



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Kitsap County

For the period January 1, 2020 through December 31, 2021

Published December 15, 2022

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

December 15, 2022

Board of Commissioners
Public Utility District No. 1 of Kitsap County
Poulsbo, Washington

Report on Financial Statements

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

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

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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 Kitsap County January 1, 2020 through December 31, 2021

Board of Commissioners
Public Utility District No. 1 of Kitsap County
Poulsbo, 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 each major fund of Public Utility District No. 1 of Kitsap County, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 13, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

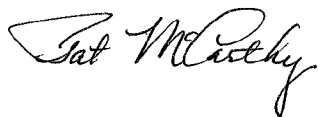
REPORT ON COMPLIANCE AND OTHER MATTERS

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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

December 13, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Public Utility District No. 1 of Kitsap County January 1, 2020 through December 31, 2021

Board of Commissioners
Public Utility District No. 1 of Kitsap County
Poulsbo, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of each major fund of Public Utility District No. 1 of Kitsap County, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Public Utility District No. 1 of Kitsap County, as of December 31, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our 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 opinions.

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

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 table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2022 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, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

December 13, 2022

FINANCIAL SECTION

Public Utility District No. 1 of Kitsap County January 1, 2020 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021
Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021
Statement of Net Position – 2020
Statement of Revenues, Expenses, and Changes in Net Position – 2021
Statement of Revenues, Expenses, and Changes in Net Position – 2020
Statement of Cash Flows – 2021
Statement of Cash Flows – 2020
Notes to Financial Statements – 2021
Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios – PEBB Retiree
Medical Benefits – 2021
Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 – 2021
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2021

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

1431 FINN HILL ROAD - P.O. BOX 1989 - POULSBOROUGH, WA 98370

(360) 779-7656 * Fax (360) 779-3284

COMMISSIONERS

JIM CIVILLA
DEBRA LESTER
HEATHER PAULEY

~
MANAGER
ROBERT HUNTER

Management's Discussion and Analysis

This section provides an overview and analysis of key data presented in the basic financial statements for the year ended December 31, 2021 with additional comparative data for 2020. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

Overview of the Financial Statements

Public Utility District No. 1 of Kitsap County (KPUD or District) accounts for financial activities within its Proprietary Fund for its Utility System. The Utility System provides retail and wholesale water, wholesale telecommunications services, and sewer treatment services to the residents of Kitsap County. The Utility also conducts non-operating activities which support the Utility, including regional water resource management, public service telecommunications, and education and conservation activities.

In accordance with requirements set forth by the Governmental Accounting Standards Board, the District's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses during the year, regardless of when cash is received or paid.

The basic financial statements, presented for the year ended December 31, 2021, are comprised of:

- **Statements of Net Position:** The District presents its statement of position using the balance sheet format. The Statements of Net Position reflect the assets, liabilities and net position (equity) of the District at year-end. The net position sections of the Statements of Net Position are separated into three categories: net investment in capital assets; restricted net position; and unrestricted net position. The District had \$600,632 in restricted net position as of December 31, 2021.
- **Statements of Revenues, Expenses, and Changes in Fund Net Position:** These statements reflect the transactions and events that have increased or decreased the District's total economic resources during the period. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.
- **Statements of Cash Flows:** The Statements of Cash Flows reflect the sources and uses of cash separated into four categories of activities: operating, non-capital financing activities, capital and related financing, and investing.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

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Management's Discussion and Analysis (continued)

The notes to the financial statements, presented 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.

Financial Analysis

The District's overall financial position and results of operations continues to improve, coinciding with the general improvement to the economy of Kitsap County. The District's net position increased by \$8,950,130 in 2021. Provided below is an analysis of the change in net position by major component, with a primary focus on changes between 2021 and 2020.

Operating Revenues

From 2020 to 2021, total operating revenues increased by \$1,344,880 or 12.46% due primarily to increases in water sales and telecom sales. Water system revenue increased over the prior year and was higher than budgeted expectations by 2.56% for 2021. Telecommunications revenue was higher than budgeted expectations by 10.21% and the District's total operating revenue was 4.12% over budget for the year.

Operating Expenses

From 2020 to 2021, District operating expenses decreased by \$70,876 or -0.66% due to adjustment to pension expense for changes in assumptions. Otherwise, operating expenses have increased over 2020 due to general price increases from inflation, cost of living increases, and expansion of the water utility system and fiber system. Operating expenses were less than the budgeted amount by 1.08%.

Depreciation and amortization expense accounted for 27.59% of total operating expenses in 2021. This figure was 25.12% in 2020. Depreciation and amortization increased by 9.13% from 2020 to 2021.

Other Income & Expense

During 2021, the District recorded \$2,587,888 of property tax revenue which was an increase of \$62,412 or 2.47% over the prior year. In 2021, the District also received \$417,217 of grant revenue primarily from the WA Department of Commerce (CERB) and FEMA. This was a substantial increase from 2020, which was \$217,533.

Capital Contributions

Capital Contributions are comprised of connection fees, installation charges and donated capital from Developer Extensions. During 2021, Capital Contributions were \$6,583,163, an increase of \$981,972 from the \$5,601,191 in 2020.

Summary of Financial Position

The overall financial position of the District remained strong during 2021 with an increase in net position of \$8,950,130.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

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Management's Discussion and Analysis (continued)

Long Term Debt Activity

The District continues to have a strong rating in the market. On February 15, 2017, Moody's Investor Services upgraded the rating for the District's 2010 and 2013 general obligation bonds from Aa3 to Aa2. The District's revenue backed bonds continue to have a rating of A1.

On April 30, 2021, the District issued 2021 Telecom Revenue Bonds (A), secured by revenue of telecom utility system and LUDs, in the amount of \$279,908. Annual payments ranging from \$6.6K to \$12.8K plus interest through 12/1/2042, interest at approximately 4.1%.

On August 16, 2021, the District issued 2021 Telecom Revenue Bonds (B), secured by revenue of telecom utility system and LUDs, in the amount of \$745,833. Annual payments ranging from \$21K to \$47K plus interest through 12/1/2042, interest at approximately 4.25%.

On December 29, 2021, the District issued 2021 Telecom Revenue Bonds (C), secured by revenue of telecom utility system and LUDs, in the amount of \$2,378,434. Annual payments ranging from \$70K to \$155K plus interest due through 12/01/2043, interest at approximately 4.25%.

All debt service payments (principal and interest) were paid timely and totaled \$2.87 million and \$2.91 million in 2021 and 2020, respectively.

In accordance with District financial policies and covenants established within the District's bond resolutions, the District is required to maintain and collect rates and charges sufficient to provide Net Revenues (defined as net income less depreciation, amortization, and interest expense) in each fiscal year in an amount at least equal to 1.25 the Annual Debt Service. For the years ended 2021 and 2020, the District's debt service coverage was 3.72 and 3.16, respectively.

The District is also required by bond covenants to maintain restricted cash reserves for debt service. The current balance of restricted cash reserves is \$352,365.

Additional information about long-term debt is presented in the following report and notes.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

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Management's Discussion and Analysis (continued)

Condensed Comparative Financial Information

Condensed Assets, Liabilities and Net Position

	Dec. 31, 2021	Dec. 31, 2020	\$ Change '21-'20	% Change '21-'20
Assets				
Current assets	\$ 10,514,590	\$ 7,568,641	\$ 2,945,949	38.92%
Utility plant	115,075,577	108,434,166	6,641,411	6.12%
Accumulated depreciation	(43,849,733)	(41,054,684)	(2,795,049)	6.81%
Noncurrent assets	9,415,086	2,759,192	6,655,894	241.23%
 Total assets	 91,155,520	 77,707,315	 13,448,205	 17.31%
 Deferred Outflows of Resources				
Deferred loss on refunding	11,979	23,189	(11,210)	-48.34%
Deferred outflows - Pension	589,490	599,019	(9,529)	-1.59%
 Total assets and deferred outflows of resources	 \$ 91,756,989	 \$ 78,329,523	 \$ 13,427,466	 17.14%
 Liabilities				
Current liabilities	3,176,168	2,832,958	343,210	12.11%
Long-term liabilities	19,172,813	18,962,146	210,667	1.11%
Total liabilities	22,348,981	21,795,104	553,877	2.54%
 Deferred Inflows of Resources				
Deferred inflows - Pension	4,370,893	447,434	3,923,459	876.88%
 Total liabilities and deferred inflows of resources	 26,719,874	 22,242,538	 4,477,336	 20.13%
 Net Position				
Invested in capital assets, net of related debt	51,536,320	49,917,498	1,618,822	3.24%
Restricted	1,188,498	351,172	837,326	238.44%
Unrestricted	12,312,297	5,818,315	6,493,982	111.61%
Total net position	65,037,115	56,086,985	8,950,130	15.96%
 Total liabilities and net position	 \$ 91,756,989	 \$ 78,329,523	 \$ 13,427,466	 17.14%

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

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Management's Discussion and Analysis (continued)

Condensed Revenues, Expenses and Changes in Net Position

	2021	2020	\$ Change '21-'20	% Change '21-'20
Operating Revenue				
Water Sales	\$ 8,923,725	\$ 7,915,015	\$ 1,008,710	12.74%
Telecom Sales	2,608,370	2,305,367	303,003	13.14%
Sewer treatment revenue	167,017	135,761	31,256	23.02%
Other	436,273	434,362	1,911	0.44%
Total Operating Revenue	12,135,385	10,790,505	1,344,880	12.46%
Nonoperating Revenue				
Property tax income	2,587,888	2,525,476	62,412	2.47%
Other income	602,667	374,089	228,578	61.10%
Total Nonoperating Revenue	3,190,555	2,899,565	290,990	10.04%
Total Revenue	15,325,940	13,690,070	1,635,870	11.95%
Operating Expenses	(10,622,122)	(10,692,998)	70,876	-0.66%
Nonoperating Expenses	(2,336,851)	(1,933,078)	(403,773)	20.89%
Total Expenses	(12,958,973)	(12,626,076)	(332,897)	2.64%
Income (Loss) Before Contributions	2,366,967	1,063,994	1,302,973	122.46%
Capital Contributions	6,583,163	5,601,191	981,972	17.53%
Change in net position	8,950,130	6,665,185	2,284,945	34.28%
Net position, beginning	56,086,985	49,421,800	6,665,185	13.49%
Net position, ending	\$ 65,037,115	\$ 56,086,985	\$ 8,950,130	15.96%

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

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Management's Discussion and Analysis (continued)

Capital Assets Activity

Almost two years into a worldwide pandemic, Kitsap PUD continued to build critical drinking water and telecommunications infrastructure during 2021 while simultaneously responding to the impact of COVIDs restrictions and increased service needs due to a new "virtual-based" environment.

In addition to the capital projects detailed below, KPUD's Telecom Department spent \$1,074,835 on Non-Contiguous LUD (NCLUD) builds and \$431,140 on residential builds. Additionally, KPUD's Telecom Department constructed over 50 miles of new broadband fiber and built three new nodes, bringing our node total to 19.

KPUD's three largest capital projects in 2021

As opposed to the NCLUD and residential builds discussed above, these are distinct projects.

Fletcher Bay Road (Bainbridge Island) - \$428,705

This fiber construction project provided a redundant path on Bainbridge Island and middle mile broadband for those areas of Bainbridge that were unserved and underserved. Specifically, it installed cables from the District's Bainbridge Island node site on Miller Road and Lovgreen Road to the District node located at NE Baker Hill Road with short additional distribution cables.

Parcells Road Fiber Construction (Kingston) - \$388,822

This telecommunication project brought high-speed internet access to a community near downtown Kingston that did not have access to broadband (unserved). The Parcells Road area branches and feeds many smaller communities, and this build brought the middle mile in further. Specifically, the District extended the fiber feeder line to Rash Road and to the West enabling the connection of several communities along the route.

LUD #36 Commodore Lane (Bainbridge Island) - \$304,036

This project resulted from the first ever Kitsap PUD Telecom community meeting in 2015. The homeowners in this area were not satisfied with their internet service and petitioned the District to form a Local Utility District to bring improved internet service to their area. Specifically, this telecommunication project installed 6,500 lineal feet of underground conduit, 2,800 lineal feet of aerial infrastructure, 39 customer premises devices (provided vaults, multiport terminals and fiber cables), 9,400 linear feet of fiber cable, and 2,500 linear feet of drop fiber.

