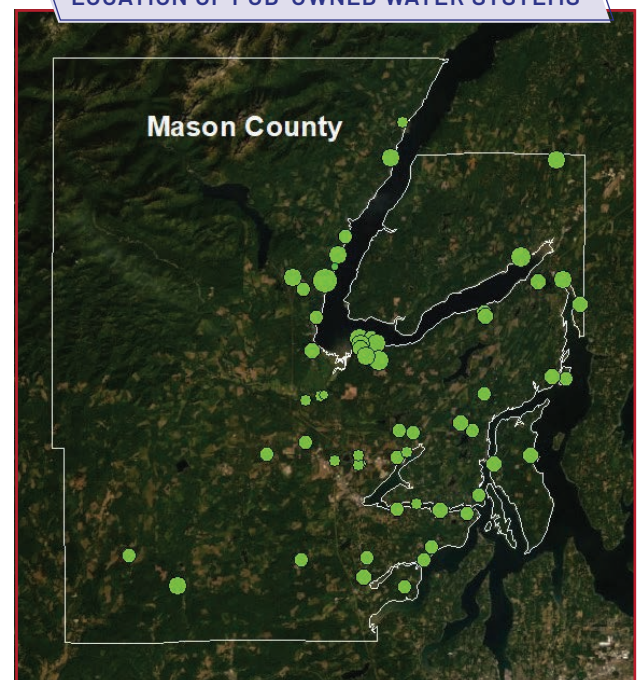
**Lake Arrowhead** Iron and Manganese Removal Treatment was installed and was put into operation in December. Phase 2 mainline replacement for the rest of the water system design is underway and will go out to bid in 2024. This project was approved for Drinking Water State Revolving Fund with 50% loan forgiveness.

**Ripplewood** water system was approved for the whole system mainline replacement through Drinking Water State Revolving Fund, and this is for 50% loan forgiveness. A state appropriation grant through the Department of Commerce covered the remaining 50%. The contract was awarded at the end of the year and Hanson Excavation will start in 2024.

**Shadowood** water system improvement design has been submitted to Washington State Department of Health (DOH) for review and approval. Once approved by DOH, the project will go out to bid in 2024. The improvements include a reservoir, booster station, iron and manganese removal treatment, and a backup generator. This project was approved for Drinking Water State Revolving Fund with 50% loan forgiveness.

**Vuecrest** reservoir and booster station will go out to bid and be constructed in 2024. This project is funded by ARPA and Department of Commerce grants.

## LOCATION OF PUD-OWNED WATER SYSTEMS







## WATER PROJECTS

Much like the electric business, the water side also struggles with aging infrastructure that needs to be upgraded and replaced. To ensure compliance with state drinking water regulations, the PUD has prioritized several projects to reduce distribution system leakage, ensure maintenance and safety of our reservoirs and pump houses, while continuing to put out the regular day-to-day fires with emergency leak repairs, adverse sample results, and keep up on our maintenance schedule. Our water technicians responded to 508 service calls in 2023, in addition to their scheduled projects.

Over 1,000 feet of mainline was replaced in **Alderbrook** water system, over 2,000 feet in **Union** water system, and 200 feet in **Bel Aire Cove** water system.

**Canyonwood Beach** and **Harstene Retreat** water systems had backup generators installed at their pump houses to ensure water service during outages.

Other notable water crew projects included:

- Replaced a non-working fire hydrant on E State Route 106 across from E McReavy Rd.
- Replaced 2 failing well pumps at Dayton Trails and Holiday Beach.
- Replaced 4 failing source meters: Lakewood, Highland Estates, Union, and Woodland Manor.
- Repaired 30+ leaks in various water systems.
- 3 well house were painted at Holiday Beach, Lakewood, and Tiger Lake.
- Pump house maintenance at Holiday Beach, Tiger Lake, and Woodland Manor.
- Bellwood A, Highland Park, and Madrona Park reservoirs were cleaned and inspected.



# ADVOCACY

PUD 1 General Manager and other Washington PUD leaders meet with Senator Maria Cantwell in Washington, D.C.



Washington PUD Association prepares for a congressional staff briefing in D.C. to discuss energy resource adequacy.

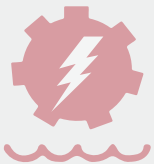


PUD 1 Board of Commissioners and General Manager meet with legislators in Olympia for PUD Day on the Hill.

Members of the PUD 1 customer service team at the capitol rotunda for PUD Day on the Hill.



# FUEL MIX



HYDRO 85.94%



NUCLEAR 10.27%



COAL 0%



OTHER 3.79%



NATURAL GAS 0%



BIOMASS 0%



WIND 0.00%

## 2022 FUEL MIX SUMMARY\*

\*2022's data reported at the end of 2023.





## CUSTOMER SERVICE

New faces are welcoming and assisting customers in our Customer Service department. These new additions to the PUD are working with our tenured team to bring new ideas and programs to the PUD and better serve the needs of our ratepayers. 2023 saw the beginning of partnerships with the Skokomish Tribe on conservation projects in Tribal housing and their businesses, as well as new Canal Comfort Fund procedures for qualifying customers for utility bill assistance. More programs will be introduced in 2024!

## QUICK STATS

**\$91,965.84** was disbursed to customers for bill assistance including: \$77,837.52 in LIHEAP/LIWAP assistance, and **\$14,128.32** from other various programs to help low-income households.

**\$40,573** in energy rebates were issued in 2023 to customers who made approved upgrades to their homes and businesses.

**\$12,555** was paid out in bill credits to 2,511 participants who chose to receive paperless statements. By going paperless, these customers saved the PUD just over **\$25,000** in printing and shipping costs. We split those savings with the participating customers by applying a \$5 bill credit in October.

**\$6,041.47** was donated by generous PUD 1 customers in 2023 to help 40 low-income households with their power and water bills.

**\$5,028.18** was issued in bill credits to customers who participated in the two community solar projects.

**\$6,433.84** in state incentives were also paid for the Community Solar II project.

**\$533,057** in credits from Bonneville Power Administration were refunded to electric customers in 2023.

## FINANCIAL POLICIES

The Board of Commissioners sets the financial policies for the District with recommendations from the District Auditor, District Treasurer and General Manager. Several financial policies have been implemented with the COSA and recommendations from the Washington State Auditor's Office. Here are a few highlights:

### Reserve Funding

Funding of 5 days of cash-on-hand annually, to reach the policy goal of 90 days. These operating reserve funds are invested in the Local Government Investment Pool (LGIP) and earned an average of 4.5 in 2023. By the end of 2023, the interest rate was at 5.45% which remains high, as the Federal Reserve continues their control to help reduce inflation. The purpose of this cash-on-hand is to provide cash flow to the PUD in the instance of an economic recession, like we have seen in 2020/2021 with the pandemic, or major storm events like we saw at the beginning of 2022. It ensures that the PUD's power bill to BPA can be paid, that we can make payroll for our employees, keep our fleet rolling, and purchase necessary materials and supplies, even when we are not able to collect revenue for an extended period of time.

Funding of Debt Reserves- 1% of the budgeted revenue is earmarked specifically toward paying down the District's long-term debt. This funding, in addition to the interest earned by investing the balances in the LGIP, will help the District pay off its debt almost 10 years sooner than the original amortization schedule, creating a savings of about \$464,700 in interest expense, or about 4% of our operating budget.

### Debt Policy

The purpose of this policy is to ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth comprehensive guidelines for the issuance and management of all financings of the District. Adherence to the policy is essential to ensure that the District maintains a sound debt position and protects the credit quality of its obligations.

### Investment Policy

This policy directs the PUD to: invest public funds in a manner which will minimize risk, meet daily cash flow demands, conform to all state and local statutes governing the investment of public funds, and provide a market rate of return though budgetary and economic cycles.



## LGIP INVESTMENT ACTIVITY 2023

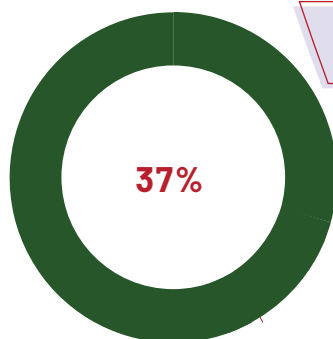
|                        | 1/1/2023       | Transfer In  | Interest Earned | Transfers Out   | 12/31/2023     |
|------------------------|----------------|--------------|-----------------|-----------------|----------------|
| <b>TOTAL ALL FUNDS</b> | \$5,934,382.14 | 3,244,098.39 | \$285,060.58    | -\$4,028,012.96 | \$5,435,523.05 |



### DAYS CASH ON HAND

**GOAL: 90 DAYS**  
**2020: 50 DAYS**  
**2021: 45 DAYS**  
**2022: 60 DAYS**  
**2023: 35 DAYS\***

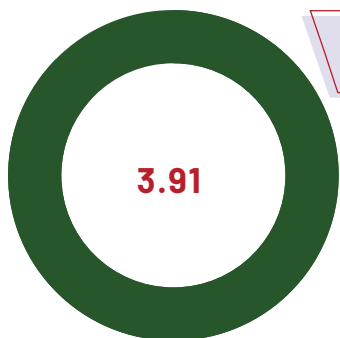
\*Cash on hand was down overall at the end of 2023, awaiting reimbursements from grant funded projects that the PUD cash flowed up front. At the end of 2023, the PUD had \$659,330 in outstanding reimbursements, which equates to 32 days of cash on hand, so the actual 2023 ending balance would have been 67 days of cash on hand.



### DEBT TO EQUITY RATIO

**GOAL: LESS THAN 50%**  
**2020: 50%**  
**2021: 49%**  
**2022: 42%**  
**2023: 37%**

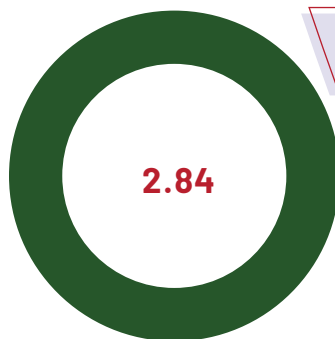
\*This metric helps us track our debt service to ensure that the PUD is not overleveraged.



### TIER

**GOAL: 2.0 (minimum)**  
**2020: 3.89**  
**2021: 3.94**  
**2022: 4.86**  
**2023: 3.91**

\*Must keep TIER at or above 1.25 to comply with bond covenants.



### DEBT SERVICE COVERAGE

**GOAL: 2.0 (minimum)**  
**2020: 2.49**  
**2021: 2.39**  
**2022: 2.91**  
**2023: 2.84**

\*Must maintain DSC at or above 1.25 to comply with bond covenants.



## GRANTS

The District vigorously pursues grants and low-cost financing to assist in tackling capital improvement and strategic workplan projects. This includes funding from Department of Health, Department of Ecology, FEMA, Bonneville Power Administration, and other grant makers. In 2023, the PUD was awarded **\$3,204,137** in grants and reimbursements to offset operations and capital expenditures, with an additional **\$15 million** of applications in the queue.

- In 2023, the District moved forward with one water capital project that was submitted to Department of Health’s Drinking Water State Revolving Fund program in November 2022, totaling **\$813,594**. In March of 2023, the District was notified of the award, with the total grant funding of **\$712,419**. The District’s out of pocket expense for this project is only \$101,175.
- Three projects were submitted to FEMA; two through their Post-Fire Mitigation Grant round, and one through their Building Resilient Infrastructure and Communities (BRIC) grant round. For the Post-Fire Mitigation grants, one is a Generator project that would pay to install generators on 10 water systems where fire hydrants are present and are located close to a fire station. This **\$632,000** grant would provide fire flow in the event of a wildfire. The other project is a **\$1 million** Fuel Reduction Project, to help aid the District with vegetation management on its power side. For the BRIC grant, the District submitted an **\$8 million** proposal for the construction of the Jorstad Substation. These projects are still moving through the RFI process and likely won’t know if we are selected until the summer of 2024.
- In 2023, the PUD partnered with a local internet service provider with their fiber grant, that paid for the replacement of just under **200 poles**, which was the equivalent to **\$718,583**.
- **\$1,569,460** was received from State Appropriations to pay for three of the PUD’s water projects. One for the final phase of Agate Beach’s infrastructure project and will allow additional connections for vacant properties to connect to the Agate Beach Water System, the second is the Ripplewood Mainline replacement that was also funded by Department of Health’s State Revolving Fund. This project received 50% subsidy from DOH, so the appropriations will cover the other 50%. The third project is to pay for the final phase of Vuecrest water system’s project to construct a reservoir, booster station building and backup generator. This project will also allow additional connections for vacant land for Vuecrest and Union Ridge water systems.
- **\$102,500** was received through Department of Ecology to pay for Phase 2 of the pole yard cleanup.