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Management's Discussion and Analysis (continued)

Current Conditions

Kitsap PUD's Drinking Water Utility continues to build regional infrastructure and consolidate failing water systems. These efforts provide improved and resilient utility service to affected communities. Our Drinking Water Utility owns and operates 28 Group A water systems and 24 Group B water systems, serving approximately 16,000 service connections. The District also manages 13 Group A water systems and 13 Group B water systems.

In 2021, the District began and completed the Bill Point Consolidation Study (Bainbridge Island) funded by a \$30,000 Drinking Water State Revolving Fund (DWSRF) loan (with 50% debt-forgiveness). The District also began engineering and issued a Request for Proposals for Phase I Drilling of the Deerpath Well 11 (Bainbridge Island), another DWSRF project.

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~
MANAGER
ROBERT HUNTER

Management's Discussion and Analysis

This section provides an overview and analysis of key data presented in the basic financial statements for the year ended December 31, 2020 with additional comparative data for 2019. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

Overview of the Financial Statements

Public Utility District No. 1 of Kitsap County (KPUD or District) accounts for financial activities within its Proprietary Fund for its Utility System. The Utility System provides retail and wholesale water, wholesale telecommunications services, and sewer treatment services to the residents of Kitsap County. The Utility also conducts non-operating activities which support the Utility, including regional water resource management, public service telecommunications, and education and conservation activities.

In accordance with requirements set forth by the Governmental Accounting Standards Board, the District's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses during the year, regardless of when cash is received or paid.

The basic financial statements, presented for the year ended December 31, 2020, are comprised of:

- Statements of Net Position: The District presents its statement of position using the balance sheet format. The Statements of Net Position reflect the assets, liabilities and net position (equity) of the District at year-end. The net position sections of the Statements of Net Position are separated into three categories: net investment in capital assets; restricted net position; and unrestricted net position. The District had \$351,172 in restricted net position as of December 31, 2020.
- Statements of Revenues, Expenses, and Changes in Fund Net Position: These statements reflect the transactions and events that have increased or decreased the District's total economic resources during the period. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.
- Statements of Cash Flows: The Statements of Cash Flows reflect the sources and uses of cash separated into four categories of activities: operating, non-capital financing activities, capital and related financing, and investing.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

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Management's Discussion and Analysis (continued)

The notes to the financial statements, presented 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.

Financial Analysis

The District's overall financial position and results of operations continues to improve coinciding with the general improvement to the economy of Kitsap County. The District's net position increased by \$6,665,185 in 2020. Provided below is an analysis of the change in net position by major component, with a primary focus on changes between 2020 and 2019.

Operating Revenues

From 2019 to 2020, total operating revenues increased by \$256,814 or 2.44% due primarily to increases in water sales and telecom sales. Water system revenue increased over the prior year; but was under budget for 2020. Telecommunications revenue was higher than budgeted expectations by 14.13% and the District's total operating revenue was 7.28% under budget for the year.

Operating Expenses

From 2019 to 2020, District operating expenses increased by \$207,834 or 1.98% due in part to general price increases from inflation, cost of living increases, and expansion of the water utility system and fiber system. Operating expenses were more than the budgeted amount by 2.33%.

Depreciation and amortization expense accounted for 25.12% of total operating expenses in 2020. This figure was 24.56% in 2019. Depreciation and amortization decreased by 4.29% from 2019 to 2020.

Other Income & Expense

During 2020, the District recorded \$2,525,476 of property tax revenue which was an increase of \$66,400 or 2.70% over the prior year. In 2020, the District also received \$217,533 of grant revenue primarily from the WA Department of Commerce (CERB) and FEMA. This was a substantial increase from 2019, which was \$34,181.

Capital Contributions

Capital Contributions are comprised of connection fees, installation charges and donated capital from Developer Extensions. During 2020, Capital Contributions were \$5,601,191, an increase of \$2,823,456 from the \$2,777,735 in 2019.

Summary of Financial Position

The overall financial position of the District remained strong during 2020 with an increase in net position of \$6,665,185.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

1431 FINN HILL ROAD - P.O. BOX 1989 - POULSBORO, WA 98370

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Management's Discussion and Analysis (continued)

Long Term Debt Activity

The District continues to have a strong rating in the market. On February 15, 2017, Moody's Investor Services upgraded the rating for the District's 2010 and 2013 general obligation bonds from Aa3 to Aa2. The District's revenue backed bonds continue to have a rating of A1.

On March 19, 2020, the District issued 2020 Telecom Revenue Bonds (A), secured by revenue of telecom utility system, in the amount of \$25,400. No principal payments are due until 12/01/2027, interest payments due annually with interest at approximately 3.50%.

On March 19, 2020, the District issued 2020 Telecom Revenue Bonds (B), secured by revenue of telecom utility system and LUDs, in the amount of \$807,317. No principal payments are due until 12/01/2041, interest payments due annually with interest at approximately 3.95%.

On July 28, 2020, the District issued 2020 Water Revenue & Refunding bond (C), secured by revenue of water utility system, in the amount of \$3,089,000. Annual payments ranging from \$63K to \$400K plus interest due through 12/01/2039, interest at approximately 2.00% to 3.11%.

On July 28, 2020, the District issued 2020 LTGO & Refunding bond, secured by revenue of telecom utility system, in the amount of \$4,400,000. \$1,270,000 was used to Refund 2010(A) Bond. Annual payments ranging from \$166K to 302K plus interest due through 12/01/2039, interest at approximately 1.27%-2.94%.

On September 1, 2020, the District also issued a 2020 Telecom System Revenue Bond Anticipation Note (Taxable Revolving Line of Credit), in the amount of not to exceed \$2,000,000 to finance improvements to the District's telecommunication utility system.

All debt service payments (principal and interest) were paid timely and totaled \$2.49 million and \$2.62 million in 2020 and 2019, respectively.

In accordance with District financial policies and covenants established within the District's bond resolutions, the District is required to maintain and collect rates and charges sufficient to provide Net Revenues (defined as net income less depreciation, amortization, and interest expense) in each fiscal year in an amount at least equal to 1.25 the Annual Debt Service. For the years ended 2020 and 2019, the District's debt service coverage was 3.73 and 3.24, respectively.

The District is also required by bond covenants to maintain restricted cash reserves for debt service. The current balance of restricted cash reserves is \$351,172.

Additional information about long-term debt is presented in the following report and notes.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

1431 FINN HILL ROAD - P.O. BOX 1989 - POULSBORO, WA 98370

(360) 779-7656 * Fax (360) 779-3284

Management's Discussion and Analysis (continued)

Condensed Comparative Financial Information

Condensed Assets, Liabilities and Net Position

	Dec. 31, 2020	Dec. 31, 2019	\$ Change '20-'19	% Change '20-'19
Assets				
Current assets	\$ 7,568,641	\$ 7,165,109	\$ 403,532	5.63%
Utility plant	108,434,166	98,690,206	9,743,960	9.87%
Accumulated depreciation	(41,054,684)	(38,438,355)	(2,616,329)	6.81%
Noncurrent assets	2,759,192	2,321,751	437,441	18.84%
Total assets	77,707,315	69,738,711	7,968,604	11.43%
Deferred Outflows of Resources				
Deferred loss on refunding	23,189	36,323	(13,134)	-36.16%
Deferred outflows - Pension	599,019	517,531	81,488	15.75%
Total assets and deferred outflows of resources	\$ 78,329,523	\$ 70,292,565	\$ 8,036,958	11.43%
Liabilities				
Current liabilities	2,832,958	2,647,904	185,054	6.99%
Long-term liabilities	18,962,146	17,329,118	1,633,028	9.42%
Total liabilities	21,795,104	19,977,022	1,818,082	9.10%
Deferred Inflows of Resources				
Deferred inflows - Pension	447,434	893,743	(446,309)	-49.94%
Total liabilities and deferred inflows of resources	22,242,538	20,870,765	1,371,773	6.57%
Net Position				
Invested in capital assets, net of related debt	49,917,498	45,946,408	3,971,090	8.64%
Restricted	351,172	771,729	(420,557)	-54.50%
Unrestricted	5,818,315	2,703,663	3,114,652	115.20%
Total net position	56,086,985	49,421,800	6,665,185	13.49%
Total liabilities and net position	\$ 78,329,523	\$ 70,292,565	\$ 8,036,958	11.43%

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

1431 FINN HILL ROAD - P.O. BOX 1989 - POULSBORO, WA 98370

(360) 779-7656 * Fax (360) 779-3284

Management's Discussion and Analysis (continued)

Condensed Revenues, Expenses and Changes in Net Position

	2020	2019	\$ Change '20-'19	% Change '20-'19
Operating Revenue				
Water Sales	\$ 7,915,015	\$ 7,827,096	\$ 87,919	1.12%
Telecom Sales	2,305,367	2,103,023	202,344	9.62%
Sewer treatment revenue	135,761	135,761	-	0.00%
Other	434,362	467,811	(33,449)	-7.15%
Total Operating Revenue	10,790,505	10,533,691	256,814	2.44%
Nonoperating Revenue				
Property tax income	2,525,476	2,459,076	66,400	2.70%
Other income	374,089	314,156	59,933	19.08%
Total Nonoperating Revenue	2,899,565	2,773,232	126,333	4.56%
Total Revenue	13,690,070	13,306,923	383,147	2.88%
Operating Expenses	(10,692,998)	(10,485,164)	(207,834)	1.98%
Nonoperating Expenses	(1,933,078)	(2,167,449)	234,371	-10.81%
Total Expenses	(12,626,076)	(12,652,613)	26,537	-0.21%
Income (Loss) Before Contributions	1,063,994	654,310	409,684	62.61%
Capital Contributions	5,601,191	2,777,735	2,823,456	101.65%
Change in net position	6,665,185	3,432,045	3,233,140	94.20%
Net position, beginning	49,421,800	45,989,755	3,432,045	7.46%
Net position, ending	\$ 56,086,985	\$ 49,421,800	\$ 6,665,185	13.49%

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

1431 FINN HILL ROAD - P.O. BOX 1989 - POULSBORO, WA 98370

(360) 779-7656 * Fax (360) 779-3284

Management's Discussion and Analysis (continued)

Capital Assets Activity

Despite the worldwide COVID pandemic, Kitsap PUD continued to build critical drinking water and telecommunications infrastructure during 2020. In addition to the capital projects detailed below, KPUD's Telecom Department spent \$781,442 on Non-Contiguous LUD (NCLUD) builds and \$738,899 on residential builds. Additionally, due to demand created by the COVID pandemic, KPUD's Telecom Department constructed ten WIFI "hotspots" to provide internet access for those without at-home service.

KPUD's three largest capital projects in 2020

LUD #26 (Big Valley) - \$1,458,302

This is Kitsap PUD's largest community telecom construction project to date. This project included more than 90,000 feet of fiber cable construction (41,000 feet underground), various splice cases, multi-port terminals and customer "edge" equipment. The initial build connected approximately 100 households and includes capacity to connect over 100 more in the future. \$1 million of the project costs was paid for via a Community Economic Revitalization Board (CERB) grant and loan.

Regional Drinking Water Infrastructure Phases 8A and 8B - \$599,451 (total)

This project built two of three remaining phases of water main installation required to extend regional infrastructure from the Port Gamble Ridge reservoirs to the North Peninsula Water System. Extension of regional infrastructure to the North Peninsula Water System helps ensure sustainable, and improved, utility service to communities in north Kitsap. The project included approximately 9,000 feet of 12-inch ductile iron water main, fire hydrants, valves and a bore under Highway 307/Bond Road. Note: This project was begun in 2019 and completed in 2020. Of the total cost shown, \$115,260 was spent in 2020.

LUD #29 (Bridletree) - \$338,643

This project constructed over 30,000 feet of underground fiber cable along with various splice cases, multi-port terminals and customer "edge" equipment. The initial build connected 43 households and extended fiber to Kitsap PUD's West Kitsap Water System's well site. The project has additional capacity to serve another 33 connections.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY

1431 FINN HILL ROAD - P.O. BOX 1989 - POULSBORO, WA 98370

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Management's Discussion and Analysis (continued)

Current Conditions

Kitsap PUD's Drinking Water Utility continues to build regional infrastructure and consolidate failing water systems. These efforts provide improved and resilient utility service to affected communities. In 2020, the District received a Drinking Water State Revolving Fund (DWSRF) loan (with 50% debt-forgiveness) to consolidate the Bill Point Water System (Bainbridge Island) and build additional infrastructure to serve the consolidated water system. The amount of the DWSRF loan is just under \$5 million.

During the Washington State Legislature's 2021 regular session, two bills were passed that will give PUDs expanded telecommunications authority. Notably, this will allow PUDs to access new sources of telecom funding for addressing unserved and underserved areas of the county. With the increased demand and push for broadband deployment, KPUD's Telecom Department is expecting vigorous telecom construction over the next several years.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2021

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31, 2021		
	Water/Sewer	Telecom	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 3,460,964	\$ 3,628,677	\$ 7,089,641
Accounts receivable	1,131,564	485,421	1,616,985
Property taxes receivable	-	45,882	45,882
Inventory materials and supplies	161,885	1,119,504	1,281,389
Short-term assessments receivable	153,978	150,238	304,216
Other current assets	84,145	92,332	176,477
Total current assets	4,992,536	5,522,054	10,514,590
NONCURRENT ASSETS			
Restricted cash and cash equivalents	352,365	-	352,365
Net pension asset	2,942,206	1,321,861	4,264,067
Long-term notes and assessments receivable	1,196,477	3,602,177	4,798,654
Capital Assets Not Being Depreciated			
Land	1,890,643	-	1,890,643
Construction work in progress	3,185,014	1,278,501	4,463,515
Capital Assets Being Depreciated			
Utility plant in service	75,428,705	30,590,491	106,019,196
Intangible assets	2,529,723	172,500	2,702,223
Accumulated depreciation and amortization	(32,338,791)	(11,510,942)	(43,849,733)
Net utility plant	50,695,294	20,530,550	71,225,844
Total noncurrent assets	55,186,342	25,454,588	80,640,930
Total Assets	60,178,878	30,976,642	91,155,520
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	11,979	-	11,979
Deferred outflows - Pension	406,748	182,742	589,490
Total deferred outflows of resources	418,727	182,742	601,469
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 60,597,605	\$ 31,159,384	\$ 91,756,989

See accompanying notes to the financial statements

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2021

LIABILITIES AND NET POSITION

	December 31, 2021		
	Water/Sewer	Telecom	Total
CURRENT LIABILITIES			
Accounts payable	\$ 288,990	\$ 345,653	\$ 634,643
Taxes payable	51,726	(18,200)	33,526
Interest payable	22,763	42,520	65,283
Retainage payable	-	73,340	73,340
Due (to)/from other funds	(539,261)	539,261	-
Other accrued liabilities	35,501	12,271	47,772
Current portion of long-term debt	963,604	1,358,000	2,321,604
Total current liabilities	823,323	2,352,845	3,176,168
NONCURRENT LIABILITIES			
Revenue bonds	6,679,284	3,589,297	10,268,581
General obligation bonds	-	5,243,645	5,243,645
Other noncurrent debt	1,409,241	458,432	1,867,673
Accrued compensated absences	744,575	334,520	1,079,095
PURMS claims payable	108,925	48,937	157,862
Other post employment benefits liability	102,527	46,063	148,590
Net pension liability	281,083	126,284	407,367
Total noncurrent liabilities, net of current portion	9,325,635	9,847,178	19,172,813
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Pension	3,015,916	1,354,977	4,370,893
Total liabilities and deferred inflows of resources	13,164,874	13,555,000	26,719,874
NET POSITION			
Net Investment in capital assets	41,655,144	9,881,176	51,536,320
Restricted for debt service	352,365	-	352,365
Restricted for pension	576,932	259,201	836,133
Unrestricted	4,848,290	7,464,007	12,312,297
Total net position	47,432,731	17,604,384	65,037,115
TOTAL LIABILITIES AND NET POSITION	\$ 60,597,605	\$ 31,159,384	\$ 91,756,989

See accompanying notes to the financial statements

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31, 2020		
	Water/Sewer	Telecom	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 3,452,005	\$ 554,417	\$ 4,006,422
Accounts receivable	1,025,152	636,862	1,662,014
Property taxes receivable	-	63,334	63,334
Inventory materials and supplies	132,039	1,119,513	1,251,552
Short-term assessments receivable	155,596	99,802	255,398
Other current assets	49,533	280,388	329,921
Total current assets	4,814,325	2,754,316	7,568,641
NONCURRENT ASSETS			
Restricted cash and cash equivalents	351,172	-	351,172
Long-term notes and assessments receivable	1,396,442	1,011,578	2,408,020
Capital Assets Not Being Depreciated			
Land	1,880,543	-	1,880,543
Construction work in progress	2,817,127	2,231,850	5,048,977
Capital Assets Being Depreciated			
Utility plant in service	73,508,658	25,293,765	98,802,423
Intangible assets	2,529,723	172,500	2,702,223
Accumulated depreciation and amortization	(30,586,404)	(10,468,280)	(41,054,684)
Net utility plant	50,149,647	17,229,835	67,379,482
Total noncurrent assets	51,897,261	18,241,413	70,138,674
Total Assets	56,711,586	20,995,729	77,707,315
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	23,189	-	23,189
Deferred outflows - Pension	431,294	167,725	599,019
Total deferred outflows of resources	454,483	167,725	622,208
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 57,166,069	\$ 21,163,454	\$ 78,329,523

See accompanying notes to the financial statements

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2020

LIABILITIES AND NET POSITION

	December 31, 2020		
	Water/Sewer	Telecom	Total
CURRENT LIABILITIES			
Accounts payable	\$ 220,838	\$ 776,098	\$ 996,936
Taxes payable	80,858	7,423	88,281
Interest payable	36,748	68,514	105,262
Retainage payable	9,920	66,703	76,623
Due (to)/from other funds	(263,331)	263,331	-
Other accrued liabilities	36,127	14,718	50,845
Current portion of long-term debt	1,158,782	356,229	1,515,011
Total current liabilities	1,279,942	1,553,016	2,832,958
NONCURRENT LIABILITIES			
Revenue bonds	7,630,038	1,895,864	9,525,902
General obligation bonds	-	4,455,740	4,455,740
Other noncurrent debt	1,509,098	479,422	1,988,520
Accrued compensated absences	767,474	298,462	1,065,936
PURMS claims payable	117,251	45,598	162,849
Other post employment benefits liability	119,551	46,492	166,043
Net pension liability	1,149,952	447,204	1,597,156
Total noncurrent liabilities, net of current portion	11,293,364	7,668,782	18,962,146
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Pension	322,152	125,282	447,434
Total liabilities and deferred inflows of resources	12,895,458	9,347,080	22,242,538
NET POSITION			
Net Investment in capital assets	39,874,917	10,042,581	49,917,498
Restricted for debt service	351,172	-	351,172
Unrestricted	4,044,522	1,773,793	5,818,315
Total net position	44,270,611	11,816,374	56,086,985
TOTAL LIABILITIES AND NET POSITION	\$ 57,166,069	\$ 21,163,454	\$ 78,329,523

See accompanying notes to the financial statements

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2021

	2021		
	Water/Sewer	Telecom	Total
OPERATING REVENUE			
Metered water sales	\$ 8,869,049	\$ -	\$ 8,869,049
Wholesale water sales	54,676	-	54,676
Wholesale telecom sales	-	2,608,370	2,608,370
Sewer treatment revenue	167,017	-	167,017
Street light revenue	63,075	-	63,075
Miscellaneous operating revenues	357,384	15,814	373,198
Total operating revenue	<u>9,511,201</u>	<u>2,624,184</u>	<u>12,135,385</u>
OPERATING EXPENSES			
Operations and maintenance	4,448,637	1,723,763	6,172,400
Administration	645,776	207,557	853,333
Depreciation and amortization	1,604,289	1,326,714	2,931,003
Business taxes	635,401	29,985	665,386
Total operating expenses	<u>7,334,103</u>	<u>3,288,019</u>	<u>10,622,122</u>
OPERATING INCOME/(LOSS)	<u>2,177,098</u>	<u>(663,835)</u>	<u>1,513,263</u>
NONOPERATING REVENUES (EXPENSES)			
Property taxes	-	2,587,888	2,587,888
Grant income	26,000	391,217	417,217
Interest income	79,889	67,723	147,612
Gain (loss) on disposal of assets	(36,688)	-	(36,688)
Interest expense	(245,392)	(253,958)	(499,350)
Nonoperating program expenses	(1,094,362)	(743,139)	(1,837,501)
Contract revenue	38,526	36,000	74,526
Total nonoperating revenues (expenses)	<u>(1,232,027)</u>	<u>2,085,731</u>	<u>853,704</u>
INCOME BEFORE CONTRIBUTIONS	945,071	1,421,896	2,366,967
CAPITAL CONTRIBUTIONS	<u>2,217,049</u>	<u>4,366,114</u>	<u>6,583,163</u>
CHANGE IN NET POSITION	<u>3,162,120</u>	<u>5,788,010</u>	<u>8,950,130</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>\$ 44,270,611</u>	<u>\$ 11,816,374</u>	<u>\$ 56,086,985</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 47,432,731</u></u>	<u><u>\$ 17,604,384</u></u>	<u><u>\$ 65,037,115</u></u>

See accompanying notes to the financial statements

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2020

	2020		
	Water/Sewer	Telecom	Total
OPERATING REVENUE			
Metered water sales	\$ 7,896,146	\$ -	\$ 7,896,146
Wholesale water sales	18,869	-	18,869
Wholesale telecom sales	-	2,305,367	2,305,367
Sewer treatment revenue	135,761	-	135,761
Street light revenue	62,112	-	62,112
Miscellaneous operating revenues	361,744	10,506	372,250
Total operating revenue	<u>8,474,632</u>	<u>2,315,873</u>	<u>10,790,505</u>
OPERATING EXPENSES			
Operations and maintenance	4,871,787	1,526,243	6,398,030
Administration	784,623	244,142	1,028,765
Depreciation and amortization	1,548,364	1,137,465	2,685,829
Business taxes	542,339	38,035	580,374
Total operating expenses	<u>7,747,113</u>	<u>2,945,885</u>	<u>10,692,998</u>
OPERATING INCOME/(LOSS)	<u>727,519</u>	<u>(630,012)</u>	<u>97,507</u>
NONOPERATING REVENUES (EXPENSES)			
Property taxes	54,095	2,471,381	2,525,476
Grant income	8,750	208,783	217,533
Interest income	64,264	61,674	125,938
Gain (loss) on disposal of assets	(5,398)	(1,233)	(6,631)
Interest expense	(338,391)	(255,106)	(593,497)
Nonoperating program expenses	(632,761)	(706,820)	(1,339,581)
Contract revenue	37,249	-	37,249
Total nonoperating revenues (expenses)	<u>(812,192)</u>	<u>1,778,679</u>	<u>966,487</u>
INCOME BEFORE CONTRIBUTIONS	(84,673)	1,148,667	1,063,994
CAPITAL CONTRIBUTIONS	<u>4,507,564</u>	<u>1,093,627</u>	<u>5,601,191</u>
CHANGE IN NET POSITION	<u>4,422,891</u>	<u>2,242,294</u>	<u>6,665,185</u>
TOTAL NET POSITION, BEGINNING OF YEAR	<u>\$ 39,847,720</u>	<u>\$ 9,574,080</u>	<u>\$ 49,421,800</u>
TOTAL NET POSITION, END OF YEAR	<u><u>\$ 44,270,611</u></u>	<u><u>\$ 11,816,374</u></u>	<u><u>\$ 56,086,985</u></u>

See accompanying notes to the financial statements

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

	2021		
	Water/Sewer	Telecom	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 9,404,791	\$ 2,775,623	\$ 12,180,414
Payments to contractors and suppliers	(2,965,533)	(1,801,828)	(4,767,361)
Payments to employees	(3,162,772)	(1,047,507)	(4,210,279)
Taxes paid	(664,533)	(55,608)	(720,141)
Net cash provided by (used in) operating activities	<u>2,611,953</u>	<u>(129,320)</u>	<u>2,482,633</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Contract revenue	38,526	36,000	74,526
Property taxes received	-	2,605,340	2,605,340
Other receipts (payments) for nonoperating program expenses	(1,094,362)	(743,139)	(1,837,501)
Net cash provided by (used in) noncapital financing activities	<u>(1,055,836)</u>	<u>1,898,201</u>	<u>842,365</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant and construction work in progress	(1,541,053)	(4,336,738)	(5,877,791)
Proceeds from disposition of assets	3,422	-	3,422
Proceeds from grants	26,000	391,217	417,217
Proceeds from new debt	-	4,545,773	4,545,773
Principal paid on debt	(1,223,778)	(1,080,559)	(2,304,337)
Interest paid on debt	(270,178)	(283,047)	(553,225)
Cash received from notes and assessments	423,434	975,661	1,399,095
Due (to)/from other funds	(275,931)	275,931	-
Capital contributions	1,238,713	749,418	1,988,131
Net cash provided by (used in) capital and related financing activities	<u>(1,619,371)</u>	<u>1,237,656</u>	<u>(381,715)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income on investments	73,406	67,723	141,129
Net cash provided by (used in) investing activities	<u>73,406</u>	<u>67,723</u>	<u>141,129</u>
Net increase (decrease) in cash and cash equivalents	10,152	3,074,260	3,084,412
Cash and cash equivalents, beginning of year	<u>3,803,177</u>	<u>554,417</u>	<u>4,357,594</u>
Cash and cash equivalents, end of year	<u>\$ 3,813,329</u>	<u>\$ 3,628,677</u>	<u>\$ 7,442,006</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

During 2021, the District received non-cash capital contributions of \$942,960.