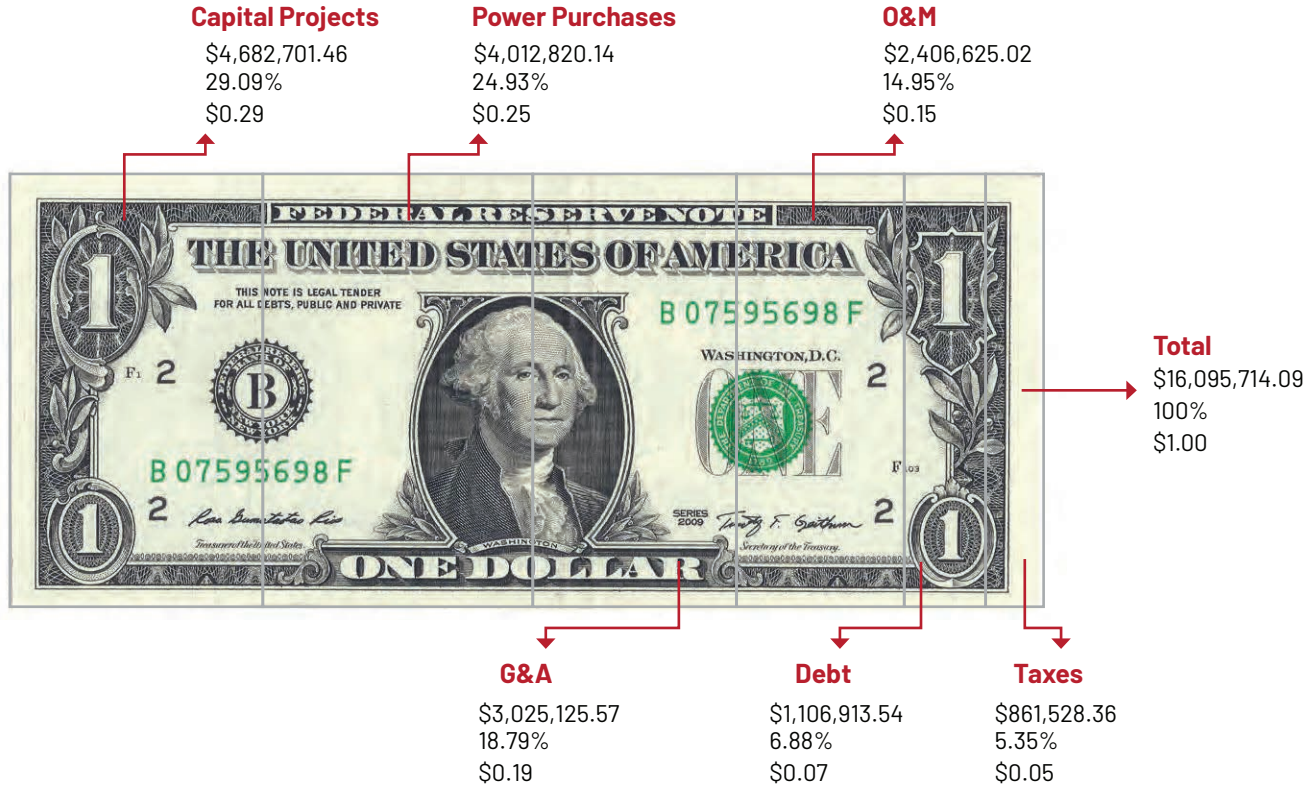
## MEMBERSHIPS

### Where we focus our participation and find value in our association:

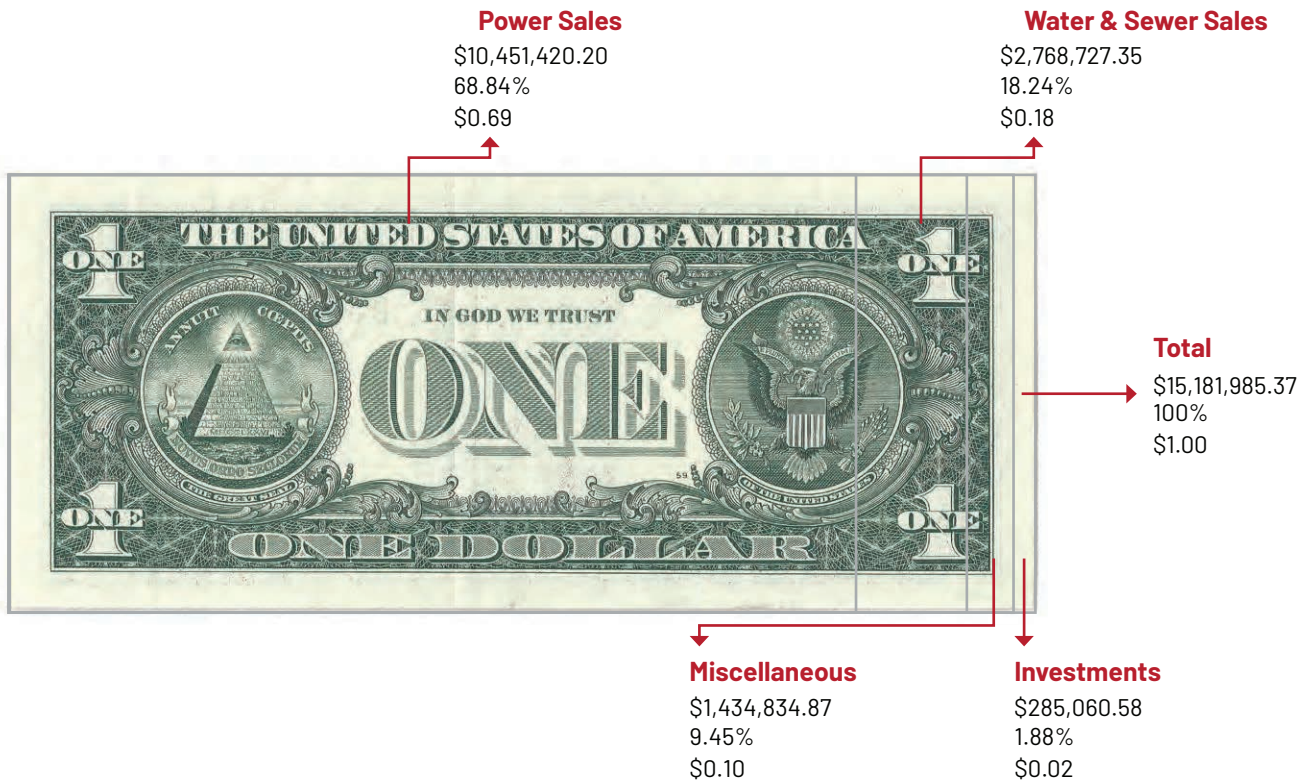
- |   |   |
|---|---|
| American Public Power Association               | Public Power Council                                |
| Washington Public Utility Districts Association | Washington Public Agencies Group                    |
| Northwest Public Power Association              | Mason County Economic Development Council           |
| Water Resource Inventory Area (WRIA 14b & 16)   | Shelton-Mason County Chamber of Commerce            |
| Northwest RiverPartners                         | KristmasTown Kiwanis                                |
| Evergreen Rural Water Association               | American Water Works Association - PNW Section      |
| Western Electricity Coordinating Council        | Washington Water Utilities Council                  |
| Energy Northwest                                | Washington Association of Water and Sewer Districts |

# FINANCE AND ADMINISTRATION

## HOW PUD 1 SPENDS A DOLLAR OF ITS REVENUE



## SOURCE OF PUD 1'S REVENUES





## MASON COUNTY PUBLIC UTILITY DISTRICT #1 OVERVIEW OF THE STATUS OF BUDGET 2023

### STATUS OF BUDGET AS OF DECEMBER 31, 2023

|   | 2023 Actuals  | 2023 Budget   | % of Annual Budget |
|---|---------------|---------------|--------------------|
| <b>Revenue</b>                                  | 14,283,686.00 | 13,283,947.00 | 108%               |
| <b>Expenditures</b>                             |               |               |                    |
| <b>Distribution Operating &amp; Maintenance</b> | 2,406,625.00  | 2,387,696.00  | 101%               |
| <b>Energy Services</b>                          | 4,012,820.00  | 3,996,352.00  | 100%               |
| <b>General &amp; Administrative</b>             | 3,025,126.00  | 3,028,364.00  | 100%               |
| <b>Tax, Depreciation, &amp; Interest</b>        | 3,071,136.00  | 3,093,071.00  | 99%                |
| <b>TOTAL EXPENDITURES</b>                       | 12,515,707.00 | 12,505,483.00 | 100%               |
| <b>NET OPERATING MARGINS</b>                    | 1,767,979.00  | 778,464.00    | 227%               |

The District's total revenue was 8% higher, collecting \$999,739 more than what was budgeted for 2023. A few key factors that played into the additional revenue collected include the following components:

1. Because of the BPC credit that the District received from BPA, the District passed through \$533,057 back to its electric ratepayers. So, of the 8% the District collected over budget, 53% of that went back to the customers through a credit on their bill.
2. The LGIP investment continued with record growth, with interest rates hovering all of 2023 between 4.5% to 5.45% at year end. When the District budgets for investment income, it budgets conservatively. The overall budget for 2023 was \$54,420 for interest income, and the District ended the year with just over \$285 thousand earned.

The District's operating expenses include purchased power, transmission and distribution, customer services, and administrative and general expenses. The Distribution Operating & Maintenance ended the year just over 1% of what was budgeted for 2023. The Energy Services (purchased power costs) was right at budget for 2023, as were the General & Administrative expenses.

## HOW IS THE NET OPERATING MARGIN ALLOCATED?

The Net Operating Margin for 2023 ended at \$1.77 million, which is \$989 thousand more than the 2023 budget. It's important for the District's commission and customers to understand what the Net Operating Margin is used for. The income statement does not include the principal portion of the District's debt service, or any of the designated reserve funding approved through the budget. It also only includes a portion of the capitalized construction work plan, which is depreciated over a period of time. Here are the key components of how the Net Operating Margin is allocated:

1. At the end of 2023, the District invested just over \$4.6 million in capital assets. The investment includes land, distribution, general plant, and equipment. The total increase in the District's investment from 2022 to 2023 was 10%.
2. The District plans to construct the Manzanita Substation in 2024, without adding additional debt to the District's portfolio. Because the District plans to pay for the substation through general cash flow, and not debt, the District has determined that it needs to fund a designated reserve account with \$342,000 each year. As of the end of 2023, the balance in the fund is just under \$1.8 million.
3. At the end of 2023, the District had \$13 million in outstanding debt, an overall decrease of \$624,333. With the 2023 budget, the District approved 1% of the overall rate increase to go specifically towards paying down long-term debt. With that 1%, the District was able to fund \$194,846 into the debt reserves fund. With the 1% funding of the reserves each year, in conjunction with the interest earned on the balance of the funds, being invested in the LGIP, the District plans to be able to pay off its debt by 2030, which is five to ten years earlier than the debt tables shows.
4. The District has a policy goal to reach 90 days general cash on hand, not including the designated reserves, by 2025. To reach this goal, the District budgeted to fund five days a year, which equates to approximately \$152,000 annually that is set aside. Cash on Hand is a savings account, of sorts, that ensures that the District can continue to make payroll and cover operating expenses if there is a catastrophic event or severe economic downturn that limits the PUD's ability to collect revenue. In this case, the board-set policy goal is to be able to cash flow operations for up to three months.

## REQUESTS FOR INFORMATION

This financial synopsis is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report should be directed Katie Arnold, District Treasurer at N. 21971 Hwy. 101, Shelton, WA 98584 or (360) 877-5249.



**CONTINUE READING FOR 2022 AUDITED FINANCIALS.**



Office of the Washington State Auditor  
Pat McCarthy

## Financial Statements and Federal Single Audit Report

# Public Utility District No. 1 of Mason County

For the period January 1, 2022 through December 31, 2022

*Published September 29, 2023*

Report No. 1033342



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

September 29, 2023

Board of Commissioners  
Public Utility District No. 1 of Mason County  
Shelton, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on Public Utility District No. 1 of Mason County's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Public Utility District No. 1 of Mason County January 1, 2022 through December 31, 2022

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Public Utility District No. 1 of Mason County are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

#### Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

## Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

| <u>ALN</u> | <u>Program or Cluster Title</u>                              |
|------------|--|
| 21.027     | COVID-19 – Coronavirus State and Local Fiscal Recovery Funds |

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District did not qualify as a low-risk auditee under the Uniform Guidance.

## SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



## INDEPENDENT AUDITOR'S REPORT

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

### **Public Utility District No. 1 of Mason County January 1, 2022 through December 31, 2022**

Board of Commissioners  
Public Utility District No. 1 of Mason County  
Shelton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Mason County, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 26, 2023.

### **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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## **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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

September 26, 2023



# INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

## **Public Utility District No. 1 of Mason County January 1, 2022 through December 31, 2022**

Board of Commissioners  
Public Utility District No. 1 of Mason County  
Shelton, Washington

### **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

#### **Opinion on Each Major Federal Program**

We have audited the compliance of Public Utility District No. 1 of Mason County, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2022. The District's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

#### **Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance with the compliance requirements referred to above.

### **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

### **Auditor's Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed; and



- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Other Matters

We noted certain matters related to compliance that we have reported to the management of the District in a separate letter dated September 26, 2023.

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted certain other matters that we have reported to the management of the District in a separate letter dated September 26, 2023.

## Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy, State Auditor

Olympia, WA

September 26, 2023



# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Public Utility District No. 1 of Mason County January 1, 2022 through December 31, 2022**

Board of Commissioners  
Public Utility District No. 1 of Mason County  
Shelton, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinion**

We have audited the accompanying financial statements of Public Utility District No. 1 of Mason County, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Mason County, as of December 31, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit 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. 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 opinion.

### **Responsibilities of Management for the Financial Statements**

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

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 opinion. 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.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- 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; and
- 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 and required supplementary information listed in the financial section of our report 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.

## Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant

agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

September 26, 2023

## **FINANCIAL SECTION**

### **Public Utility District No. 1 of Mason County January 1, 2022 through December 31, 2022**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management Discussion and Analysis – 2022

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2022

Statement of Revenues, Expenses and Changes in Fund Net Position – 2022

Statement of Cash Flows – 2022

Notes to Financial Statements – 2022

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2022

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 – 2022

Schedule of Changes in Total OPEB Liability and Related Ratios – OPEB – 2022

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2022

Notes to the Schedule of Expenditures of Federal Awards – 2022



Mason County Public Utility District #1  
Management Discussion and Analysis  
December 31, 2022

As Management of Mason County PUD #1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ending December 31, 2022, with additional comparative data for 2021.

**Overview of the Financial Statements**

The following Management Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements and accompanying notes, and if applicable, any other supplementary information required as part of the basic financial statements.

In accordance with requirements set forth by the Governmental Accounting Standards Board (GASB), the District's financial statements employ the full-accrual basis of accounting, where the revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate fund(s).

The basic financial statements, presented for the year ended December 31, 2022, are comprised of:

- **Statement of Net Position:** The Statement of Net Position presents information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) of the District at year-end. The net position section is separated into three categories: net investment in capital assets, net position – restricted, and net position – unrestricted.
- **Statement of Revenue, Expenses, and Changes in Fund Net Position:** This statement provides detail on the revenues and expenses for the year. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through user fees and other charges.
- **Statement of Cash Flows:** The Statement of Cash Flows provides information on the sources and uses of cash separated into three categories of activities: operating, capital and related financing, and investing.

The Notes to the Financial Statements provided at the end of the basic financial statements, are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flows. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the District's financial statements.

## Financial Analysis

The District's assets and deferred outflows exceeded liabilities and deferred inflows by just over \$35 million at the close of fiscal year 2022. Net position over time may serve as a useful indicator of a government's financial position.

### *Condensed Financial Information for December 31, 2022 and 2021 (In Thousands)*

| <b>Statement of Net Position</b>  | <b>2022</b>   | <b>2021</b>   | <b>% Change</b> |
|-----------------------------------|---------------|---------------|-----------------|
| Current Assets and Special Funds  | 8,968         | 9,198         | -3%             |
| Net Capital Assets                | 43,148        | 39,912        | 8%              |
| Net Pension Asset                 | 774           | 1,907         | -59%            |
| Deferred Outflow of Resources     | 1,296         | 786           | 65%             |
| <b>Total Assets</b>               | <b>54,186</b> | <b>51,803</b> | <b>5%</b>       |
| Current Liabilities               | 2,543         | 2,414         | 5%              |
| Non-Current Liabilities           | 15,034        | 15,968        | -6%             |
| <b>Total Liabilities</b>          | <b>17,577</b> | <b>18,382</b> | <b>-5%</b>      |
| Deferred Inflows of Resources     | 1,398         | 2,243         | -38%            |
| Net Investments in Capital Assets | 29,466        | 26,457        | 11%             |
| Restricted for Customer Deposits  | 96            | 54            | 78%             |
| Restricted for Debt Service       | 954           | 957           | 0%              |
| Restricted for Net Pension Asset  | 749           | 145           | 516%            |
| Unrestricted                      | 3,945         | 3,565         | 10%             |
| <b>Total Net Position</b>         | <b>35,210</b> | <b>31,178</b> | <b>12%</b>      |

The largest portion of the District's net position (84 percent) reflects investments in capital assets (land, buildings, substations, water infrastructure, wellhouses and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers. Although the District's investments in capital assets are reported net of related debt, it's important to note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

5 percent of the District’s net position reflects resources that are subject to external restrictions on how they may be used. Specifically restricted for debt service payments and customer deposits. The remaining 11 percent is unrestricted and may be used to meet the District’s ongoing obligations.

The District’s overall net position increased by just over \$4 million from the prior fiscal year. The reasons for this increase are discussed in the following sections.

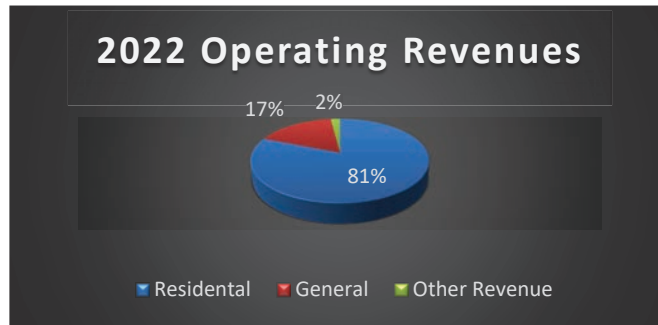
**Statement of Revenues, Expenses and Change in Net Position**

|                                  | 2022     | 2021     | % Change |
|----------------------------------|----------|----------|----------|
| Operating Revenues               | 13,376   | 12,387   | 8%       |
| Operating Expenses               | (10,907) | (10,209) | 7%       |
| Net Operating Income             | 2,469    | 2,178    | 13%      |
| Non-Operating Revenues           | 2,185    | 611      | 358%     |
| Non-Operating Expenses           | (621)    | (555)    | 12%      |
| Net Operating Revenue (Expenses) | 1,564    | 56       | 269%     |
| Change In Net Position           | 4,033    | 2,234    | 180%     |
| Net Position - Beginning of Year | 31,178   | 28,945   | 8%       |
| Net Position - End of Year       | 35,211   | 31,178   | 13%      |

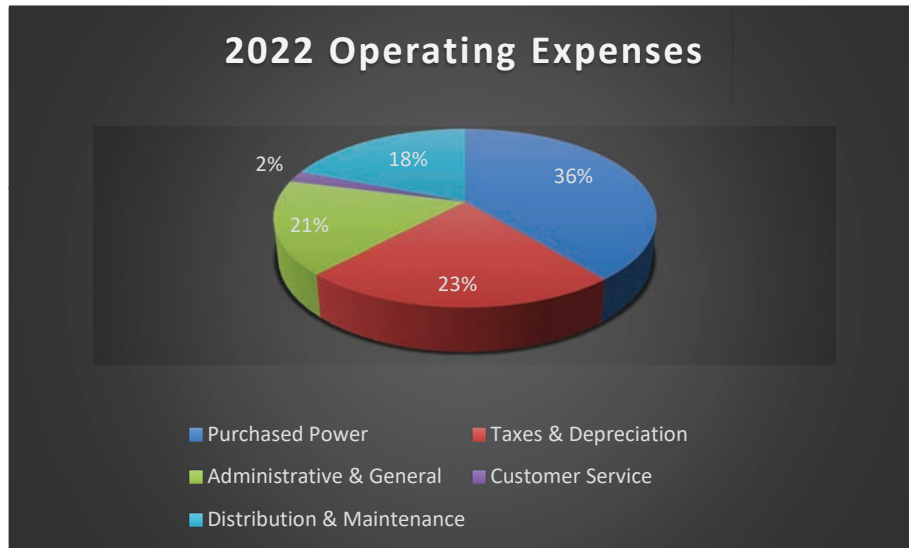
The District’s total operating revenue increased by \$989 thousand dollars from 2021 to 2022 to \$13.3 million. Kilowatt hour sales increased substantially with 2022’s total at 86.3 million kWh’s as compared to 2021’s total of 81.7 million kWh’s. The District continued to have record growth in 2022, with a total of 129 new services connected. The weather also played a role in the increased kWh sales with a warmer than expected summer, and then the cold snap we had in January and February 2022, as well as November and December 2022. Other non-operating revenues increased in part because District’s investments in the Local Government Investment Pool and the interest income received in 2022. At the beginning of the year, the average monthly rate was just over .02% and at the end of 2022, the rate was just over 4.12%. This equates to an increase of just over \$85 thousand in interest revenue. The District received grant income to assist with various electric and water projects, as well as assistance with customer arrearages due to COVID related hardships. The total amount of grant funding received in 2022 was \$1,699,624.



In 2022, the District's revenue was primarily residential, making up 81% of the overall revenue for 2022, with general covering 17%, and the remaining 2% made up of other miscellaneous revenue, including street lights.



The District's operating expenses include purchased power, transmission and distribution, customer services, and administrative and general expenses. Overall, the operating expenses increased by \$698 thousand dollars from 2021 to 2022. Approximately 36% of the District's operating expenses are derived from purchased power, with \$51 thousand dollars in additional power cost in 2022. The distribution operating and maintenance decreased by \$15 thousand dollars in 2022. The District had two open positions on the electric crew, one of which didn't get filled until the end of the year, resulting in lower labor costs for the year.



In summary, Staff continued to work extremely hard to monitor costs and the cash flow very closely to ensure that the District remained financially stable, while also working to catch up from the previous year's delay from the Pandemic. Grant funded construction projects have been key to allow the District to complete much need infrastructure upgrades for both electric and water departments, without going out for additional loan funding.

## Capital Asset and Long-Term Debt Activity

At the end of 2022, the District invested just over \$3.2 million in capital assets. The investment includes land, distribution, general plant, and equipment. The total increase in the District's investment from 2021 to 2022 was 8%.

### Capital Assets (in thousands)

|                               | 2022   | 2021   | % Change |
|-------------------------------|--------|--------|----------|
| Land                          | 1,215  | 1,215  | 0%       |
| Plant in Service              | 59,074 | 56,708 | 4%       |
| Construction Work in Progress | 2,775  | 660    | 320%     |
| Total Capital Assets          | 63,064 | 58,584 | 8%       |

Construction in progress saw an increase of 320%. The District has several large projects that were in progress at the end of 2022. A larger balance is expected to continue as the District continues to bid larger construction projects, with the Manzanita substation construction planned for 2023 through 2025. More detailed information about the District's construction work in progress is presented in Note 4 to the financial statements.

**Long Term Debt** – At the end of 2022, the District had \$13.7 million in outstanding debt, an overall decrease of \$789 thousand. The District did not acquire new debt in 2022 and is actively working towards paying its debt off faster than the amortization schedules show. In 2022, the District allocated 1% of its revenue from rates towards paying down long-term debt. The additional 1% funded each year will allow the District to pay off its current debt 5-10 years faster. More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements.

## Requests for Information

The financial reports are designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report should be directed to the District Accountant at N. 21971 Hwy. 101, Shelton, WA 98584.

Mason County PUD #1  
Statement of Net Position  
December 31, 2022

**ASSETS:**

**Current Assets:**

|                             |           |                  |
|-----------------------------|-----------|------------------|
| Cash and Cash Equivalents   |           |                  |
| Cash & Working Funds        | \$        | 266,396          |
| Investments                 | \$        | 4,767,654        |
| Accounts Receivable (net)   | \$        | 1,249,738        |
| Accounts Receivable (other) | \$        | 420,562          |
| Inventories                 | \$        | 1,161,815        |
| Prepayments                 | \$        | 51,878           |
|                             |           |                  |
| <b>TOTAL CURRENT ASSETS</b> | <b>\$</b> | <b>7,918,043</b> |

**Noncurrent Assets:**

|                         |    |           |
|-------------------------|----|-----------|
| Restricted Assets       |    |           |
| Debt Service Reserves   | \$ | 953,649   |
| Customer Deposits       | \$ | 96,555    |
| Net Pension Asset       | \$ | 774,060   |
| Total Noncurrent Assets | \$ | 1,824,264 |

**Capital Assets Not Being Depreciated:**

|  |    |           |
|--|----|-----------|
| Construction In Progress                   | \$ | 2,775,752 |
| Land & Land Rights                         | \$ | 1,215,244 |
| Total Capital Assets Not Being Depreciated | \$ | 3,990,996 |

**Capital Assets Being Depreciated:**

|  |    |              |
|--|----|--------------|
| Distribution                                 | \$ | 45,206,139   |
| General Plant                                | \$ | 10,506,414   |
| Transmission                                 | \$ | 3,361,470    |
| Less: Accumulated Depreciation               | \$ | (19,916,933) |
| Total Capital Assets Being Depreciated (Net) | \$ | 39,157,090   |

|                             |           |                   |
|-----------------------------|-----------|-------------------|
| <b>Total Capital Assets</b> | <b>\$</b> | <b>43,148,086</b> |
|-----------------------------|-----------|-------------------|

|                                |           |                   |
|--------------------------------|-----------|-------------------|
| <b>TOTAL NONCURRENT ASSETS</b> | <b>\$</b> | <b>44,972,350</b> |
|--------------------------------|-----------|-------------------|

|                     |           |                   |
|---------------------|-----------|-------------------|
| <b>TOTAL ASSETS</b> | <b>\$</b> | <b>52,890,393</b> |
|---------------------|-----------|-------------------|

**Deferred Outflows Of Resources:**

|  |           |                  |
|--|-----------|------------------|
| Outflows of Resources Relating to ARO's    | \$        | 27,342           |
| Outflows of Resources Relating to OPEB     | \$        | 468,792          |
| Outflows of Resources Relating to Pensions | \$        | 800,180          |
| <b>TOTAL OUTFLOWS OF RESOURCES:</b>        | <b>\$</b> | <b>1,296,314</b> |

|  |           |                   |
|--|-----------|-------------------|
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b> | <b>\$</b> | <b>54,186,707</b> |
|--|-----------|-------------------|

The Accompanying Notes Are An Integral Part Of This Statement



Mason County PUD #1  
Statement of Net Position  
December 31, 2022

**LIABILITIES**

**Current Liabilities:**

|   |    |                |
|---|----|----------------|
| Accounts Payable                                  | \$ | 1,038,668      |
| Consumer Deposits                                 | \$ | 95,362         |
| Current Portion of Bonds, Notes and Loans Payable | \$ | 841,931        |
| Current Portion of OPEB Liability                 | \$ | 69,011         |
| Other Current Liabilities                         | \$ | <u>498,491</u> |

|                                  |           |                  |
|----------------------------------|-----------|------------------|
| <b>TOTAL CURRENT LIABILITIES</b> | <b>\$</b> | <b>2,543,463</b> |
|----------------------------------|-----------|------------------|

**Noncurrent Liabilities:**

|                               |    |                |
|-------------------------------|----|----------------|
| Accrued Vacation And Holidays | \$ | 489,679        |
| Asset Retirement Obligations  | \$ | 27,342         |
| Long Term Debt - Loans        | \$ | 3,002,977      |
| Long Term Debt - Bonds        | \$ | 9,837,281      |
| OPEB                          | \$ | 1,231,026      |
| Net Pension Liability         | \$ | <u>445,554</u> |

|                                     |           |                          |
|-------------------------------------|-----------|--------------------------|
| <b>TOTAL NONCURRENT LIABILITIES</b> | <b>\$</b> | <b><u>15,033,859</u></b> |
|-------------------------------------|-----------|--------------------------|

|                          |           |                   |
|--------------------------|-----------|-------------------|
| <b>TOTAL LIABILITIES</b> | <b>\$</b> | <b>17,577,322</b> |
|--------------------------|-----------|-------------------|

**Deferred Inflows of Resources:**

|  |           |                         |
|--|-----------|-------------------------|
| Deferred Inflows Related to OPEB           | \$        | 548,570                 |
| Deferred Inflows Related to Pensions       | \$        | <u>849,816</u>          |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b> | <b>\$</b> | <b><u>1,398,386</u></b> |

**NET POSITION**

|                                   |    |                  |
|-----------------------------------|----|------------------|
| Net Investments in Capital Assets | \$ | 29,465,897       |
| Restricted for Customer Deposits  | \$ | 96,555           |
| Restricted for Debt Service       | \$ | 953,649          |
| Restricted for Net Pension Asset  | \$ | 749,706          |
| Unrestricted                      | \$ | <u>3,945,192</u> |

|                           |           |                          |
|---------------------------|-----------|--------------------------|
| <b>TOTAL NET POSITION</b> | <b>\$</b> | <b><u>35,210,999</u></b> |
|---------------------------|-----------|--------------------------|

|  |           |                                 |
|--|-----------|---------------------------------|
| <b>TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b> | <b>\$</b> | <b><u><u>54,186,707</u></u></b> |
|--|-----------|---------------------------------|

The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD No. 1  
Statement of Revenues, Expenses and Changes in Fund Net Position  
For the Year Ended December 31, 2022

OPERATING REVENUES:

|                          |    |                |
|--------------------------|----|----------------|
| Sales - Residential      | \$ | 10,871,505     |
| Sales - General          | \$ | 2,245,497      |
| Sales - Street Lights    | \$ | 29,234         |
| Other Revenues           | \$ | <u>229,861</u> |
| Total Operating Revenues | \$ | 13,376,097     |

OPERATING EXPENSES:

|                                    |    |                   |
|------------------------------------|----|-------------------|
| Cost of Purchased Power            | \$ | 3,953,282         |
| Transmission Expense               | \$ | 522               |
| Distribution & Maintenance Expense | \$ | 1,951,362         |
| Customer Service Expense           | \$ | 258,458           |
| General Administration             | \$ | 2,223,661         |
| Depreciation & Amortization        | \$ | 1,697,386         |
| Taxes                              | \$ | <u>822,807</u>    |
| Total Operating Expenses           | \$ | <u>10,907,478</u> |

OPERATING INCOME \$ 2,468,619

NON-OPERATING REVENUE(EXPENSES):

|   |    |                  |
|---|----|------------------|
| Revenue from Merchandising/Jobbing<br>and Contract Work       | \$ | 213,968          |
| Costs and Expenses Merchandising<br>Jobbing and Contract work | \$ | (130,726)        |
| Interest and Dividend Income                                  | \$ | 93,702           |
| Interest Expense and Related Charges                          | \$ | (490,649)        |
| Other Non-Operating Revenues                                  | \$ | <u>1,877,691</u> |
| Total Non-Operating Revenues(Expenses)                        | \$ | <u>1,563,986</u> |

CHANGE IN NET POSITION \$ 4,032,605

|                    |                   |    |                          |
|--------------------|-------------------|----|--------------------------|
| Total Net Position | January 1, 2022   | \$ | <u>31,178,394</u>        |
| Total Net Position | December 31, 2022 | \$ | <u><u>35,210,999</u></u> |

The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD #1  
Statement of Cash Flows  
For the Year Ended December 31, 2022

**CASH FLOWS from OPERATING ACTIVITIES:**

|   |    |                    |
|---|----|--------------------|
| Receipts from Customers                         | \$ | 13,376,097         |
| Payments to Suppliers                           | \$ | (4,948,225)        |
| Payments to Employees                           | \$ | <u>(4,577,371)</u> |
| Net Cash Provided(used) by Operating Activities | \$ | <u>3,850,501</u>   |

**CASH FLOWS from CAPITAL FINANCING ACTIVITIES:**

|  |    |                    |
|--|----|--------------------|
| Proceeds from Capital Debt   | \$ | -                  |
| Purchases of Capital Assets  | \$ | (3,307,296)        |
| Principal Paid on Capital Debt                                       | \$ | (788,681)          |
| Interest Paid on Capital Debt  | \$ | <u>(490,649)</u>   |
| Net cash Provided (Used) by Capital and Related Financing Activities | \$ | <u>(4,586,626)</u> |

**CASH FLOWS from INVESTING ACTIVITIES**

|  |    |                         |
|--|----|-------------------------|
| Interest and Dividends                                 |    |                         |
| Net Cash Provided by Investing Activities              | \$ | <u>93,703</u>           |
| Net Increase (Decrease) in Cash and Cash Equivalents   | \$ | (642,422)               |
| Cash and Cash Equivalents Balances - Beginning of Year | \$ | <u>6,726,676</u>        |
| Cash and Cash Equivalents Balances - End of Year       | \$ | <u><u>6,084,254</u></u> |

The Accompanying Notes Are An Integral Part Of This Statement



Mason County PUD #1  
Statement of Cash Flows  
For the Year Ended December 31, 2022

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES**

|  |        |                             |
|--|--------|-----------------------------|
| Operating Income (Loss)  | \$     | 2,468,619                   |
| Adjustments to Reconcile Operating Income to Net<br>Cash Provided (Used) by Operating Activities |        |                             |
| Depreciation Expense   | \$     | 1,697,386                   |
| Other Deductions   |        |                             |
| <b>Change In Assets and Liabilities</b>  |        |                             |
| Accounts and Other Payable   | \$     | 96,565                      |
| Inventories  | \$     | (185,234)                   |
| Prepayments  | \$     | (48,810)                    |
| Receivables - Net  | \$     | <u>(178,026)</u>            |
| <br>Net Cash Provided by Operating Activities  | <br>\$ | <br><u><u>3,850,501</u></u> |

The Accompanying Notes Are An Integral Part Of This Statement

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

The financial statements of the district have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

#### A. Reporting Entity

Public Utility District No. 1 of Mason County (the PUD) was incorporated on November 6, 1934 and operates under the laws of the state of Washington applicable to a public utility.

The PUD is a special purpose government and provides electric, water, and sewer services to the general public. The PUD is primarily supported through user charges (or where the governing body has decided that periodic determination of net income is needed).

An elected 3-member board of commissioners governs the PUD. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The PUD has no component units.

#### B. Basis of Accounting and Presentation

The accounting records of the PUD are maintained in accordance with methods prescribed by the United States Department of Agriculture, Rural Utilities Services (RUS) and the State Auditor under the authority of Chapter 43.09 RCW. The PUD uses the Uniform System of Accounts – Electric, RUS Bulletin 1767B-1.

The PUD uses the full-accrual basis of accounting, where the revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate fund(s).

The PUD distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the PUD's principal ongoing operations. The principal operating revenues of the PUD are charges to customers for power, water, and sewer. Operating expenses for the PUD include cost of operations and maintenance, administrative and customer service, depreciation, taxes and debt amortization. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

#### C. Assets, Liabilities, Fund Balance, Net Position

##### 1. Cash and Cash Equivalents

It is the PUD's policy to invest all temporary cash surpluses, in excess of the operating reserve in the Washington State Treasurer's Investment Pool. At December 31, 2022, the

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

treasurer was holding \$6,084,254 in short term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents, restricted assets, and investments in various funds.

For the purposes of the Statement of Cash Flows, the PUD considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Investments – See Note 2, Deposits and Investments.

3. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared. Notes and contract receivables consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered.

The PUD writes off accounts deemed to be uncollectible to the bad debt expense account.

4. Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time the individual inventory items are consumed. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the balance is not available for future expenditures. A comparison market value is not necessary.

Inventories are expensed using the FIFO reporting method, where the inventory acquired first is expensed, over time.

5. Restricted Assets

These accounts contain resources for debt service and customer deposits. Specific debt service reserve requirements are described in Note 8, Long-Term Debt.

The restricted assets of the district are composed of the following:

|                                     |           |
|-------------------------------------|-----------|
| Cash and Investments – Debt Service | \$953,649 |
|-------------------------------------|-----------|

|  |          |
|--|----------|
| Cash and Investments – Customer Deposits | \$96,555 |
|--|----------|

6. Capital Assets and Depreciation – See Note 3.

7. Leases

The District is a lessee for leases and has established, through policy, a threshold for determining when it is necessary to recognize a lease liability on the District’s government wide financial statements. The threshold adopted through policy is 1% of the District’s 10%

net investment in capital assets. The District reviews the threshold on an annual basis, relative to the lease liability value to ensure if the value exceeds the established threshold. If at any time the lease liability exceeds the threshold, the District will follow the measures noted below for recognizing a lease on the financial statements. As of December 31, 2022 the total lease liability is \$16,540. The threshold as of December 31, 2022 is \$43,148. Since the liability is less than the established threshold, the District did not recognize a lease liability on the government wide financial statements for 2022.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized using the straight-line method over its useful life.

Governmental funds recognize a capital outlay and other financing source at the commencement of a new lease. Lease payments in governmental funds are reported as debt service principal and debt service expenditures.

Key estimates and judgment related to lease include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require remeasurement of its lease, and will remeasure the leased asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

#### 8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation (and sick) leave. The PUD accrues unpaid leave for compensated absences as an expense and liability when incurred.

Vacation pay, which may be accumulated up to 1200 hours, is payable upon resignation, retirement, or death.



9. 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 market value.

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

10. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

11. Long-Term Debt – See Note 8.

12. Net Position Classification

For government-wide reporting, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

A. Deposits

Cash on hand at December 31, 2022 was \$6,084,254

Custodial credit risk for deposits is the risk that, in event of a failure of a depository institution, the district would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The district's deposits and certificates of deposit are entirely covered by Federal Depository Insurance (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Therefore, there are no policy and no custodial credit risks.

B. Investments

It is the District’s policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

Investments in Local Government Investment Pool (LGIP)

The district is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawal.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

Investments Measures at Fair Value

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

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2022, the district had the following investments measured at fair value:

| Investments by Fair Value Level                       | 12/31/2022          | Fair Value Measurement Using                                 |   |   |
|---|---------------------|--|---|---|
|   |                     | Quoted Price in Active Market for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Class A Equity Investment                             | \$ 10,000           | \$ 10,000  | \$ -  | \$ -                                      |
| <hr/>   |                     |  |   |   |
| <b>Investments measured at amortized cost</b>         |                     |  |   |   |
| State Local Government Investment Pool (LGIP)         | \$ 5,711,303        |  |   |   |
| <hr/>   |                     |  |   |   |
| <b>Total Investments in Statement of Net Position</b> | <b>\$ 5,721,303</b> |  |   |   |

**NOTE 3- CAPITAL ASSETS AND DEPRECIATION**

Capital assets are defined by the PUD as assets with individual costs of more than \$2,500 and an estimated useful life in excess of 1 year.

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

Utility Plant in Service (and other capital assets) are recorded at cost (where the historical costs are known) or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 10 to 36 years. Depreciation expense for fleet is allocated to maintenance and repairs, based on the payroll hours designated each month to those corresponding GL accounts. For 2022, \$199,626 in depreciation expense was allocated to various maintenance and repair GL accounts and not included in the depreciation expense line item on the Statement of Revenues, Expenses and Changes in Fund Net Position.