During 2021, the District received \$3,652,072 of non-cash income with respect to new LUDs.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

	2021		
	Water/Sewer	Telecom	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO			
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating Income/(loss)	\$ 2,177,098	\$ (663,835)	\$ 1,513,263
Adjustments to reconcile operating income/(loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization expense	1,888,341	1,042,662	2,931,003
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	(106,410)	151,439	45,029
Decrease (increase) in inventory materials and supplies	(29,846)	9	(29,837)
Decrease (increase) in other current assets	(214,608)	188,056	(26,552)
Decrease (increase) in deferred outflows	24,546	(15,017)	9,529
(Decrease) increase in taxes payable	(29,132)	(25,623)	(54,755)
(Decrease) increase in deferred inflows	2,693,764	1,229,695	3,923,459
(Decrease) increase in accounts payable	68,150	(430,446)	(362,296)
(Decrease) increase in net pension liabilities	(3,811,075)	(1,642,781)	(5,453,856)
(Decrease) increase in other accrued	(48,875)	36,521	(12,354)
Net cash provided by (used in) operating activities	<u>\$ 2,611,953</u>	<u>\$ (129,320)</u>	<u>\$ 2,482,633</u>

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020

	2020		
	Water/Sewer	Telecom	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 8,261,618	\$ 2,212,597	\$ 10,474,215
Payments to contractors and suppliers	(3,989,419)	(2,083,557)	(6,072,976)
Payments to employees	(3,337,703)	(824,580)	(4,162,283)
Taxes paid	(506,490)	(33,287)	(539,777)
Net cash provided by (used in) operating activities	428,006	(728,827)	(300,821)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Contract revenue	37,249	-	37,249
Property taxes received	54,095	2,468,582	2,522,677
Other receipts (payments) for nonoperating program expenses	(632,761)	(706,820)	(1,339,581)
Net cash provided by (used in) noncapital financing activities	(541,417)	1,761,762	1,220,345
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant and construction work in progress	(1,170,713)	(6,077,606)	(7,248,319)
Proceeds from disposition of assets	3,056	-	3,056
Proceeds from grants	8,750	208,783	217,533
Proceeds from new debt	221,389	4,882,064	5,103,453
Principal paid on debt	(979,187)	(957,254)	(1,936,441)
Interest paid on debt	(345,767)	(204,255)	(550,022)
Cash received from notes and assessments	110,264	536,757	647,021
Due (to)/from other funds	(263,331)	263,331	-
Capital contributions	1,242,080	91,750	1,333,830
Net cash provided by (used in) capital and related financing activities	(1,173,459)	(1,256,430)	(2,429,889)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income on investments	57,781	61,674	119,455
Net cash provided by (used in) investing activities	57,781	61,674	119,455
Net increase (decrease) in cash and cash equivalents	(1,229,089)	(161,821)	(1,390,910)
Cash and cash equivalents, beginning of year	5,032,266	716,238	5,748,504
Cash and cash equivalents, end of year	\$ 3,803,177	\$ 554,417	\$ 4,357,594

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

During 2020, the District received non-cash capital contributions of \$2,535,345.

During 2020, the District received \$1,732,016 of non-cash income with respect to new LUDs.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020

	2020		
	Water/Sewer	Telecom	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO			
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating Income/(loss)	\$ 727,519	\$ (630,012)	\$ 97,507
Adjustments to reconcile operating income/(loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization expense	1,548,365	1,137,464	2,685,829
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	(213,015)	(103,276)	(316,291)
Decrease (increase) in inventory materials and supplies	(34,085)	(807,682)	(841,767)
Decrease (increase) in other current assets	147,155	(126,710)	20,445
Decrease (increase) in deferred outflows	(53,129)	(28,359)	(81,488)
(Decrease) increase in taxes payable	35,849	4,748	40,597
(Decrease) increase in deferred inflows	(330,280)	(116,029)	(446,309)
(Decrease) increase in accounts payable	(273,729)	315,952	42,223
(Decrease) increase in net pension liabilities	(2,679)	20,888	18,209
(Decrease) increase in other accrued	(1,123,965)	(395,811)	(1,519,776)
Net cash provided by (used in) operating activities	<u>\$ 428,006</u>	<u>\$ (728,827)</u>	<u>\$ (300,821)</u>

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kitsap Public Utility District (KPUD or District) is a municipal corporation in Washington State with incorporated boundaries the same as Kitsap County. The District is governed by an elected Board of three Commissioners. Its purpose is to preserve and protect the water resources of Kitsap County for the benefit of the people, and to supply public utility service. KPUD has broad authority and responsibility under Chapter 54, Revised Code of Washington.

KPUD was formed at the general election of 1940 by a vote of the county's electorate to explore providing electrical service as a public special purpose District instead of a private company. U.S. entry into World War II and rapid growth in and around the naval shipyard at Bremerton initially delayed and eventually precluded assumption of electric service in Kitsap County by KPUD. In 1959, the District initiated several actions to study regional water resources in Kitsap County. In 1963, KPUD's Board recognized the necessity for long-range water supply plans to avert future shortages. Regional resource plans, studies, and assessments have taken on increasing importance.

Kitsap Public Utility District strives to provide quality water and wholesale telecommunication utility services and sewer treatment services to citizens of Kitsap County. KPUD provides safe, reliable drinking water to about 16,000 customers throughout Kitsap County. The wholesale telecommunication service expands communication choices for Kitsap County residents, businesses and public agencies from Port Orchard to Bainbridge Island.

The accounting policies of Public Utility District #1 of Kitsap County, Washington conform to generally accepted accounting principles as applicable to proprietary funds of governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. This, and consecutive statements, are reflected in the accompanying financial statements (including notes to financial statements). The following is a summary of the more significant policies:

Reporting entity – The District is a municipal corporation governed by an elected three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

Measurement Focus, Basis of Accounting – The District reports water/sewer and telecom services as separate segments.

The statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The District distinguishes 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 District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water/sewer, and telecom services. The District also recognizes as operating revenue street light revenues and other miscellaneous operating revenues. Operating expenses for the District include costs to operate and maintain the water/sewer and telecom systems, administration, depreciation/amortization and business taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expense.

Use of Estimates – The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Accounting & Reporting Changes – In 2021, the District did not implement any new GASB Statements.

Cash and Cash Equivalents – For the purpose of the statement of cash flows, the District considers all highly liquid investments (including restricted assets), with a maturity of three months or less when purchased, to be cash equivalents.

The District does not have a written policy to invest temporary cash surpluses. All temporary cash surpluses are transferred to Kitsap County Treasurer's Investment Pool.

Receivables – Receivables are written off in the year that they are deemed to be uncollectible.

Property taxes are recorded as receivables when levied. Since State law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Unbilled District utility service receivables are recorded at year-end.

Inventories – Inventories are valued at cost, which approximates the market value. The District uses specific identification to determine inventory costs.

Investments – All investments of the District's funds are obligations of the U.S. Government, the Kitsap County Treasurer's Investment Pool, banker's acceptances, or deposits with Washington State banks and savings and loan institutions pursuant to the requirements of Chapter 39.58 RCW.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted funds – In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established for the water system revenue bonds. The assets held in these funds are restricted for specific uses, including debt service, other special reserve requirements, capital additions and pension assets. These are classified as current or noncurrent assets, as appropriate. Restricted funds include \$352,365 of bond reserves and \$836,133 of net pension assets as of December 31, 2021. Restricted funds also include unspent bond proceeds, there were no unspent bond proceed as of December 31, 2021.

Utility Plant and Depreciation – Capital assets are defined by the District as assets with initial individual cost of more than \$500 and an estimated useful life in excess of 1 year.

Major expenses 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. Donations by developers and customers are recorded at the fair value of the assets received.

The original cost of operating property retired or otherwise disposed of, and the cost of installation, less salvage, is charged to income.

Depreciation is computed on the straight-line method with the following useful lives:

Buildings and improvements	40 - 50 years
Water storage, transportation and treatment	25 - 100 years
Transportation equipment	5 - 7 years
General equipment	5 - 10 years

See Note 4 for a detailed schedule of assets and depreciation.

Compensated absences – Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred.

Accrued Leave, which may be accumulated up to 26 weeks is payable upon resignation, retirement or death. Upon an employee's permanent separation, the District will reimburse no more than 13 of the 26 weeks of vacation pay. If an employee permanently separates due to disability, the District General Manager may allow for payment of some or all of the accrued leave above 13 weeks.

Deferred Inflows & Outflows of Resources – The difference between the cost to defease outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds, using the straight-line or effective interest method.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bond issuance costs – Costs relating to the sale of bonds are expensed in the period incurred.

Capital Contributions – Capital contributions for the District consist mainly of installation charges, Telecom line extensions, connection fees and developer extensions.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The District is a participant in the Kitsap County Treasurer's Investment Pool, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The District reports its investment in the pool at amortized cost.

Investments measured at amortized cost –

As of December 31, 2021, the district had the following investments:

<u>Investment type</u>	<u>Maturities</u>	<u>Fair Value</u>
Kitsap County Treasurer's Investment Pool	50 days Avg	\$ 3,399,885

Management intends to hold the time deposits and securities until maturity; therefore, temporary declines in market value are not reflected in the financial statements. The District's investments are all held with the Kitsap County Treasurer's Investment Pool, and are therefore not subject to risk categorization.

Custodial credit risk – Deposits. For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Public Deposit Protection Commission (PDPC). Under state law, public depositories under the PDPC may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. As a result, deposits covered by collateral held in the multiple financial institution collateral pool are considered to be insured. State law requires that deposits may be made only with institutions that are approved by the PDPC.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 3 - CONSTRUCTION IN PROGRESS

The District has active construction projects as of December 31, 2021. The projects include:

Project	Spent to Date
CWIP-NP DOWNTOWN KINGSTON REPL	\$ 70,506
CWIP-REGIONAL PHASE 8	600,386
CWIP-T PARCELLS RD	434,875
CWIP-T HOLLY FIBER EXT	426,573
CWIP-T NCLUD VARIOUS BUILDS	14,413
CWIP-VINLAND CORROSION CONTROL	17,190
CWIP - CAMP DAVID GENERATOR	6,860
CWIP - T BLUE SKY & MARSHALL	18,346
CWIP - BILL POINT (WATER)	11,588
CWIP - NORTH BI-PT.MONROE PRV	27,846
CWIP-ISLAND UTIL/BILL PT INT	9,351
CWIP - DEER PATH TANK	2,480
CWIP - SBI BLAKELY BOOSTER UPSIZE	16,999
CWIP -T HINTZVILLE CERB LUD43	940
CWIP - T RUDE RD TO EDGEWATER	158,965
CWIP - BRIDLETREE WELL 2	327
CWIP - MAINT./UPGRADES	2,936
CWIP - VARIOUS BUILDS	10,033
CWIP - REG.CONST.PROJ.-PHASE 3	416,737
CWIP-ISLAND UTILITY WELLS 1,2,3	1,858
CWIP-FINN HILL OFC EXPANSION	62,924
CWIP-RCP-PHASE 7 (NEWBERRY)	610,012
CWIP-T RESIDENTIAL BUILDS	211,419
CWIP-DEER PATH WEL 11 DRILL	5,629
CWIP- INDIANOLA - CHURCH CAMP	49,464
CWIP-OFFSITE OFC/SHOP EXPNSN	1,126,757
CWIP - W-STRAWBERRY HILL	45,740
CWIP-SBI WELL10 (FILTER PLANT)	102,361
Total	\$ 4,463,515

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

Project	Spent to Date	Remaining Commitment
CWIP-T FLETCHER BAY RD	\$ 156,999	\$ 32,571
CWIP-T HOLLY FIBER EXT	108,861	11,929
CWIP-T NCLUD VARIOUS BUILDS	738,642	10,246
CWIP-VINLAND CORROSION CONTROL	17,190	40,198
CWIP - T BLUE SKY & MARSHALL	-	142,195
CWIP - BILL POINT (WATER)	11,588	18,365
CWIP - T RUDE RD TO EDGEWATER	-	82,613
CWIP - BRIDLETREE WELL 2	-	100,799
CWIP - MAINT./UPGRADES	13,391	4,306
CWIP-T RESIDENTIAL BUILDS	185,622	26,558
CWIP- INDIANOLA - CHURCH CAMP	9,660	11,434
CWIP - W-STRAWBERRY HILL	45,672	20,456
CWIP-SBI WELL10 (FILTER PLANT)	73,700	7,996
Total	\$ 1,361,325	\$ 509,666

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 4 – UTILITY PLANT AND DEPRECIATION

Utility plant activity for the year ended December 31, 2021 was as follows:

	12/31/20	Increase	Decrease	12/31/21
Capital assets not being depreciated				
Land and land rights	\$ 1,880,543	\$ 10,100	\$ -	\$ 1,890,643
Construction work in progress	5,048,977	4,323,383	4,908,845	4,463,515
Total capital assets not being depreciated	6,929,520	4,333,483	4,908,845	6,354,158
Capital assets being depreciated				
Wells	6,110,763	67,277	-	6,178,040
Supply mains	35,198,042	840,920	-	36,038,962
Water treatment equipment	683,594	-	-	683,594
Pumping plant	5,875,934	161,185	50,479	5,986,640
Water storage	7,085,878	14	-	7,085,892
Water system comprehensive plan	739,527	-	-	739,527
Services	6,266,967	636,244	-	6,903,211
Hydrants	2,321,621	68,092	-	2,389,713
Communication equipment	293,600	1,319	1,591	293,328
Office building & Improvements	1,070,586	-	-	1,070,586
Databases	819,244	10,725	-	829,969
Plant buildings	571,259	8,045	-	579,304
Office furniture and equipment	204,196	1,597	-	205,793
Vehicles	1,108,596	137,708	17,355	1,228,949
Utility equipment	763,293	34,628	1,807	796,114
Computer equipment	215,415	57,145	17,244	255,316
Telemetry equipment	568,638	20,303	60,377	528,564
Computer software	252,827	-	3,717	249,110
Leasehold improvements	31,247	-	-	31,247
Maintenance building and improv	1,005,522	-	-	1,005,522
Electronic equipment - telecom	2,346,620	123,383	-	2,470,003
Poles, towers & fixtures - telecom	564,710	-	-	564,710
Fiber systems - telecom	20,556,908	5,102,605	-	25,659,513
Services - telecom	391,342	-	10,302	381,040
Plant building - telecom	278,440	-	-	278,440
Communication equipment - telecom	80,940	2,462	1,081	82,321
Computers - telecom	75,598	6,666	6,186	76,078
Wireless equipment - telecom	616,852	10,116	-	626,968
Vehicles - Telecom	382,355	69,064	-	451,419
Plant building - sewer	2,263,736	-	-	2,263,736
Utility equipment - sewer	48,168	12,116	-	60,284
Telemetry equipment - sewer	3,266	1,262	1,262	3,266
Computer & software - sewer	6,739	15,677	379	22,037
Intangible assets	2,702,223	-	-	2,702,223
Total capital assets being depreciated	101,504,646	7,388,553	171,780	108,721,419
Depreciation and amortization				
Accumulated depreciation	40,795,631	2,876,940	141,686	43,530,885
Accumulated amortization	259,053	59,795	-	318,848
Total accum. depreciation and amort.	41,054,684	2,936,735	141,686	43,849,733
Total utility plant being depreciated, net	60,449,962			64,871,686
Net Utility Plant	\$67,379,482			\$ 71,225,844

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 5 - LONG-TERM DEBT

During the year ended December 31, 2021, the following changes occurred in long-term debt:

Revenue Bonds - Other	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
2013 Revenue Bonds - Serial bonds \$160,000-\$290,000 due through December 1, 2033. Interest at 2.00% to 3.00%.	\$ 2,810,000	\$ -	\$ 280,000	\$ 2,530,000	\$ 290,000
Revenue Bonds - Premiums	246,174		22,013	224,161	-

Revenue Bonds - Direct Placements					
2015 Revenue Bonds - Serial bonds \$57,000-\$83,000 due through December 1, 2030. Interest at 1.40% to 3.87%.	1,355,000	-	125,000	1,230,000	129,000
2016 Revenue Bonds - Serial bonds \$229,655-\$281,060 due through December 1, 2025. Interest at 1.40% to 3.87%.	1,339,017	-	256,197	1,082,820	260,239
2018 Telecom Revenue Bonds - Term bonds \$388,383 due December 1, 2039. Interest at 3.19%	204,850	-	43,585	161,265	-
2018 Water Revenue Bonds (B) - Term bonds \$312,385 due December 1, 2040. Interest at 3.66%	264,164	-	54,623	209,541	-
2020 Telecom Revenue Bonds (A) - Term bonds \$25,400 due December 1, 2027. Interest at 3.5%	11,881	-	3,506	8,375	-
2020 Telecom Revenue Bonds (B) - Term bonds \$807,317 due December 1, 2041. Interest at 3.95%	518,795	-	174,994	343,801	-
2020 Telecom Revenue Bonds (C) - Term bonds \$307,739 due December 1, 2039. Interest at 2.51% to 3.5%	307,739	-	94,760	212,979	9,430
2020 Water Revenue Bonds (C) - Term bonds \$2,661,458 due December 1, 2039. Interest at 2.51% to 3.5%	2,661,458	-	396,458	2,265,000	183,000
2020 Telecom Revenue Bond - line of credit \$873,130. no maturity date, interest at 2%. remaining available credit \$1,126,870.	873,130	-	-	873,130	873,130
2021 Telecom Revenue Bonds (A) - Serial bonds \$279,908 due December 1, 2042. Interest at 4.1%	-	279,908	44,145	235,763	8,654
2021 Telecom Revenue Bonds (B) - Serial bonds \$807,317 due December 1, 2042. Interest at 4.25%	-	745,833	382,274	363,559	21,475
2021 Telecom Revenue Bonds (C) - Serial bonds \$307,739 due December 1, 2043. Interest at 4.25%	-	2,378,435	-	2,378,435	75,320
Total revenue bonds	\$ 10,592,208	\$ 3,404,176	\$ 1,877,555	\$ 12,118,829	\$ 1,850,248

General Obligation Bonds					
2013(A) G/O Bonds - Serial Bonds \$70,000-\$150,000 due through December 1, 2033. Interest at 0.450% to 4.346%.	1,485,000	-	85,000	1,400,000	90,000
2020 G/O Bonds - Serial Bonds 166,000-\$302,000 due through December 1, 2039. Interest at 1.27% to 2.94%.	3,260,000	1,140,000	242,000	4,158,000	259,000
G/O Bonds - Premiums	37,740	-	3,095	34,645	-
Total general obligation bonds	\$ 4,782,740	\$ 1,140,000	\$ 330,095	\$ 5,592,645	\$ 349,000

Long Term Debt					
Note Payable: DWSRF Sunset-Manzanita - Annual payments \$18,116 plus interest due through October, 2034, interest at 3.00%	253,621	-	18,116	235,505	18,116
Note Payable: Kelly Copier Lease - monthly payments \$73.57 - \$114.93, collateralized by copier	-	1,597	90	1,507	291
Note Payable: Kelly Copier Lease - monthly payments \$73.57 - \$114.93, collateralized by copier	4,531	-	941	3,590	889
DWSRF #1 Crystal Springs Consolidations: Annual payments \$10,314 plus interest due through October, 2036, interest at 1.00%	165,014	-	10,314	154,700	10,314
DWSRF #2 North Kitsap Consolidations: Annual payments \$52,273 plus interest due through October, 2036, interest at 1.00%	836,368	-	52,273	784,095	52,273
DWSRF #3 Green Mountain Acres - Annual payments of \$19,483 plus interests through October, 2038, interest at 1.00%	350,693	-	19,483	331,210	19,483
Department of Commerce Big Valley Project: Annual payments of \$25,000 plus interest due through June, 2040. Interest at 2.00%	500,000	-	20,578	479,422	20,990
Total other long term debt	\$ 2,110,227	\$ 1,597	\$ 121,795	\$ 1,990,029	\$ 122,356

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 5 - LONG-TERM DEBT (continued)

Other Long Term Liability	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
OPEB Payable	\$ 166,043	\$ -	\$ 17,453	\$ 148,590	\$ -
Net Pension Liability	1,597,156	-	1,189,789	407,367	-
PURMS Claims Payable	162,849	-	4,987	157,862	-
Accrued Compensated Absences	\$ 1,065,936	\$ 13,159	\$ -	\$ 1,079,095	\$ -

The annual debt service requirements to maturity for all debts outstanding as of 2021, including interest, are as follows.

Fiscal Year Ending December 31,	Revenue Bonds		G/O Bonds		Other LTD	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	1,876,833	363,758	349,000	161,415	122,355	24,944
2023	1,013,230	348,213	361,000	154,367	122,855	23,441
2024	894,847	318,935	368,000	146,471	123,370	21,925
2025	926,624	293,726	371,000	137,837	123,526	20,397
2026	663,991	266,748	383,000	127,986	123,146	18,911
2027-2031	3,200,601	992,626	1,945,000	461,974	621,527	72,501
2032-2036	1,683,514	508,297	1,186,000	184,764	597,848	35,084
2037-2047	1,635,028	246,413	595,000	34,762	155,400	6,464
Total	\$11,894,668	\$ 3,338,716	\$ 5,558,000	\$ 1,409,576	\$ 1,990,027	\$ 223,667

Restricted assets include \$352,365 of cash as of December 31, 2021. These represent reserve requirements as contained in the various indentures.

There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

Revenue Bonds

The District has pledged future water system revenue plus certain LUD Assessments, net of operation and maintenance expenses, to repay \$11,894,668 of revenue bonds. Proceeds from the bonds were used to finance capital improvements, to refund a portion of the District's Outstanding Bonds, to fund the Reserve Fund, and to pay the costs of issuance of the Bonds. The bonds are payable solely from future gross revenue plus certain LUD Assessments and are payable through 2043. The total principal and interest remaining to be paid on the bonds is \$15,233,393 as of December 31, 2021. Bond amounts presented on financial statements includes premiums of \$224,161, annual interest is decreased by amortization of debt premium and increased by the amortization of gain/loss on refunding.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 6 - PENSION PLAN

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 407,367
Pension assets	\$ 4,264,067
Deferred outflows of resources	\$ 589,490
Deferred inflows of resources	\$ 4,370,893
Pension expense/expenditures	\$ (923,117)

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 6 - PENSION PLAN (continued)

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

Contributions

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

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January - June 2021:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%
July - December 2021:		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
Total	10.25%	6.00%

* 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.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 6 - PENSION PLAN (continued)

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

Contributions

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

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

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 6 - PENSION PLAN (continued)

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

The district's actual PERS plan contributions were \$232,523 to PERS Plan 1 and \$383,671 to PERS Plan 2/3 for the year ended December 31, 2021.