Capital asset activity for the year ended December 31, 2022 is as follows:

|  | <b>Beginning Balance</b> | <b>Increase</b>     | <b>Decrease</b>       | <b>Ending Balance</b> |
|--|--------------------------|---------------------|-----------------------|-----------------------|
| <b>Utility Plant Not Being Depreciated</b>         |                          |                     |                       |                       |
| Land   | \$ 1,215,244             | \$ 0                | \$ 0                  | \$ 1,215,244          |
| Construction in Progress                           | \$ 660,575               | \$ 5,732,643        | \$ (3,617,466)        | \$ 2,775,752          |
| <b>Total Utility Plant Not Being Depreciated</b>   | <b>\$ 1,875,819</b>      | <b>\$ 5,732,643</b> | <b>\$ (3,617,466)</b> | <b>\$ 3,990,996</b>   |
| <b>Utility Plant Being Depreciated</b>             |                          |                     |                       |                       |
| Distribution and Transmission Plant                | \$ 46,572,042            | \$ 2,933,938        | \$ (938,371)          | \$ 48,567,609         |
| General Plant                                      | \$ 10,136,409            | \$ 411,235          | \$ (41,230)           | \$ 10,506,414         |
| <b>Total Utility Plant Being Depreciated</b>       | <b>\$ 56,708,451</b>     | <b>\$ 3,345,173</b> | <b>\$ (979,601)</b>   | <b>\$ 59,074,023</b>  |
| Less Accumulated Depreciation                      | \$ (18,672,197)          | \$ (2,070,830)      | \$ 826,094            | \$ (19,916,933)       |
| <b>Total Utility Plant Being Depreciated (Net)</b> | <b>\$ 38,036,254</b>     | <b>\$ 1,274,343</b> | <b>\$ (153,507)</b>   | <b>\$ 39,157,090</b>  |
| <b>Total Utility Plant (Net)</b>                   | <b>\$ 39,912,073</b>     | <b>\$ 7,006,986</b> | <b>\$ (3,770,973)</b> | <b>\$ 43,148,086</b>  |
|  |                          |                     |                       |                       |

**NOTE 4-CONSTRUCTION AND OTHER SIGNIFICATN COMMITMENTS**

Construction Commitments –

The District has active construction projects as of December 31, 2022 for both the Electric and Water divisions. The electric projects include the design of the Manzanita Substation, in addition to procurement of materials for the substation that have long lead times. Construction will hopefully start in the Spring of 2024, with planned completion by the end of 2025. For the water division, there are several projects in the design phase, including mainline replacement, iron and manganese treatment, and whole system upgrades. Construction for these projects will start in 2023 and 2024.

At year-end the District’s commitments with contractors are as follows:

| <b>Project</b>                            | <b>Spent to Date</b> | <b>Remaining Commitment</b> |
|---|----------------------|-----------------------------|
| Manzanita Substation                      | \$ 182,296.00        | \$ 2,817,704.00             |
| Eldon Fiber & Pole Replacement            | \$ 1,328,720.00      | \$ 270,994.00               |
| Duckabush Estuary Highway Relocation      | \$ 31,365.00         | \$ 968,635.00               |
| Shadowood Water System Upgrades           | \$ 190,000.00        | \$ 1,884,712.00             |
| Agate Beach Water System Upgrades         | \$ 32,630.00         | \$ 526,370.00               |
| Lake Arrowhead Mainline Replacement Ph. 2 | \$ 53,954.00         | \$ 2,454,304.00             |
| Ripplewood Mainline Replacement           | \$ 5,817.00          | \$ 699,944.00               |
| Lake Arrowhead Manganese Treatment        | \$ 62,021.00         | \$ 293,329.00               |
| Canal View Water System Upgrades          | \$ 27,215.00         | \$ 441,044.00               |

(The committed balance of \$10,357,036 is secured through grants, designated reserve funding, and State Revolving Fund loans. No additional funding will be required for future financing).

**NOTE 5 – PENSION PLANS**

The following table represents the aggregate pension amounts for all plans for the year 2022:

| <b>Aggregate Pension Amounts – All Plans</b> |           |
|--|-----------|
| Pension liabilities                          | \$445,554 |
| Pension assets                               | \$774,060 |
| Deferred outflows of resources               | \$800,181 |
| Deferred inflows of resources                | \$849,816 |
| Pension expense/expenditures                 | \$40,741  |

**State Sponsored Pension Plans**

Substantially all 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.



**NOTE 5 – PENSION PLANS (Continued)**

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

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

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

**Public Employees’ Retirement System (PERS)**

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

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living

adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

| <b>PERS Plan 1</b>               |                 |                  |
|----------------------------------|-----------------|------------------|
| <b>Actual Contribution Rates</b> | <b>Employer</b> | <b>Employee*</b> |
| January – August 2022            |                 |                  |
| PERS Plan 1                      | 6.36%           | 6.00%            |
| PERS Plan 1 UAAL                 | 3.71%           |                  |

|                           |               |              |
|---------------------------|---------------|--------------|
| Administrative Fee        | 0.18%         |              |
| <b>Total</b>              | <b>10.25%</b> | <b>6.00%</b> |
| September – December 2022 |               |              |
| PERS Plan 1               | 6.36%         | 6.00%        |
| PERS Plan 1 UAAL          | 3.85%         |              |
| Administrative Fee        | 0.18%         |              |
| <b>Total</b>              | <b>10.39%</b> | <b>6.00%</b> |

\* For employees participating in JBM, the contribution rate was 12.26%.

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include

duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

### Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include

**NOTE 5 – PENSION PLANS (Continued)**

a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

| <b>PERS Plan 2/3</b>             |                     |                    |
|----------------------------------|---------------------|--------------------|
| <b>Actual Contribution Rates</b> | <b>Employer 2/3</b> | <b>Employee 2*</b> |
| January – August 2022            |                     |                    |
| PERS Plan 2/3                    | 6.36%               | 6.36%              |
| PERS Plan 1 UAAL                 | 3.71%               |                    |
| Administrative Fee               | 0.18%               |                    |
| Employee PERS Plan 3             |                     | Varies             |
| <b>Total</b>                     | <b>10.25%</b>       | <b>6.36%</b>       |
| September – December 2022        |                     |                    |
| PERS Plan 2/3                    | 6.36%               | 6.36%              |
| PERS Plan 1 UAAL                 | 3.85%               |                    |
| Administrative Fee               | 0.18%               |                    |
| Employee PERS Plan 3             |                     | Varies             |
| <b>Total</b>                     | <b>10.39%</b>       | <b>6.36%</b>       |

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

The district’s actual PERS plan contributions were \$103,247 to PERS Plan 1 and \$174,633 to PERS Plan 2/3 for the year ended December 31, 2022.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. 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 *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% 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 developed using the Society of Actuaries’ Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each

## **NOTE 5 – PENSION PLANS (Continued)**

member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

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

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study

### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.0 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0 percent was used to determine the total liability.

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

The long-term expected rate of return on the DRS pension plan investments of 7.0 percent was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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

The table below summarizes the 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, 2022. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.



**NOTE 5 – PENSION PLANS (Continued)**

| Asset Class     | Target Allocation | % Long-Term Expected Real Rate of Return Arithmetic |
|-----------------|-------------------|---|
| Fixed Income    | 20%               | 1.5%  |
| Tangible Assets | 7%                | 4.7%  |
| Real Estate     | 18%               | 5.4%  |
| Global Equity   | 32%               | 5.9%  |
| Private Equity  | 23%               | 8.9%  |
|                 | <b>100%</b>       |   |

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

The table below presents the district’s proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the district’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1-percentage point higher (8.0 percent) than the current rate.

|          | 1% Decrease (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|----------|--------------------|------------------------------|--------------------|
| PERS 1   | 595,255            | 445,554                      | 314,901            |
| PERS 2/3 | 911,557            | (774,060)                    | (2,158,900)        |
|          |                    |                              |                    |

**Pension Plan Fiduciary Net Position**

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

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

At June 30, 2022, the district’s reported its proportionate share of the net pension liabilities as follows:

|          | Liability (or Asset) |
|----------|----------------------|
| PERS 1   | \$445,554            |
| PERS 2/3 | (\$774,060)          |

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

|          | Proportionate Share 6/30/21 | Proportionate Share 6/30/22 | Change in Proportion |
|----------|-----------------------------|-----------------------------|----------------------|
| PERS 1   | .014903%                    | .016002%                    | (.001099)%           |
| PERS 2/3 | .019144%                    | .020871%                    | (.001727)%           |
|          |                             |                             |                      |

**NOTE 5 – PENSION PLANS (Continued)**

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 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* for all plans except LEOFF 1.

**Pension Expense**

For the year ended December 31, 2022, the district’s recognized pension expense as follows:

|          | <b>Pension Expense</b> |
|----------|------------------------|
| PERS 1   | \$232,581              |
| PERS 2/3 | (\$273,321)            |
| TOTAL    | (\$40,741)             |

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

At December 31, 2022, the district’s reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources

| <b>PERS 1</b>  | <b>Deferred Outflows of Resources</b> | <b>Deferred Inflows of Resources</b> |
|--|---------------------------------------|--------------------------------------|
| Differences between expected and actual experience   | \$                                    | \$                                   |
| Net difference between projected and actual investment earnings on pension plan investments          | \$                                    | \$(73,841)                           |
| Changes of assumptions   | \$                                    | \$                                   |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$                                    | \$                                   |
| Contributions subsequent to the measurement date   | \$53,333                              | \$                                   |
| TOTAL  | \$53,333                              | \$(73,841)                           |

| <b>PERS 2/3</b>  | <b>Deferred Outflows of Resources</b> | <b>Deferred Inflows of Resources</b> |
|--|---------------------------------------|--------------------------------------|
| Differences between expected and actual experience   | \$191,794                             | \$(17,523)                           |
| Net difference between projected and actual investment earnings on pension plan investments          | \$0                                   | \$(572,268)                          |
| Changes of assumptions   | \$431,431                             | \$(112,964)                          |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$34,558                              | \$(68,447)                           |
| Contributions subsequent to the measurement date   | \$89,065                              | \$0                                  |
| TOTAL  | \$746,848                             | \$(771,202)                          |

**NOTE 5 – PENSION PLANS (Continued)**

Deferred outflows of resources related to pensions resulting from the district’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <b>Year ended<br/>December 31:</b> | <b>PERS 1</b> |
|------------------------------------|---------------|
| 2023                               | \$(31,248)    |
| 2024                               | \$(28,381)    |
| 2025                               | \$(35,604)    |
| 2026                               | \$21,392      |
| Thereafter                         | \$            |

| <b>Year ended<br/>December 31:</b> | <b>PERS 2/3<br/>Inflows</b> | <b>PERS 2/3<br/>Outflows</b> |
|------------------------------------|-----------------------------|------------------------------|
| 2023                               | \$(7,965)                   | \$42,657                     |
| 2024                               | \$(7,965)                   | \$38,119                     |
| 2025                               | \$(1,593)                   | \$36,175                     |
| 2026                               |                             | \$31,718                     |
| 2027                               |                             | \$24,058                     |
| Thereafter                         |                             | \$19,067                     |

**NOTE 6 – DEFERRED COMPENSATION PLAN**

The PUD offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the State of Washington. The plan, available to eligible employees, permits them to defer a portion of their salary until future years. The assets held in the deferred compensation plan are not available to employees until termination, retirement, death, or unforeseeable emergency.

**NOTE 7 – RISK MANAGEMENT**

The PUD purchases their liability insurance from Federated Rural Insurance Corporation. The PUD maintains a \$2,000,000 all-risk blanket with a \$10,000,000 umbrella policy. No insurance settlements have exceeded insurance coverage in the past 3 years. The risk of loss to the PUD is covered by:

- Liability coverage in the amount of \$12,000,000. This covers general liability, property damage, automobile coverage, personal injury, medical payments, and valuable papers.
- Employee dishonesty, money, and securities in the amount of \$4,000,000.
- Directors, Officers and Managers Liability and Corporate Indemnification Policy in the amount of \$1,000,000.
- Workers Compensation Insurance of \$100,000.
- Public Official Bond for the Treasurer in the amount of \$1,000,000.

**NOTE 8 – LONG-TERM DEBT**

Long-Term Debt

The District issues a combination of RUS Bonds and Revenue Bonds for both electric and water divisions. The Bonds were purchased for electrical distribution, transmission and special equipment replacement and additions. They include wire, transformers, meters, conduit, and poles, and other electrical equipment. PWTF and Water Bond Loans were purchased for water distribution, transmission and meter replacement and additions, including piping, pumps, well houses, reservoirs, wells and many other water related equipment.

The revenue bonds currently outstanding are as follows:

| Purpose                            | Maturity Range | Interest Rate | Original Amount | Amount of Installment |
|------------------------------------|----------------|---------------|-----------------|-----------------------|
| Electric System RUS Revenue Bonds  | 2045           | 2.853%        | 3,880,000       | 119,385               |
| Electric System Revenue Bonds 2014 | 2014-2033      | 3.00%         | 3,585,000       | 170,000               |
| Electric System Revenue Bonds 2018 | 2019-2038      | 4.00%         | 6,730,000       | 265,000               |
| Water System Revenue Bonds 2018    | 2032           | 3.44%         | 3,000,000       | 186,000               |

Revenue bond debt service requirements to maturity are as follows:

Calendar Year Ending December 31, 2022:

| Year      | Principal    | Interest    | Total        |
|-----------|--------------|-------------|--------------|
| 2023      | 740,385      | 481,185     | 1,221,569    |
| 2024      | 792,231      | 470,743     | 1,262,974    |
| 2025      | 783,385      | 424,838     | 1,208,223    |
| 2026      | 815,385      | 394,187     | 1,209,571    |
| 2027      | 812,538      | 347,385     | 1,159,923    |
| 2028      | 875,385      | 330,275     | 1,205,660    |
| 2029      | 932,231      | 308,179     | 1,240,410    |
| 2030      | 935,385      | 258,908     | 1,194,293    |
| 2031-2035 | 3,770,923    | 758,656     | 4,529,513    |
| 2036-2040 | 1,951,923    | 208,892     | 2,160,815    |
| 2041-2045 | 477,539      | 28,935      | 506,474      |
| TOTAL     | \$12,887,308 | \$4,012,116 | \$16,899,424 |

Debt issuance costs are expensed in the period incurred and bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premium.

At December 31, 2022 the District has \$647,601 available in debt service funds to service the revenue bonded debt. Restricted assets contain \$953,649 in reserves required by bond indentures.



**NOTE 8 – LONG TERM DEBT (Continued)**

On June 6<sup>th</sup>, 2014, the PUD issued a \$3,585,000 bond for refinancing the RUS debt of 5%. The bonds bear an average interest rate of 2% to 5% and will be redeemed over the next 20 years. This bond replaces the RUS debt that was to be amortized over the next 28 years. The total savings over the next 20 years is \$874,000. The bond was sold at a premium of \$55,251.50 and has a current balance of \$2,345,000 and a maturity date of December 01, 2033.

On July 24, 2018, the PUD issued \$6,730,000 in revenue bonds to pay off the \$3,000,000 Key Bank Line of Credit and use the remaining funds for infrastructure construction. The bonds bear an average interest rate of 4%, sold at a premium of \$268,331.25, and has a current balance of \$5,770,000, with a maturity date of December 01, 2038. These revenue bonds are tax-exempt and must follow the federal arbitrage regulations. The arbitrage yield for these bonds is 3.358627%.

On April 27, 2018, the PUD issued a \$3,000,000 bond to purchase 32 water systems from Thurston County PUD for \$1,191,357.80, with the remaining funds to be used for infrastructure improvements. The bond bears an interest rate of 3.44%, with a maturity date of 12/01/2032. The balance of the bond at yearend is \$2,116,000. These revenue bonds are tax-exempt and must follow the federal arbitrage regulations. The arbitrage yield for these bonds is 3.4395%.

The PUD has Public Works Trust Fund Loans (PWTF) for its water systems. The PWTF interest rate averages 1% over 20 years.

At December 31, 2022 the balance of the PWTF Loans was \$544,074, detailed as follows:

| System                | Balance   | Maturity   | Loan Number     |
|-----------------------|-----------|------------|-----------------|
| Arcadia Estates Water | \$15,150  | 10/01/2025 | PW-05-691-034   |
| Canal Tracts Water    | \$27,941  | 10/01/2025 | PW-05-691-037   |
| Canal Mutual Water    | \$68,498  | 07/01/2027 | PW-07-962-302   |
| Hoodspout Water       | \$162,614 | 10/01/2029 | PW-99-65199-035 |
| Madrona Beach         | \$32,038  | 10/01/2030 | DR-09-952-070   |
| Hood Canal Water      | \$237,833 | 10/01/2031 | PC12-951-081    |

|                             | Beginning Balance | Additions   | Reductions     | Ending Balance    | Due Within One Year |
|-----------------------------|-------------------|-------------|----------------|-------------------|---------------------|
| 2018 Water Revenue Bonds    | 2,296,000         |             | 180,000        | 2,116,000         | 186,000             |
| 2014 Revenue Bonds          | 2,510,000         |             | 165,000        | 2,345,000         | 170,000             |
| 2014 Bond Premium           | 35,912            |             | 2,763          | 33,149            | 2,763               |
| RUS Loans                   | 2,775,692         |             | 119,384        | 2,656,308         | 119,385             |
| PWTF Loans                  | 622,094           |             | 78,020         | 544,074           | 78,020              |
| 2018 Electric Revenue Bonds | 6,025,000         |             | 255,000        | 5,770,000         | 265,000             |
| 2018 Bond Premium           | 236,018           |             | 18,360         | 217,658           | 20,763              |
| <b>Total Long-Term Debt</b> | <b>14,500,716</b> | <b>0.00</b> | <b>818,527</b> | <b>13,682,189</b> | <b>841,931</b>      |

**NOTE 9 – CHANGES IN LONG-TERM LIABILITIES**

During the year ended December 31, 2022, the following changes occurred in long-term liabilities:

|                                    | Beginning Balance | Additions    | Reductions     | Ending Balance    | Due Within One Year |
|------------------------------------|-------------------|--------------|----------------|-------------------|---------------------|
| <b>Bonds Payable</b>               |                   |              |                |                   |                     |
| 2018 Water Revenue Bonds           | 2,296,000         |              | 180,000        | 2,116,000         | 186,000             |
| 2014 Revenue Bonds                 | 2,510,000         |              | 165,000        | 2,345,000         | 170,000             |
| 2014 Bond Premium                  | 35,912            |              | 2,763          | 33,149            | 2,763               |
| 2018 Electric Revenue Bonds        | 6,025,000         |              | 255,000        | 5,770,000         | 265,000             |
| 2018 Bond Premium                  | 236,018           |              | 18,360         | 217,658           | 20,763              |
| <b>Total bonds payable</b>         | <b>11,102,930</b> | <b>-</b>     | <b>621,123</b> | <b>10,481,807</b> | <b>644,526</b>      |
| <b>Loans Payable</b>               |                   |              |                |                   |                     |
| RUS Loans                          | 2,775,692         |              | 119,384        | 2,656,308         | 119,385             |
| PWTF Loans                         | 622,094           |              | 78,020         | 544,074           | 78,020              |
| <b>Total loans payable</b>         | <b>3,397,786</b>  | <b>-</b>     | <b>197,404</b> | <b>3,200,382</b>  | <b>197,405</b>      |
| Pension/OPEB Obligations           | 1,831,080         |              | 85,489         | 1,745,591         | 69,011              |
| Compensated Absences               | 528,851           |              | 39,171         | 489,679           |                     |
| Asset Retirement Obligations       | 24,250            | 3,092        | -              | 27,342            |                     |
| <b>Total Long-Term Liabilities</b> | <b>16,884,897</b> | <b>3,092</b> | <b>943,187</b> | <b>15,944,801</b> | <b>910,942</b>      |

**NOTE 10 – CONTINGENCIES AND LITIGATION**

The PUD has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved, but where, based on available information, management believes it is probably that the PUD will have to make payment. In the opinion of management, the PUD’s insurance policies are adequate to pay all known or pending claims.

The PUD participates in a number of federal-and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. PUD management believes that such disallowances, if any, will be immaterial.

**NOTE 11 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the year 2022:

| <b>Aggregate OPEB Amounts – All Plans</b> |             |
|---|-------------|
| OPEB liabilities                          | \$1,300,037 |
| OPEB assets                               | \$0.00      |
| Deferred outflows of resources            | \$468,790   |
| Deferred inflows of resources             | \$548,570   |
| OPEB expense/expenditures                 | \$124,205   |

The PUD belongs to the State of Washington’s Public Employees Benefits Board (PEBB), a single employer defined benefit plan, which provides medical and dental through private health insurance plans to eligible retirees. Retiree benefit provisions are established by Commission resolution.

Employees are eligible for reimbursement of medical and dental coverage provided that they retire from active employment with the PUD with 15 or more years of service. Employee retiree coverage continues for a maximum of 10 years. The elected Commissioners are eligible for payment of post-retirement benefits based on 18 years of service. They are not eligible for a percentage of employment by year and must serve 18 years to receive 54 percent for 10 years. The PUD funding policy and status is a pay as you go and there are no assets that accumulate in a qualifying trust. The PUD pays employees a portion of the premium cost based on years of service at retirement according the following schedule:

| <u>Years of Service</u> | <u>District Percentage</u> | <u>Years of Service</u> | <u>District Percentage</u> |
|-------------------------|----------------------------|-------------------------|----------------------------|
| 15                      | 45%                        | 23                      | 69%                        |
| 16                      | 48%                        | 24                      | 72%                        |
| 17                      | 51%                        | 25                      | 75%                        |
| 18                      | 54%                        | 26                      | 78%                        |
| 19                      | 57%                        | 27                      | 81%                        |
| 20                      | 60%                        | 28                      | 84%                        |
| 21                      | 63%                        | 29                      | 87%                        |
| 22                      | 66%                        | 30 or More              | 100%                       |

Employees covered by benefit terms – At December 31, 2022, the following employees were covered by the benefit terms:

|   |           |
|---|-----------|
| <b>Participants</b>   |           |
| Active Employees  | 29        |
| Inactive Employees Entitled to But Not Yet Receiving Benefits | 0         |
| Inactive Employees Currently Receiving Benefits               | <u>4</u>  |
| <b>TOTAL</b>  | <b>33</b> |
| <b>Average Ages</b>   |           |
| Active Employees  | 46.7      |
| Inactive Employees Entitled to But Not Yet Receiving Benefits | ----      |
| Inactive Employees Currently Receiving Benefits               | 65.8      |
| <b>Average Service</b>  |           |
| Active Employees  | 10.3      |

**NOTE 11 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**  
**(Continued)**

**Changes in the Net OPEB Liability**

|   | <b>Total OPEB<br/>Liability</b> |
|---|---------------------------------|
| Balances as of 12/31/2021                       | \$1,628,827                     |
| Changes for the year:                           |                                 |
| Service Cost                                    | \$89,248                        |
| Interest on Total OPEB Liability                | 35,609                          |
| Changes of benefit terms                        | 0                               |
| Difference Between Expected & Actual Experience | (146,575)                       |
| Changes of Assumptions and Other Inputs         | (214,669)                       |
| Contributions – Employer                        | 0                               |
| Contributions - Active & Inactive Employees     | 0                               |
| Net Investment Income                           | 0                               |
| Benefit Payments <sup>(2)</sup>                 | (92,402)                        |
| Administrative Expenses                         | 0                               |
| Other Changes                                   | 0                               |
| Net Changes                                     | <u>(\$328,790)</u>              |
| Balances as of 12/31/2022                       | \$1,300,037                     |

(1) Includes the Implicit Rate Subsidy.

Menard Consulting prepared the actuarial valuation on January 19, 2023, for 2022, using the alternative measurement method. The following assumptions were updated, to comply with GASB 75.

- The Discount Rate was changed to comply with the GASB 75 standard.
- Starting per capita costs were updated using the most recent premiums.
- Healthcare trends rates were reset and the mortality assumption was changed.
- The plan is funded on a pay as you go basis and there are no assets accumulated in a qualifying trust.



**NOTE 11 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

**(Continued)**

**OPEB Expense**

|   |                  |
|---|------------------|
| Service Cost                                    | \$87,284         |
| Interest on Service Cost                        | <u>1,964</u>     |
| Total   | \$89,248         |
| Interest Cost                                   | 35,609           |
| Difference Between Expected & Actual Experience | (4,115)          |
| Changes of Assumptions and Other Inputs         | <u>3,463</u>     |
| <b>Total</b>                                    | <b>\$124,205</b> |

**Deferred Outflows/Inflows of Resources**

At December 31, 2022, the district reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Difference Between Expected & Actual Experience                                | \$68,575                                  | \$132,307                                |
| Changes of Assumptions   | 400,215                                   | 416,263                                  |
| Net Difference Between Projected & Actual Earnings<br>on OPEB Plan Investments | <u>0</u>                                  | <u>0</u>                                 |
| <b>Total</b>   | <b>\$468,790</b>                          | <b>\$548,570</b>                         |

For each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in the table above that will be recognized in the employer's OPEB expense.

**NOTE 11 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

**(Continued)**

**Future Deferred Outflows/Inflows of Resources**

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

| Fiscal Year Ending: | Outflows | Inflows  |
|---------------------|----------|----------|
| December 31, 2023   | \$69,011 | \$69,663 |
| December 31, 2024   | 69,011   | 69,663   |
| December 31, 2025   | 69,011   | 69,663   |
| December 31, 2026   | 69,011   | 69,663   |
| December 31, 2027   | 69,011   | 69,663   |
| December 31, 2028   | 64,622   | 62,466   |
| December 31, 2029   | 49,157   | 44,514   |
| December 31, 2030   | 4,380    | 42,931   |
| December 31, 2031   | 4,380    | 39,544   |
| December 31, 2032   | 1,196    | 10,799   |

**Significant Assumptions**

|   |                        |
|---|------------------------|
| <b>Health Care Trend Rates</b>                        |                        |
| Initial Health Care Cost Trend Rate                   |                        |
| - HMO Medical Plan                                    | 6.00%                  |
| - PPO Medical Plan                                    | 6.50%                  |
| - Dental HMO Plan                                     | 3.50%                  |
| - Dental PPO Plan                                     | 4.00%                  |
| - Vision Plan   | 2.00%                  |
| Ultimate Health Care Cost Trend Rate                  |                        |
| - Medical Plans                                       | 4.50%                  |
| - Dental & Vision Plans                               | Constant for all years |
| Fiscal Year the Ultimate Rate is Reached              | Fiscal Year 2037       |
| <b>Additional Information</b>                         |                        |
| Valuation Date  | January 1, 2023        |
| Measurement Date                                      | December 31, 2022      |
| Actuarial Cost Method                                 | Entry Age Normal (AMM) |
| Discount Rate   | 4.31%                  |
| Inflation Rate  | 3.00%                  |
| Salary Rate Increase                                  | 3.50%                  |
| Covered Payroll                                       | \$2,544,072            |
| Net OPEB Liability as a Percentage of Covered Payroll | 51.10%                 |

**NOTE 11 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

**(Continued)**

**Discount Rate**

The District does not have a dedicated Trust to pay retiree healthcare benefits. Per GASB 75, the discount rate should be a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

A rate of 4.31% is used, which is the S&P Municipal Bond 20 Year High-Grade Rate Index as of December 31, 2022.