Actuarial Assumptions

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

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

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

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

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

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 6 - PENSION PLAN (continued)

- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 6 - PENSION PLAN (continued)

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

Sensitivity of Net Pension Liability/(Asset)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 693,973	\$ 407,367	\$ 157,417
PERS 2/3	\$ (1,214,750)	\$ (4,264,067)	\$ (6,775,181)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2021, the district reported its proportionate share of the net pension liabilities (assets) as follows:

	Liability (or Asset)
PERS 1	\$ 407,367
PERS 2/3	\$ (4,264,067)

At June 30, 2021, the district's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.030687%	0.033357%	0.002670%
PERS 2/3	0.040169%	0.042805%	0.002636%

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 6 - PENSION PLAN (continued)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2021 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

Pension Expense

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

	Pension Expense
PERS 1	\$ 18,431
PERS 2/3	\$ (941,548)
TOTAL	\$ (923,117)

Deferred Outflows of Resources and Deferred Inflows of Resources

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

	PERS 1		PERS 2/3		Total	
	Def. Out of Resources	Def. In of Resources	Def. Out of Resources	Def. In of Resources	Def. Out of Resources	Def. In of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ 207,100	\$ (52,273)	\$ 207,100	\$ (52,273)
Net difference between projected and actual investment earnings on pension plan investments	-	(452,041)	-	(3,563,760)	-	(4,015,801)
Changes of assumptions	-	-	6,231	(302,819)	6,231	(302,819)
Changes in proportionate share	-	-	108,605	-	108,605	-
Contributions subsequent to the measurement date	98,572	-	168,982	-	267,554	-
TOTAL	\$ 98,572	\$ (452,041)	\$ 490,918	\$ (3,918,852)	\$ 589,490	\$ (4,370,893)

Deferred outflows of resources related to pensions resulting from the district's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2022	\$ (119,746)	\$ (949,139)
2023	\$ (109,731)	\$ (885,110)
2024	\$ (103,755)	\$ (846,842)
2025	\$ (118,811)	\$ (922,134)
2026	\$ -	\$ (2,467)
Thereafter	\$ -	\$ 8,778

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 7 – PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property value listed as of the prior May 31. Assessed values are established by the county assessor at 100 percent of fair market value. A re-evaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the county treasurer.

The District is permitted by law to levy up to \$.45 per \$1,000 of assessed valuation for general District purposes. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate.

For 2021, the District's regular tax levy was .057604 per \$1,000 on a total assessed valuation of \$44,867,088,950 plus timber excise distribution of \$3,359, for a total regular levy of \$2,587,895. The District has collected \$2,562,064 or 99% of the total amount levied.

Property taxes are recorded as receivables when levied. Since State law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Special levies approved by the voters are not subject to the above limitations.

NOTE 8 – OPERATING LEASES

The District is committed under various leases for facilities to house water and telecommunications equipment. These leases are considered operating leases for accounting purposes. Lease expenses for the year ending December 31, 2021 amounted to \$153,570. The District does not have any future minimum lease commitments.

NOTE 9 - DEFERRED COMPENSATION PLANS

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. These plans are with independent plan administrators. The plans, available to eligible employees, permit them to defer a portion of their salary until future years. The District matches a portion of employee deferrals, totals were \$189,316 in 2021. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2021:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$ 148,590
OPEB assets	\$ -
Deferred outflows of resources	\$ -
Deferred inflows of resources	\$ -
OPEB expenses/expenditures	\$ (14,769)

Plan Description

Public Utility District No. 1 of Kitsap County Board of Commissioners provides retiree medical care through the Public Employees Benefit Board (PEBB) under a single-employer defined benefit healthcare plan (Retiree Healthcare Plan). Resolution No. 07-02-13A authorizes the KPUD to provide for payment of premiums for medical and dental insurance to retired employees, spouses and dependents, when said retired employee has worked for KPUD for a minimum of fifteen years. Financial reporting for the PEBB retiree healthcare plan is included in the KPUD's Annual Financial Report.

Funding Policy

The KPUD contributes between 70 and 85 percent based on years of service and the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute 15 to 30 percent of their premium costs. The KPUD's required contribution is based upon projected pay-as-you-go financing requirements and there are no assets accumulated in a qualifying trust. There are currently two participants on the Retiree Healthcare Plan.

At December 31, 2021, the following employees were covered by the benefit terms.

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	-
Active employees	1
Total	2

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation, and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

In the December 31, 2021, actuarial valuation, the method used was the alternative measurement method permitted under GASB Statement No. 75. Healthcare plans assumed 2/3 of members select a UMP plan and 1/3 of members select a Kaiser Permanente (KP) plan. An average entry age of 35, with a minimum service of 1 year, retirement eligible age of 55 and 100% rate of retirement at the age of 70 were assumed for all members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the 2020 PEBB OPEB AVR. Each cohort is assumed to be a 50/50 male/female split. Dental benefits are not included when calculating the Total OPEB Liability. Dental benefits represent less than 2% of the accrued benefit obligations under the 2020 PEBB OPEB AVR. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The following presents the total OPEB liability of the district calculated using the current healthcare cost trend rate of 6.8 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.8 percent) or 1 percentage point higher (7.8 percent) than the current rate.

	1% Decrease (5.8%)	Current Healthcare Cost Trend Rate (6.8%)	1% Increase (7.8%)
Total OPEB Liability	\$127,852	\$148,590	\$173,899

The following presents the total OPEB liability of the district calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.5 percent) or 1 percentage point higher (4.5 percent) than the current rate.

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Total OPEB Liability	\$173,497	\$148,590	\$128,366

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and OPEB Liability

The KPUD's annual other postemployment benefit (OPEB) cost (expense) is calculated based upon the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The KPUD has elected to calculate the ARC and related information using the alternative measurement method permitted under GASB Statement No. 75 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years as of January 1, 2009.

The following table shows the components of the KPUD's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the KPUD's net OPEB liability to the Retiree Health Plan. The net OPEB liability of \$148,590 is included as a noncurrent liability on the Balance Sheet.

PEBB Retiree Health Plan	
Total OPEB Liability at 01/01/2021	\$ 166,043
Service cost	2,505
Interest	3,695
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in experience data and assumptions	(20,969)
Benefit payments	(2,684)
Other changes	-
Total OPEB Liability at 12/31/2021	\$ 148,590

Methodology

Actuarial Valuation Date	6/30/2021
Actuarial Measurement Date	6/30/2021
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A

Assumptions

Discount Rate (beginning of year)	2.21%
Discount Rate (end of year)	2.16%
Projected Salary Changes	3.5% + Service Based Increases
Healthcare Trend Rates	Initial rate 2-11%, reaching final rate of approx. 4.3% in 2075
Base Mortality Table	PubG.H-2010 (General)
Age Setback	0 Years
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	2.75%
Post-Retirement Participation %	65%
Percentage with Spouse Coverage	45%

NOTE 11 – RISK MANAGEMENT

The District is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). RCW Chapter 48.62 authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Liability Pool was formed on December 31, 1976 when certain PUDs in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. There are currently 21 active members in the PURMS.

The PURMS operates three separate insurance pools: the Liability Pool, the Property Pool, and the Health and Welfare Pool. PURMS members may belong to one, two, or all three pools according to their insurance needs. The liability pool has a \$1 million self-insured retention with \$3.45 million reserves. The fund purchases \$35 million of excess general liability insurance over the \$1 million retention. The District also participate in the second excess insurance pool of \$65 million and the excess director's and officer's pool for \$35 million. The majority of the property in the property pool has a \$250,000 self-insured retention. Certain classes of property have higher retention requirements up to \$500,000. Reserves for the Property Pool are set at \$750,000. In addition, the fund purchases \$200 million of excess insurance over the \$250,000 (or higher) retention level. The Health and Welfare Pool is funded by paid claims reimbursement from the member generating the claim and by pooled assessment for administration and excess stop-loss insurance coverage. In all pools, members are assessed as necessary to maintain designated minimum pool balances. Because the PURMS is a cooperative program, there is joint liability among the participants of each pool. The District participates in only the Liability and Property Pools.

Should any member terminate its affiliation with the PURMS, it remains financially responsible to the PURMS for any unresolved, unreported, and in-process claims for the period that it was a signatory to the agreement. Self-insured retentions are fully funded by current and former members, and claims settlements have rarely exceeded retention levels resulting in escalation to excess coverage policies. Claims are processed by Pacific Underwriters Corporation, P.O. Box 68787, Seattle, WA 98168, a private entity contracted to perform administrative, claims adjustment, and loss prevention services, and which also compiles an annual financial report for the PURMS.

The Pool is governed by a Board of Directors which is comprised of one designated representative from each participating member. An executive committee is elected at the annual meeting, and is responsible for conducting the business affairs of the pools.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

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

The District, along with nine other Washington State public entities, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout Washington. This communications backbone through Washington assists its members in the efficient management of load, conservation, and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001. The District's membership interest in NoaNet is 18.97 percent.

As a member of NoaNet and as allowed by RCW 54.16, the District guaranteed a portion of the 2020 NoaNet \$24.8 million bonds based upon an agreed share of 10 percent of the outstanding balance. See Note 13 for additional details. NoaNet reserves the right to assess members to cover deficits from operations. There have been no member assessments since 2011.

NoaNet recorded a decrease in net position of \$2,923,199 for 2021. In accordance with Government Accounting Standards Board No. 14, *The Financial Reporting Entity*, a proportionate share of the changes in net position has not been recorded by the District. NoaNet had positive net position of \$47,058,719 as of December 31, 2021.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Accounting Department, 7195 Wagner Way Suite 104, Gig Harbor, WA 98335.

NOTE 13 – FINANCIAL GUARANTEES

In December 2020, current Members of NoaNet entered into a Repayment Agreement to guarantee the 10-year, \$24,775,000 Telecommunications Network Revenue Bonds (2020 Bonds) issued by NoaNet to finance capital improvements and other expenses, repay loans and a line of credit, fund a reserve account, and pay bond issuance costs. The 2020 Bonds will become due beginning in December 2021 through December 2030 with interest due semi-annually at rates ranging from .591 percent to 2.120 percent.

The 2020 Bonds were issued and guaranteed pursuant to RCW Chapters 24.06 and 39.34 and Title 54. Under the Repayment Agreement, each guarantor acknowledged and agreed that it is a guarantor of the payment of the principal and interest on the 2020 Bonds and was liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such principal and interest up to each Member's agreed upon percentage interest. The District's guaranteed is 10 percent of the outstanding bonds.

NOTE 13 – FINANCIAL GUARANTEES (continued)

To the extent NoaNet's gross revenue is insufficient to pay principal and interest amounts when due, NoaNet shall bill each guarantor no less than 65 days in advance of each principal and interest payment date for its percentage share. Each guarantor has 30 days to pay after receipt of the bill. In event of a failure by any guarantor to pay such amounts when due, the guarantor shall be subject to all remedies as contained in NoaNet's bylaws. Each guarantor shall remain obligated to pay its respective share of principal and interest on the 2020 Bonds, when due, whether or not it remains a member of NoaNet.

While the District has a year-end financial guaranteed of \$2,253,000 for the NoaNet Bond, a liability is not recognized until it is more likely than not that the District would be required to make a payment on the Bonds (GASB70). Currently, NoaNet has sufficient gross revenues to pay the principal amounts of \$22,530,000 and interest on their 2020 Bonds and therefore, the District has not recorded a liability.

NOTE 14 – TELECOMMUNICATIONS SERVICES

The District was a founding member of NoaNet in 1999. The District began installation of fiber-optic communications for utility use in 1999 after examining various types of infrastructure that could be used to deliver advanced telecommunications services. The resulting research showed that fiber-optic cable provided the most robust and cost-effective solution. Fiber has an extremely long-life cycle and almost unlimited bandwidth capacity, which will allow the District to migrate to new technologies without replacing an expensive outside plant infrastructure.

Public utility districts in Washington State have had the authority to offer wholesale telecommunication service since 2000 (RCW 54.16.330). A new law was passed in 2021, which gave public entities, including public utility districts, the authority to provide retail broadband services to the citizens of Kitsap County. The District currently focuses on providing wholesale telecommunications services to private service providers and bills those providers directly for services. The private service providers are directly responsible for billing each end-user.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

NOTE 15 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures put limitations on business operations, public events, gatherings, travel, and in-person interactions.

The financial impact to the District during 2021 was minimal. As an essential service, the District has an obligation to continue providing service to customers. The District was successful in minimizing the impact by establishing payment plans with past due customers, with most paying their balances by year-end.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the District is unknown at this time.

NOTE 16 – INTERLOCAL AGREEMENT WITH SILVERDALE WATER DISTRICT

In 2013, the District signed an interlocal agreement with the Silverdale Water District (SWD) to share infrastructure resources. The agreement allows the District to use part of SWD's water utility plant to move water through Kitsap County which saves the District from needing to build similar infrastructure. The cost to the District was approximately \$2.5 million. The District capitalized the total costs as an intangible asset, amortized over 100 years.