**Difference Between Expected & Actual Experience (Economic & Demographic)**

|  |             |
|--|-------------|
| Difference                               | (146,575)   |
| Average Expected Remaining Service Lives | 10.27 years |
| <b><u>Amortization Schedule</u></b>      |             |
| Fiscal Years 2022 - 2031:                | (\$14,268)  |
| Fiscal Year 2032:                        | (\$3,896)   |

**Changes of Assumption**

|  |             |
|--|-------------|
| <b><u>Change in Discount Rate</u></b>    |             |
| Difference                               | (259,663)   |
| Average Expected Remaining Service Lives | 10.27 years |
| <b><u>Amortization Schedule</u></b>      |             |
| Fiscal Years 2022 - 2031:                | (\$25,276)  |
| Fiscal Year 2032:                        | (\$6,902)   |

|  |             |
|--|-------------|
| <b><u>Change in Trend Rates</u></b>      |             |
| Difference                               | \$35,668    |
| Average Expected Remaining Service Lives | 10.27 years |
| <b><u>Amortization Schedule</u></b>      |             |
| Fiscal Years 2022 - 2031:                | \$3,472     |
| Fiscal Year 2032:                        | \$948       |

**NOTE 11 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

**(Continued)**

|  |             |
|--|-------------|
| <b><u>Change in Mortality Assumption</u></b> |             |
| Difference                                   | \$9,326     |
| Average Expected Remaining Service Lives     | 10.27 years |
| <b><u>Amortization Schedule</u></b>          |             |
| Fiscal Years 2022 - 2031: \$908              |             |
| Fiscal Year 2032:                            | \$248       |

**Net Difference Between Projected & Actual Earnings on OPEB Plan Investments**

Not applicable.

The following presents the total OPEB liability of the District calculated using the current healthcare cost trend rate of 4.5 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 – percentage point lower (3.5%) or 1 – percentage point higher (5.5%) than the current rate.

| <b>Health Care Trend</b> |                    |                       |                    |
|--------------------------|--------------------|-----------------------|--------------------|
|                          | <u>1% Increase</u> | <u>Valuation Rate</u> | <u>1% Decrease</u> |
| Total OPEB Liability     | \$1,457,314        | \$1,300,037           | \$1,169,774        |
| Change                   | 12.10%             |                       | (10.02%)           |

The following presents the total OPEB liability of the District calculated using the discount rate of 4.31 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.31%) or 1-percentage point higher (5.31%) than the current rate.

| <b>Discount Rate</b> |                    |                       |                    |
|----------------------|--------------------|-----------------------|--------------------|
|                      | <u>1% Increase</u> | <u>Valuation Rate</u> | <u>1% Decrease</u> |
| Total OPEB Liability | \$1,195,130        | \$1,300,037           | \$1,169,774        |
| Change               | (8.07%)            |                       | 9.11%              |

**NOTE 12 –ASSET RETIREMENT OBLIGATIONS (ARO)**

The District has identified two asset retirement obligations within its water department. The first ARO is a well located in the Twanoh Terrace water system. This well was damaged in 2001, due to the Nisqually Earthquake. Within the next five years, the Twanoh Terrace system will be consolidated with the Twanoh Heights water system, and will then share the well currently used only by Twanoh Heights. At that time, the Twanoh Terrace well will be decommissioned, pursuant to WAC 173-160-381, regulated by Department of Ecology. The second ARO is a well located in the Lake Arrowhead water system. Well 1 was abandoned due to ground water influence. The District has plans in the next 10 years to decommission the well, pursuant to WAC 173-160-381, regulated by Department of Ecology. The District contracted with an engineering firm to determine the cost of the obligations, which was established using the current value. There are no legally required funding provisions associated with these ARO's, and because the cost to decommission these wells are nominal, the District does not have assets restricted for payment of the liabilities.



| <b>NOTE 13 - SEGMENT REPORTING</b>                     |                      |                      |                   |                      |
|--|----------------------|----------------------|-------------------|----------------------|
|  | 2022                 | 2022                 | 2022              |                      |
|  | Electric             | Water                | Sewer             | TOTALS               |
| <b>CURRENT ASSETS</b>                                  |                      |                      |                   |                      |
| Cash and Cash Equivalents                              |                      |                      |                   |                      |
| Cash & Working Funds                                   | \$ 172,425           | \$ 89,776            | \$ 4,195          | \$ 266,396           |
| Investments  | \$ 3,924,086         | \$ 812,512           | \$ 31,056         | \$ 4,767,654         |
| Accounts Receivable - Net Sales                        | \$ 1,058,182         | \$ 191,502           | \$ 54             | \$ 1,249,738         |
| Accounts Receivable - Other                            | \$ 981,763           | \$ (537,686)         | \$ (23,515)       | \$ 420,562           |
| Inventories  | \$ 955,288           | \$ 194,103           | \$ 12,424         | \$ 1,161,815         |
| Prepayments  | \$ 51,655            | \$ 222               | \$ -              | \$ 51,877            |
| <b>Total Current Assets</b>                            | <b>\$ 7,143,399</b>  | <b>\$ 750,429</b>    | <b>\$ 24,214</b>  | <b>\$ 7,918,043</b>  |
| <b>NON-CURRENT ASSETS</b>                              |                      |                      |                   |                      |
| Restricted Assets                                      |                      |                      |                   |                      |
| Debt Service   | \$ 953,649           | \$ -                 | \$ -              | \$ 953,649           |
| Customer Deposits                                      | \$ 77,334            | \$ 19,221            | \$ -              | \$ 96,555            |
| <b>Total Restricted Assets</b>                         | <b>\$ 1,030,983</b>  | <b>\$ 19,221</b>     | <b>\$ -</b>       | <b>\$ 1,050,204</b>  |
| Net Pension Assets                                     | \$ 774,060           |                      |                   | \$ 774,060           |
| Capital Assets Not Being Depreciated                   |                      |                      |                   |                      |
| Land and Land Rights                                   | \$ 977,691           | \$ 237,553           | \$ -              | \$ 1,215,244         |
| Construction in Progress                               | \$ 1,958,986         | \$ 816,766           | \$ -              | \$ 2,775,752         |
| Capital Assets Being Depreciated                       |                      |                      |                   |                      |
| Transmission   | \$ 3,361,470         | \$ -                 | \$ -              | \$ 3,361,470         |
| Distribution   | \$ 29,985,136        | \$ 15,135,657        | \$ 85,346         | \$ 45,206,139        |
| General Plant  | \$ 7,609,250         | \$ 2,885,663         | \$ 11,502         | \$ 10,506,414        |
| Less: Accumulated Depreciation                         | \$ (14,470,172)      | \$ (5,428,206)       | \$ (18,554)       | \$ (19,916,933)      |
| <b>Total Capital Assets Being Depreciated (Net)</b>    | <b>\$ 26,485,684</b> | <b>\$ 12,593,114</b> | <b>\$ 78,293</b>  | <b>\$ 39,157,091</b> |
| <b>Total Capital Assets</b>                            | <b>\$ 29,422,361</b> | <b>\$ 13,647,433</b> | <b>\$ 78,293</b>  | <b>\$ 43,148,087</b> |
| <b>Total Non-Current Assets</b>                        | <b>\$ 31,227,403</b> | <b>\$ 13,666,654</b> | <b>\$ 78,293</b>  | <b>\$ 44,972,351</b> |
| <b>Total Assets</b>                                    | <b>\$ 38,370,803</b> | <b>\$ 14,417,084</b> | <b>\$ 102,507</b> | <b>\$ 52,890,393</b> |
| Outflows of Resources Relating to ARO's                | \$ -                 | \$ 27,342            | \$ -              | \$ 27,342            |
| Outflows of Resources Relating to Pensions             | \$ 800,180           | \$ -                 | \$ -              | \$ 800,180           |
| Outflows of Resources Relating to OPEB                 | \$ 468,792           | \$ -                 | \$ -              | \$ 468,792           |
| <b>Total Outflows of Resources</b>                     | <b>\$ 1,268,972</b>  | <b>\$ 27,342</b>     | <b>\$ -</b>       | <b>\$ 1,296,314</b>  |
| <b>Total Assets and Deferred Outflows of Resources</b> | <b>\$ 39,639,775</b> | <b>\$ 14,444,426</b> | <b>\$ 102,507</b> | <b>\$ 54,186,707</b> |
| <b>LIABILITIES</b>                                     |                      |                      |                   |                      |
| Current Liabilities:                                   |                      |                      |                   |                      |
| Accounts Payable                                       | \$ 1,049,077         | \$ (9,594)           | \$ (815)          | \$ 1,038,668         |
| Consumer Deposits                                      | \$ 76,255            | \$ 19,107            | \$ -              | \$ 95,362            |
| Bonds, Notes and Loans Payable                         | \$ 577,911           | \$ 264,020           | \$ -              | \$ 841,931           |
| Current Portion OPEB                                   | \$ 69,011            | \$ -                 | \$ -              | \$ 69,011            |
| Other Current Liabilities                              | \$ 497,806           | \$ 684               | \$ -              | \$ 498,490           |
| <b>Total Current &amp; Accrued Liabilities</b>         | <b>\$ 2,270,060</b>  | <b>\$ 274,217</b>    | <b>\$ (815)</b>   | <b>\$ 2,543,462</b>  |
| Non-Current Liabilities:                               |                      |                      |                   |                      |
| Accrued Vacation and Holidays                          | \$ 489,679           | \$ -                 | \$ -              | \$ 489,679           |
| Asset Retirement Obligations                           | \$ -                 | \$ 27,342            | \$ -              | \$ 27,342            |
| Long Term Debt - Loans                                 | \$ 2,536,923         | \$ 466,054           | \$ -              | \$ 3,002,977         |
| Long Term Debt - Bonds                                 | \$ 7,907,281         | \$ 1,930,000         | \$ -              | \$ 9,837,281         |
| OPEB   | \$ 1,231,026         | \$ -                 | \$ -              | \$ 1,231,026         |
| Net Pension Liability                                  | \$ 445,554           | \$ -                 | \$ -              | \$ 445,554           |
| <b>Total Non-Current Liabilities</b>                   | <b>\$ 12,610,463</b> | <b>\$ 2,423,396</b>  | <b>\$ -</b>       | <b>\$ 15,033,859</b> |
| <b>Total Liabilities</b>                               | <b>\$ 14,880,524</b> | <b>\$ 2,697,613</b>  | <b>\$ (815)</b>   | <b>\$ 17,577,322</b> |
| Deferred Inflow Related to Pensions                    | \$ 849,816           | \$ -                 | \$ -              | \$ 849,816           |
| Deferred Inflow Related to OPEB                        | \$ 548,570           | \$ -                 | \$ -              | \$ 548,570           |
| <b>Total Inflows of Resources</b>                      | <b>\$ 1,398,386</b>  | <b>\$ -</b>          | <b>\$ -</b>       | <b>\$ 1,398,386</b>  |
| <b>Net Position</b>                                    |                      |                      |                   |                      |
| Net Investments in Capital Assets                      | \$ 18,400,246        | \$ 10,987,389        | \$ 78,263         | \$ 29,465,898        |
| Restricted for Customer Deposits                       | \$ 77,334            | \$ 19,221            | \$ -              | \$ 96,555            |
| Restricted for Debt Service                            | \$ 953,649           | \$ -                 | \$ -              | \$ 953,649           |
| Restricted for Net Pension Asset                       | \$ 749,706           | \$ -                 | \$ -              | \$ 749,706           |
| Unrestricted   | \$ 3,179,930         | \$ 740,203           | \$ 25,059         | \$ 3,945,192         |
| <b>Total Net Position</b>                              | <b>\$ 23,360,865</b> | <b>\$ 11,746,813</b> | <b>\$ 103,322</b> | <b>\$ 35,210,999</b> |
| <b>TOTAL NET POSITION, LIABILITIES AND DEFERRED</b>    | <b>\$ 39,639,775</b> | <b>\$ 14,444,426</b> | <b>\$ 102,507</b> | <b>\$ 54,186,707</b> |