The District and SWD share in all costs associated with the design and construction of the Newberry Pump Station and Newberry Water Main construction projects. On December 31, 2021, the District expects an estimated receivable in the amount of \$74,924 from SWD. The estimated receivable is subject to management review and approval by the Board of Commissioner or an amendment to the Interlocal Agreement between the District and SWD.

NOTE 17 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through September 30, 2022, the date the financial statements were available to be issued.

On July 14, 2022, The District issue a Telecom System Revenue Bond 2022, secured by revenue of telecom and LUDs, in the amount of \$836,292. Payments are due annually, interest at approximately 6.25%.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kitsap Public Utility District (KPUD or District) is a municipal corporation in Washington State with incorporated boundaries the same as Kitsap County. The District is governed by an elected Board of three Commissioners. Its purpose is to preserve and protect the water resources of Kitsap County for the benefit of the people, and to supply public utility service. KPUD has broad authority and responsibility under Chapter 54, Revised Code of Washington.

KPUD was formed at the general election of 1940 by a vote of the county's electorate to explore providing electrical service as a public special purpose District instead of a private company. U.S. entry into World War II and rapid growth in and around the naval shipyard at Bremerton initially delayed and eventually precluded assumption of electric service in Kitsap County by KPUD. In 1959, the District initiated several actions to study regional water resources in Kitsap County. In 1963, KPUD's Board recognized the necessity for long-range water supply plans to avert future shortages. Regional resource plans, studies, and assessments have taken on increasing importance.

Kitsap Public Utility District strives to provide quality water and wholesale telecommunication utility services and sewer treatment services to citizens of Kitsap County. KPUD provides safe, reliable drinking water to about 16,000 customers throughout Kitsap County. The wholesale telecommunication service expands communication choices for Kitsap County residents, businesses and public agencies from Port Orchard to Bainbridge Island.

The accounting policies of Public Utility District #1 of Kitsap County, Washington conform to generally accepted accounting principles as applicable to proprietary funds of governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. This, and consecutive statements, are reflected in the accompanying financial statements (including notes to financial statements). The following is a summary of the more significant policies:

Reporting entity – The District is a municipal corporation governed by an elected three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

Measurement Focus, Basis of Accounting – The District reports water/sewer and telecom services as separate segments.

The statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The District distinguishes 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 District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water/sewer, and telecom services. The District also recognizes as operating revenue street light revenues and other miscellaneous operating revenues. Operating expenses for the District include costs to operate and maintain the water/sewer and telecom systems, administration, depreciation/amortization and business taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expense.

Use of Estimates – The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Accounting & Reporting Changes – In 2020, the District implemented GASB Statements 88: Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements.

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation with no impact on the previously reported change in net position.

Cash and Cash Equivalents – For the purpose of the statement of cash flows, the District considers all highly liquid investments (including restricted assets), with a maturity of three months or less when purchased, to be cash equivalents.

The District does not have a written policy to invest temporary cash surpluses. All temporary cash surpluses are transferred to Kitsap County Treasurer's Investment Pool.

Receivables – Receivables are written off in the year that they are deemed to be uncollectible.

Property taxes are recorded as receivables when levied. Since State law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Unbilled District utility service receivables are recorded at year-end.

Inventories – Inventories are valued at cost, which approximates the market value. The District uses specific identification to determine inventory costs.

Investments – All investments of the District's funds are obligations of the U.S. Government, the Kitsap County Treasurer's Investment Pool, banker's acceptances, or deposits with Washington State banks and savings and loan institutions pursuant to the requirements of Chapter 39.58 RCW.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted funds – In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established for the water system revenue bonds. The assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. Restricted funds include \$351,172 of bond reserves as of December 31, 2020. Restricted funds also include unspent bond proceeds, there were no unspent bond proceed as of December 31, 2020.

Utility Plant and Depreciation – Capital assets are defined by the District as assets with initial individual cost of more than \$500 and an estimated useful life in excess of 1 year.

Major expenses 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. Donations by developers and customers are recorded at the fair value of the assets received.

The original cost of operating property retired or otherwise disposed of, and the cost of installation, less salvage, is charged to income.

Depreciation is computed on the straight-line method with the following useful lives:

Buildings and improvements	40 - 50 years
Water storage, transportation and treatment	25 - 100 years
Transportation equipment	5 - 7 years
General equipment	5 - 10 years

See Note 4 for a detailed schedule of assets and depreciation.

Compensated absences – Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred.

Accrued Leave, which may be accumulated up to 26 weeks is payable upon resignation, retirement or death. Upon an employee's permanent separation, the District will reimburse no more than 13 of the 26 weeks of vacation pay. If an employee permanently separates due to disability, the District General Manager may allow for payment of some or all of the accrued leave above 13 weeks.

Deferred Inflows & Outflows of Resources – The difference between the cost to defease outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds, using the straight-line or effective interest method.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bond issuance costs – Costs relating to the sale of bonds are expensed in the period incurred.

Capital Contributions – Capital contributions for the District consist mainly of installation charges, Telecom line extensions, connection fees and developer extensions, and contributions from the Washington State Department of Ecology.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The District is a participant in the Kitsap County Treasurer's Investment Pool, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The District reports its investment in the pool at amortized cost.

Investments measured at amortized cost –

As of December 31, 2020, the district had the following investments:

<u>Investment type</u>	<u>Maturities</u>	<u>Fair Value</u>
Kitsap County Treasurer's Investment Pool	50 days Avg	\$ 3,046,281

Management intends to hold the time deposits and securities until maturity; therefore, temporary declines in market value are not reflected in the financial statements. The District's investments are all held with the Kitsap County Treasurer's Investment Pool, and are therefore not subject to risk categorization.

Custodial credit risk – Deposits. For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Public Deposit Protection Commission (PDPC). Under state law, public depositories under the PDPC may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. As a result, deposits covered by collateral held in the multiple financial institution collateral pool are considered to be insured. State law requires that deposits may be made only with institutions that are approved by the PDPC.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 3 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The District has active construction projects as of December 31, 2020. The projects include:

Project Name	Spent to Date
CWIP-T LUD #30 (OHARA HILLS)	\$ 45,892
CWIP-NP DOWNTOWN KINGSTON REPL	68,019
CWIP-REGIONAL PHASE 8	599,451
CWIP-T PARCELLS RD	46,054
CWIP-T PORT GAMBLE RD	44,613
CWIP-T FLETCHER BAY RD	60,296
CWIP-T HOLLY FIBER EXT	201,517
CWIP-HANSVILLE OFFICE GEN	18,684
CWIP-T LUD #36 COMMODORE LANE	-
CWIP-COMP PLAN	-
CWIP-T TRANSFERS/RELOCATES	138,548
CWIP-T PSE POLE SURVEY	-
CWIP-USGS GRND WTR FLOW MODEL	-
CWIP-REG.CONST.PROJ.-PHASE 3	416,736
CWIP-REG.CONST.PROJ.-PHASE 7	7,624
CWIP-VINLAND UTILITY WELL#2	1,568
CWIP-ISLAND UTILITY WELLS1,2,3	1,858
CWIP-FINN HILL OFC EXPANSION	62,924
CWIP-RCP-PHASE 7 (NEWBERRY)	483,517
CWIP-DEER PATH WEL 11 DRILL	2,337
CWIP-T SEABECK HOLLY PHASE 3	236,202
CWIP- INDIANOLA - CHURCH CAMP	1,403
CWIP-OFFSITE OFC/SHOP EXPNSN	1,126,757
CWIP-T LUD #26 (BIG VALLEY)	1,458,728
CWIP-LUU STRAWBERRY HILL	68
CWIP-SBI WELL10 (FILTER PLANT)	26,181
Total	\$ 5,048,977

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

Project	Spent to Date	Remaining Commitment
CWIP-T LUD #30 (OHARA HILLS)	\$ 30,302	\$ 14,388
CWIP-T PORT GAMBLE RD (RT-255295)	-	76,622
CWIP-T FLETCHER BAY RD (RT-255299)	-	124,468
CWIP-T HOLLY FIBER EXT - RT-255297	88,607	103,193
CWIP-T SEABECK HOLLY PHASE 3 - RT-243736	58,416	98,100
CWIP-T LUD #26 (BIG VALLEY)	968,783	165,240
Total	\$ 1,146,108	\$ 582,011

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 4 – UTILITY PLANT AND DEPRECIATION

Utility plant activity for the year ended December 31, 2020 was as follows:

	12/31/19	Increase	Decrease	12/31/20
Capital assets not being depreciated				
Land and land rights	\$ 1,818,107	\$ 62,436	\$ -	\$ 1,880,543
Construction work in progress	4,482,978	6,089,348	5,523,349	5,048,977
Total capital assets not being depreciated	6,301,085	6,151,784	5,523,349	6,929,520
Capital assets being depreciated				
Wells	6,110,763	-	-	6,110,763
Supply mains	32,196,300	3,001,742	-	35,198,042
Water treatment equipment	683,594	-	-	683,594
Pumping plant	5,838,456	37,478	-	5,875,934
Water storage	7,030,935	54,943	-	7,085,878
Water system comprehensive plan	739,527	-	-	739,527
Services	5,930,216	336,751	-	6,266,967
Hydrants	2,124,915	196,706	-	2,321,621
Communication equipment	291,880	1,720	-	293,600
Office building & Improvements	1,075,527	-	4,941	1,070,586
Databases	819,244	-	-	819,244
Plant buildings	385,379	185,880	-	571,259
Office furniture and equipment	202,233	6,775	4,812	204,196
Vehicles	1,046,701	94,005	32,110	1,108,596
Utility equipment	706,698	56,595	-	763,293
Computer equipment	173,975	55,302	13,862	215,415
Telemetry equipment	491,205	82,072	4,639	568,638
Computer software	114,065	153,620	14,858	252,827
Leasehold improvements	31,247	-	-	31,247
Maintenance building and improv	1,004,462	1,060	-	1,005,522
Electronic equipment - telecom	1,944,907	401,713	-	2,346,620
Poles, towers & fixtures - telecom	564,710	-	-	564,710
Fiber systems - telecom	16,219,858	4,337,050	-	20,556,908
Services - telecom	391,342	-	-	391,342
Plant building - telecom	278,440	-	-	278,440
Communication equipment - telecom	79,981	959	-	80,940
Computers - telecom	69,900	8,163	2,465	75,598
Wireless equipment - telecom	616,852	-	-	616,852
Vehicles - Telecom	205,594	176,761	-	382,355
Plant building - sewer	2,263,736	-	-	2,263,736
Utility equipment - sewer	44,250	3,918	-	48,168
Telemetry equipment - sewer	3,266	-	-	3,266
Computer & software - sewer	6,739	-	-	6,739
Intangible assets	2,702,223	-	-	2,702,223
Total capital assets being depreciated	92,389,120	9,193,213	77,687	101,504,646
Depreciation and amortization				
Accumulated depreciation	38,273,596	2,590,036	68,001	40,795,631
Accumulated amortization	164,759	94,294	-	259,053
Total accum. depreciation and amort.	38,438,355	2,684,330	68,001	41,054,684
Total utility plant being depreciated, net	53,950,765			60,449,962
Net Utility Plant	\$ 60,251,850			\$ 67,379,482