| <b>NOTE 13 - SEGMENT REPORTING (CONTINUED)</b>                    |                      |                      |                   |                      |  |  |
|---|----------------------|----------------------|-------------------|----------------------|--|--|
| STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION   |                      |                      |                   |                      |  |  |
|   | 2022                 | 2022                 | 2022              | TOTAL                |  |  |
|   | ELECTRIC             | WATER                | SEWER             |                      |  |  |
| <b>OPERATING REVENUES</b>   |                      |                      |                   |                      |  |  |
| Sales - Residential   | \$ 8,311,134         | \$ 2,549,269         | \$ 11,102         | \$ 10,871,505        |  |  |
| Sales - General   | \$ 2,245,497         | \$ -                 | \$ -              | \$ 2,245,497         |  |  |
| Sales - Street Lights   | \$ 29,234            | \$ -                 | \$ -              | \$ 29,234            |  |  |
| Miscellaneous Other Revenues                                      | \$ 216,034           | \$ 13,827            | \$ -              | \$ 229,861           |  |  |
| <b>Total Operating Revenues</b>                                   | <b>\$ 10,801,899</b> | <b>\$ 2,563,096</b>  | <b>\$ 11,102</b>  | <b>\$ 13,376,097</b> |  |  |
| <b>OPERATING EXPENSES</b>   |                      |                      |                   |                      |  |  |
| Cost of Purchased Power   | \$ 3,789,316         | \$ 163,327           | \$ 639            | \$ 3,953,283         |  |  |
| Transmission Expenses   | \$ 522               | \$ -                 | \$ -              | \$ 522               |  |  |
| Distribution & Maintenance Expense                                | \$ 1,234,913         | \$ 715,325           | \$ 1,123          | \$ 1,951,362         |  |  |
| Customer Service Expense  | \$ 180,828           | \$ 77,630            | \$ -              | \$ 258,458           |  |  |
| Administrative and General  | \$ 1,604,723         | \$ 616,066           | \$ 2,872          | \$ 2,223,661         |  |  |
| Depreciation  | \$ 1,156,738         | \$ 540,648           | \$ -              | \$ 1,697,386         |  |  |
| Taxes   | \$ 689,639           | \$ 132,741           | \$ 428            | \$ 822,807           |  |  |
| <b>Total Operating Expenses</b>                                   | <b>\$ 8,656,679</b>  | <b>\$ 2,245,737</b>  | <b>\$ 5,062</b>   | <b>\$ 10,907,478</b> |  |  |
| <b>NET OPERATING INCOME</b>                                       | <b>\$ 2,145,220</b>  | <b>\$ 317,359</b>    | <b>\$ 6,040</b>   | <b>\$ 2,468,619</b>  |  |  |
| <b>NON-OPERATING REVENUE (EXPENSES)</b>                           |                      |                      |                   |                      |  |  |
| Revenue from Merchandising, Jobbing<br>And Contract Work          | \$ 162,534           | \$ 51,434            | \$ -              | \$ 213,968           |  |  |
| Costs and Expenses of Merchandising,<br>Jobbing and Contract Work | \$ (123,595)         | \$ (7,131)           | \$ -              | \$ (130,726)         |  |  |
| Interest and Dividend Income                                      | \$ 82,375            | \$ 10,820            | \$ 506            | \$ 93,702            |  |  |
| Other Revenues  | \$ 1,011,032         | \$ 866,659           | \$ -              | \$ 1,877,691         |  |  |
| Interest on Long-Term Debt  | \$ (408,206)         | \$ (82,444)          | \$ -              | \$ (490,649)         |  |  |
| <b>Total Non-Operating Revenue (Expenses)</b>                     | <b>\$ 724,141</b>    | <b>\$ 839,338</b>    | <b>\$ 506</b>     | <b>\$ 1,563,985</b>  |  |  |
| <b>Change In Net Position</b>                                     | <b>\$ 2,869,361</b>  | <b>\$ 1,156,697</b>  | <b>\$ 6,546</b>   | <b>\$ 4,032,604</b>  |  |  |
| <b>Total Net Positon January 1</b>                                | <b>\$ 20,491,503</b> | <b>\$ 10,590,116</b> | <b>\$ 96,776</b>  | <b>\$ 31,178,395</b> |  |  |
| <b>Total Net Positon December 31</b>                              | <b>\$ 23,360,864</b> | <b>\$ 11,746,813</b> | <b>\$ 103,322</b> | <b>\$ 35,210,999</b> |  |  |

| <b>NOTE 13 SEGMENT REPORTING (CONTINUED)</b>                         | 2022           | 2022           | 2022       |                |
|--|----------------|----------------|------------|----------------|
|  | Electric       | Water          | Sewer      | TOTALS         |
| Net Cash Provided(used) by Operating Activities                      | \$ 2,957,698   | \$ 887,514     | \$ 5,289   | \$ 3,850,501   |
| Net cash Provided (Used) by Capital and Related Financing Activities | \$ (3,559,095) | \$ (1,022,320) | \$ (5,211) | \$ (4,586,626) |
| Net Cash Provided by Investing Activities                            | \$ 82,375      | \$ 10,821      | \$ 507     | \$ 93,703      |
| Net Increase (Decrease) in Cash and Cash Equivalents                 | \$ (519,022)   | \$ (123,986)   | \$ 585     | \$ (642,422)   |
| Cash and Cash Equivalents Balances - Beginning of Year               | \$ 5,646,436   | \$ 1,045,494   | \$ 34,745  | \$ 6,726,676   |
| Cash and Cash Equivalents Balances - End of Year                     | \$ 5,127,414   | \$ 921,509     | \$ 35,330  | \$ 6,084,254   |

Required Supplementary Information

Massachusetts Public Employees' Retirement System  
 For the Year Ended December 31, 2022  
 Last 10 Fiscal Years \*

|   | 2022      | 2021      | 2020      | 2019      | 2018      | 2017      | 2016      | 2015      | 2014    | 2013      |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|-----------|
|   | PERS 1    | PERS 2/3  | PERS 1    | PERS 2/3  | PERS 1    | PERS 2/3  | PERS 1    | PERS 2/3  | PERS 1  | PERS 2/3  |
| Statutory or contractually required contributions         | 174,633   | 172,293   | 105,337   | 141,484   | 103,465   | 126,046   | 92,267    | 123,913   | 103,334 | 103,398   |
| Contributions in relation to the start of or              | (103,207) | (172,293) | (109,837) | (131,484) | (103,465) | (126,046) | (92,267)  | (120,913) | (5,276) | (8,335)   |
| Contractually required Contributions                      |           |           |           |           |           |           |           |           |         |           |
| Contribution delinquency (over)                           |           |           |           |           |           |           |           |           |         |           |
| Covered employer payroll                                  | 2,745,799 | 2,426,159 | 2,291,460 | 2,127,884 | 2,043,184 | 1,861,852 | 1,941,779 | 1,595,229 | 63,803  | 1,774,135 |
| Contributions as a percentage of covered employer payroll | 4%        | 7%        | 5%        | 8%        | 5%        | 8%        | 5%        | 7%        | 6%      | 9%        |

Massachusetts Public Employees' Retirement System  
 Schedule of Proportionate Share of the Net Pension Liability  
 As of June 30, 2022  
 Last 10 Fiscal Years

|   | 2022      | 2021       | 2020      | 2019      | 2018      | 2017      | 2016      | 2015      | 2014      |           |
|---|-----------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|   | PERS 1    | PERS 2/3   | PERS 1    | PERS 2/3  | PERS 1    | PERS 2/3  | PERS 1    | PERS 2/3  | PERS 1    | PERS 2/3  |
| Employer's Proportionate Share of Net Pension Liability   | 45,554    | 774,060.00 | 510,375   | 240,825   | 600,375   | 195,890   | 694,774   | 654,481   | 902,132   | 1,083,666 |
| Employer's Proportionate Share of Net Pension Asset   | 2,618,483 | 2,618,483  | 2,206,124 | 2,204,124 | 1,957,988 | 1,957,988 | 2,007,654 | 2,007,654 | 1,971,695 | 1,122,638 |
| Covered Payroll   | 17%       | 30%        | 23%       | 11%       | 28%       | 35%       | 45%       | 40%       | 40%       | 789,653%  |
| Employer's Proportionate Share of Net Pension Liability as a Percentage of Covered Employer Payroll | 76.56%    | 106.73%    | 68.64%    | 97.22%    | 63.22%    | 61%       | 57%       | 59.10%    | 59.10%    | 89.20%    |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability                              |           |            |           |           |           |           |           |           |           |           |

\*As this is a newly adopted standard, information is only available for the last 9 years

Mason County PUD No.1  
Schedule of Changes in Total OPEB Liability and Related Ratios  
OPEB  
For the year ended December 31, 2022  
Last 10 Fiscal Years\*

|   | 2018             | 2019             | 2020             | 2021             | 2022             | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|------------------|------------------|------------------|------------------|------------------|------|------|------|------|------|
| <b>Total OPEB liability - beginning</b>               | \$ 1,374,458     | \$ 1,281,728     | \$ 1,281,728     | \$ 1,698,374     | \$ 1,628,827     |      |      |      |      |      |
| Service cost  | 49,285           | 0                | 51,887           | 71,549           | 89,248           |      |      |      |      |      |
| Interest  | 48,477           | 0                | 39,131           | 31,577           | 35,609           |      |      |      |      |      |
| Changes in benefit terms                              | 0                | 0                | 0                | 0                | 0.00             |      |      |      |      |      |
| Differences between expected and actual experience    | 14,022           | 0                | 87,628           | 0                | (146,575)        |      |      |      |      |      |
| Changes of assumptions                                | (238,452)        | (9,814)          | 373,411          | (48,117)         | (214,669)        |      |      |      |      |      |
| Benefit payments                                      | (85,349)         | 0                | (162,809)        | (124,556)        | (92,402)         |      |      |      |      |      |
| Other changes   | 119,287          | 0                | 27,399           | (124,556)        | (92,402)         |      |      |      |      |      |
| <b>Total OPEB liability - ending</b>                  | <b>1,281,728</b> | <b>1,271,914</b> | <b>1,698,374</b> | <b>1,628,827</b> | <b>1,300,037</b> |      |      |      |      |      |
| <b>Covered-employee payroll</b>                       | <b>1,963,561</b> | <b>2,127,984</b> | <b>1,997,349</b> | <b>1,997,349</b> | <b>2,544,072</b> |      |      |      |      |      |
| <b>Total OPEB liability as a % of covered payroll</b> | <b>65.28%</b>    | <b>59.77%</b>    | <b>85.03%</b>    | <b>82%</b>       | <b>51%</b>       |      |      |      |      |      |

**Notes to Schedule:**

- \* Until a full 10-year trend is compiled, only information for those years available is presented.
- \*\* No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.
- \*\*\* The ending balance reported as of December 31, 2019 for the 2020 actuary is \$9,814 more than what the District reported that same year on its financial statements and subsequent notes to the financial statements. The District has its actuary performed every two years and in the odd year, it amortizes the amounts for deferred inflows, outflows and OPEB expense. Because of this, there was a difference in amounts reported.



**Public Utility District No. 1 of Mason County  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2022**

| Federal Agency<br>(Pass-Through Agency)   | Federal Program  | ALN<br>Number | Other Award<br>Number                                     | Expenditures                    |                       |                | Passed through<br>to<br>Subrecipients | Note      |
|---|--|---------------|---|---------------------------------|-----------------------|----------------|---------------------------------------|-----------|
|   |  |               |   | From Pass-<br>Through<br>Awards | From Direct<br>Awards | Total          |                                       |           |
| DEPARTMENTAL OFFICES,<br>TREASURY, DEPARTMENT OF<br>THE (via Community Economic<br>Revitalization Board)                    | COVID 19 -<br>CORONAVIRUS STATE<br>AND LOCAL FISCAL<br>RECOVERY FUNDS            | 21.027        | S21-96401-029   | 680,598                         | -                     | 680,598        | -                                     |           |
| DEPARTMENTAL OFFICES,<br>TREASURY, DEPARTMENT OF<br>THE (via Mason County)  | COVID 19 -<br>CORONAVIRUS STATE<br>AND LOCAL FISCAL<br>RECOVERY FUNDS            | 21.027        | 21-089  | 18,422                          | -                     | 18,422         | -                                     |           |
|   |  |               | <b>Total ALN 21.027:</b>                                  | <b>699,020</b>                  | <b>-</b>              | <b>699,020</b> | <b>-</b>                              |           |
| <b>Drinking Water State Revolving Fund Cluster</b>  |  |               |   |                                 |                       |                |                                       |           |
| ENVIRONMENTAL<br>PROTECTION AGENCY,<br>ENVIRONMENTAL<br>PROTECTION AGENCY (via<br>Washington State Department of<br>Health) | Drinking Water State<br>Revolving Fund   | 66.468        | DWL27245,<br>DWL26162,<br>DWL 24930m<br>DWL27176          | 495,564                         | -                     | 495,564        | -                                     | Note<br>3 |
|   |  |               | <b>Total Drinking Water State Revolving Fund Cluster:</b> | <b>495,564</b>                  | <b>-</b>              | <b>495,564</b> | <b>-</b>                              |           |
| FEDERAL EMERGENCY<br>MANAGEMENT AGENCY,<br>HOMELAND SECURITY,<br>DEPARTMENT OF (via<br>Washington State Military)           | Disaster Grants - Public<br>Assistance<br>(Presidentially Declared<br>Disasters) | 97.036        | D4539   | 85,267                          | -                     | 85,267         | -                                     |           |
| FEDERAL EMERGENCY<br>MANAGEMENT AGENCY,<br>HOMELAND SECURITY,<br>DEPARTMENT OF (via<br>Washington State Military)           | Disaster Grants - Public<br>Assistance<br>(Presidentially Declared<br>Disasters) | 97.036        | D4635   | 44,539                          | -                     | 44,539         | -                                     |           |
| FEDERAL EMERGENCY<br>MANAGEMENT AGENCY,<br>HOMELAND SECURITY,<br>DEPARTMENT OF (via<br>Washington State Military)           | Disaster Grants - Public<br>Assistance<br>(Presidentially Declared<br>Disasters) | 97.036        | D4593   | 80,970                          | -                     | 80,970         | -                                     |           |

*The accompanying notes are an integral part of this schedule.*

Public Utility District No. 1 of Mason County  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended December 31, 2022

| Federal Agency<br>(Pass-Through Agency) | Federal Program | ALN<br>Number | Other Award<br>Number          | Expenditures                    |                       |           | Passed through<br>to<br>Subrecipients | Note |
|---|-----------------|---------------|--------------------------------|---------------------------------|-----------------------|-----------|---------------------------------------|------|
|   |                 |               |                                | From Pass-<br>Through<br>Awards | From Direct<br>Awards | Total     |                                       |      |
|   |                 |               | Total ALN 97.036:              | 210,776                         | -                     | 210,776   | -                                     |      |
|   |                 |               | Total Federal Awards Expended: | 1,405,360                       | -                     | 1,405,360 | -                                     |      |

The accompanying notes are an integral part of this schedule.

Mason County Public Utility District No. 1

Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2022

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the district's financial statements. The district uses the accrual method.

Note 2 – Federal De Minimis Indirect Cost Rate

The district has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Federal Loans

The District was approved by the EPA and Drinking Water State Revolving Fund to receive loans totaling \$2,878,496 to improve its drinking water systems, which includes 50% loan forgiveness. The balance owing at the end of the period is \$224,453.

Note 4 – Program Costs

The amounts shown as current year expenditures represent only the federal award portion of the program costs. Entire program costs, including the district's portion, are more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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**MASON COUNTY**

**PUD**