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 5 - LONG-TERM DEBT

During the year ended December 31, 2020, the following changes occurred in long-term debt:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Revenue Bonds - Other					
2010 Revenue Bonds - Serial bonds \$160,000-\$590,000 due through December 1, 2030. Interest at 2.00% to 4.50%.	\$ 2,470,000	\$ -	\$ 2,470,000	\$ -	\$ -
2013 Revenue Bonds - Serial bonds \$160,000-\$290,000 due through December 1, 2033. Interest at 2.00% to 3.00%.	3,075,000	-	265,000	2,810,000	280,000
Revenue Bonds - Premiums	268,186		22,012	246,174	-
Revenue Bonds - Direct Placements					
2015 Revenue Bonds - Serial bonds \$57,000-\$83,000 due through December 1, 2030. Interest at 1.40% to 3.87%.	1,478,000	-	123,000	1,355,000	125,000
2016 Revenue Bonds - Serial bonds \$229,655-\$281,060 due through December 1, 2025. Interest at 1.40% to 3.87%.	1,591,176	-	252,159	1,339,017	256,197
2018 Telecom Revenue Bonds - Serial bonds \$388,383 due December 1, 2039. Interest at 3.19%	281,048	-	76,198	204,850	-
2018 Water Revenue Bonds (B) - Serial bonds \$312,385 due December 1, 2040. Interest at 3.66%	284,899	-	20,735	264,164	-
2020 Telecom Revenue Bonds (A) - Serial bonds \$25,400 due December 1, 2027. Interest at 3.5%	-	25,400	13,519	11,881	-
2020 Telecom Revenue Bonds (B) - Serial bonds \$807,317 due December 1, 2041. Interest at 3.95%	-	807,317	288,522	518,795	-
2020 Telecom Revenue Bonds (C) - Serial bonds \$307,739 due December 1, 2039. Interest at 2.51% to 3.5%	-	307,739	-	307,739	8,651
2020 Water Revenue Bonds (C) - Serial bonds \$2,661,458 due December 1, 2039. Interest at 2.51% to 3.5%	-	2,661,458	-	2,661,458	396,458
2020 Telecom Revenue Bond - line of credit \$1,367,008. no maturity date, interest at 2%. remaining available credit \$1,126,870.	-	1,367,008	493,878	873,130	-
Total revenue bonds	\$ 9,448,309	\$ 5,168,922	\$ 4,025,023	\$ 10,592,208	\$ 1,066,306
General Obligation Bonds					
2010(A) G/O Bonds - Serial Bonds \$80,000-\$420,000 due through December 1, 2030. Interest at 0.87% to 6.20%.	\$ 1,360,000	\$ -	\$ 1,360,000	\$ -	\$ -
2013(A) G/O Bonds - Serial Bonds \$70,000-\$150,000 due through December 1, 2033. Interest at 0.450% to 4.346%.	1,570,000	-	85,000	1,485,000	85,000
2020 G/O Bonds - Serial Bonds 166,000-\$302,000 due through December 1, 2039. Interest at 1.27% to 2.94%.	-	3,260,000	-	3,260,000	242,000
G/O Bonds - Premiums	40,836	-	3,096	37,740	-
Total general obligation bonds	\$ 2,970,836	\$ 3,260,000	\$ 1,448,096	\$ 4,782,740	\$ 327,000
Long Term Debt					
Note Payable: Altec - Monthly p&i payments \$1,751.35, due through August, 2020, interest at 6.906%, collateralized by bucket truck.	\$ 13,655	\$ -	\$ 13,655	\$ -	\$ -
Note Payable: Silverdale Wheeling Agreement - Annual payments \$500,000 including interest due through February, 2021, interest at 2.00%	202,629	-	202,629	-	-
Note Payable: DWSRF Sunset-Manzanita - Annual payments \$18,116 plus interest due through October, 2034, interest at 3.00%	271,737	-	18,116	253,621	18,116
Note Payable: Ricoh Copier Lease - monthly payments \$73.57 - \$114.93, collateralized by copier	457	-	457	-	-
Note Payable: Kelly Copier Lease - monthly payments \$73.57 - \$114.93, collateralized by copier	-	4,531	-	4,531	943
DWSRF #1 Crystal Springs Consolidations: Annual payments \$10,314 plus interest due through October, 2036, interest at 1.00%	175,328	-	10,314	165,014	10,314
DWSRF #2 North Kitsap Consolidations: Annual payments \$52,273 plus interest due through October, 2036, interest at 1.00%	888,641	-	52,273	836,368	52,273
DWSRF #3 Green Mountain Acres - Annual payments of \$19,483 plus interests through October, 2038, interest at 1.00%	370,176	-	19,483	350,693	19,483
Department of Commerce Big Valley Project: Annual payments of \$25,000 plus interest due through June, 2040. Interest at 2.00%	-	500,000	-	500,000	20,578
Total other long term debt	\$ 1,922,623	\$ 504,531	\$ 316,927	\$ 2,110,227	\$ 121,707

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 5 - LONG-TERM DEBT (continued)

Other Long Term Liability	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
OPEB Payable	\$ 2,013,221	\$ -	\$ 1,847,178	\$ 166,043	\$ -
Net Pension Liability	1,578,947	18,209	-	1,597,156	-
PURMS Claims Payable	125,845	37,004	-	162,849	-
Accrued Compensated Absences	\$ 793,276	\$ 272,660	\$ -	\$ 1,065,936	\$ -

The annual debt service requirements to maturity for all debts outstanding as of 2020, including interest, are as follows.

Fiscal Year Ending December 31,	Revenue Bonds		G/O Bonds		Other LTD	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	1,066,306	337,484	327,000	183,727	121,707	26,340
2022	1,744,800	279,894	349,000	161,415	122,064	24,866
2023	887,794	254,036	361,000	154,367	122,548	23,380
2024	765,722	227,047	368,000	146,471	123,045	21,882
2025	793,654	204,284	371,000	137,837	123,182	20,372
2026-2030	2,714,468	702,599	2,027,000	526,870	619,163	79,875
2031-2035	1,015,322	270,413	942,000	225,665	613,353	42,523
2036-2046	1,357,970	87,014	-	-	265,165	10,557
Total	\$10,346,036	\$ 2,362,771	\$ 4,745,000	\$ 1,536,352	\$ 2,110,227	\$ 249,795

Restricted assets include \$351,172 of cash as of December 31, 2020. These represent reserve requirements as contained in the various indentures.

There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

Revenue Bonds

The District has pledged future water system revenue plus certain LUD Assessments, net of operation and maintenance expenses, to repay \$10,346,035 of revenue bonds. Proceeds from the bonds were used to finance capital improvements, to refund a portion of the District's Outstanding Bonds, to fund the Reserve Fund, and to pay the costs of issuance of the Bonds. The bonds are payable solely from future gross revenue plus certain LUD Assessments and are payable through 2040. The total principal and interest remaining to be paid on the bonds is \$12,549,922 as of December 31, 2020. Bond amounts presented on financial statements includes premiums of \$246,172, annual interest is decreased by amortization of debt premium and increased by the amortization of gain/loss on refunding.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 6 - PENSION PLAN

The following table represents the aggregate pension amounts for all plans for the year 2020:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 1,597,156
Pension assets	\$ -
Deferred outflows of resources	\$ 599,016
Deferred inflows of resources	\$ 447,434
Pension expense/expenditures	\$ 113,438

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 6 - PENSION PLAN (continued)

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 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January - August 2020:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
September - December 2020:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%

* 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.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 6 - PENSION PLAN (continued)

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer (2/3)	Employee (2/3*)
January – August 2020:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%
September – December 2020:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 6 - PENSION PLAN (continued)

* For employees participating in JBM, the contribution rate was 19.75%.

The district's actual PERS plan contributions were \$232,523 to PERS Plan 1 and \$383,671 to PERS Plan 2/3 for the year ended December 31, 2020.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 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 Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 6 - PENSION PLAN (continued)

- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See leg.wa.gov/osa for more information on this method change.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 6 - PENSION PLAN (continued)

Sensitivity of NPL

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 1,357,041	\$ 1,083,417	\$ 844,788
PERS 2/3	\$ 3,196,619	\$ 513,739	\$ (1,695,615)

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, 2020, the district reported a total pension liability of \$1,597,156 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 1,083,417
PERS 2/3	\$ 513,739

At June 30, 2020, the district's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.030969%	0.030687%	-0.000282%
PERS 2/3	0.039953%	0.040169%	0.000216%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 6 - PENSION PLAN (continued)

The collective net pension liability (asset) was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the district's recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 41,424
PERS 2/3	\$ 72,014
TOTAL	\$ 113,438

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PERS 1		PERS 2/3		Total	
	Def. Out of Resources	Def. In of Resources	Def. Out of Resources	Def. In of Resources	Def. Out of Resources	Def. In of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ 183,911	\$ (64,384)	\$ 183,911	\$ (64,384)
Net difference between projected and actual investment earnings on pension plan investments	-	(6,032)	-	(26,091)	-	(32,123)
Changes of assumptions	-	-	7,317	(350,927)	7,317	(350,927)
Changes in proportionate share	-	-	84,030	-	84,030	-
Contributions subsequent to the measurement date	122,745	-	201,013	-	323,758	-
TOTAL	\$ 122,745	\$ (6,032)	\$ 476,271	\$ (441,402)	\$ 599,016	\$ (447,434)

Deferred outflows of resources related to pensions resulting from the district's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2021	\$ (27,374)	\$ (194,938)
2022	\$ (861)	\$ (32,722)
2023	\$ 8,352	\$ 27,364
2024	\$ 13,849	\$ 63,197
2025	\$ -	\$ (7,841)
Thereafter	\$ -	\$ (21,202)

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 7 – PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property value listed as of the prior May 31. Assessed values are established by the county assessor at 100 percent of fair market value. A re-evaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the county treasurer.

The District is permitted by law to levy up to \$.45 per \$1,000 of assessed valuation for general District purposes. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate.

For 2020, the District's regular tax levy was .059798 per \$1,000 on a total assessed valuation of \$42,148,185,885 plus timber excise distribution of \$4,601, for a total regular levy of \$2,525,007. The District has collected \$2,494,737 or 99% of the total amount levied.

Property taxes are recorded as receivables when levied. Since State law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Special levies approved by the voters are not subject to the above limitations.

NOTE 8 – OPERATING LEASES

The District is committed under various leases for facilities to house water and telecommunications equipment. These leases are considered operating leases for accounting purposes. Lease expenses for the year ending December 31, 2020 amounted to \$54,674. The District does not have any future minimum lease commitments.

NOTE 9 - DEFERRED COMPENSATION PLANS

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. These plans are with independent plan administrators. The plans, available to eligible employees, permit them to defer a portion of their salary until future years. The District matches a portion of employee deferrals, totals were \$173,146 in 2020. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2020:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$ 166,043
OPEB assets	\$ -
Deferred outflows of resources	\$ -
Deferred inflows of resources	\$ -
OPEB expenses/expenditures	\$ (1,809,966)

Plan Description

Public Utility District No. 1 of Kitsap County Board of Commissioners provides retiree medical care through the Public Employees Benefit Board (PEBB) under a single-employer defined benefit healthcare plan (Retiree Healthcare Plan). Resolution No. 07-02-13A authorizes the KPUD to provide for payment of premiums for medical and dental insurance to retired employees, spouses and dependents, when said retired employee has worked for KPUD for a minimum of fifteen years. Financial reporting for the PEBB retiree healthcare plan is included in the KPUD's Annual Financial Report.

Funding Policy

The KPUD contributes between 70 and 85 percent based on years of service and the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute 15 to 30 percent of their premium costs. The KPUD's required contribution is based upon projected pay-as-you-go financing requirements and there are no assets accumulated in a qualifying trust. There are currently two participants on the Retiree Healthcare Plan.

At December 31, 2020, the following employees were by the benefit terms.

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	-
Active employees	1
Total	2

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation, and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

In the December 31, 2020, actuarial valuation, the method used was the alternative measurement method permitted under GASB Statement No. 75. Healthcare plans assumed 2/3 of members select a UMP plan and 1/3 of members select a Kaiser Permanente (KP) plan. An average entry age of 35, with a minimum service of 1 year, retirement eligible age of 55 and 100% rate of retirement at the age of 70 were assumed for all members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the 2018 PEBB OPEB AVR. Each cohort is assumed to be a 50/50 male/female split. Dental benefits are not included when calculating the Total OPEB Liability. Dental benefits represent less than 3% of the accrued benefit obligations under the 2018 PEBB OPEB AVR. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The following presents the total OPEB liability of the district calculated using the current healthcare cost trend rate of 5.0 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.0 percent) or 1 percentage point higher (6.0 percent) than the current rate.

	1% Decrease (4.0%)	Current Healthcare Cost Trend Rate (5.0%)	1% Increase (6.0%)
Total OPEB Liability	\$142,143	\$166,043	\$195,348

The following presents the total OPEB liability of the district calculated using the discount rate of 2.21 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.12 percent) or 1 percentage point higher (3.12 percent) than the current rate.

	1% Decrease (1.12%)	Current Discount Rate (2.21%)	1% Increase (3.12%)
Total OPEB Liability	\$194,918	\$166,043	\$142,709

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and OPEB Liability

The KPUD's annual other postemployment benefit (OPEB) cost (expense) is calculated based upon the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The KPUD has elected to calculate the ARC and related information using the alternative measurement method permitted under GASB Statement No. 75 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years as of January 1, 2009.

The following table shows the components of the KPUD's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the KPUD's net OPEB liability to the Retiree Health Plan. The net OPEB liability of \$166,043 is included as a noncurrent liability on the Balance Sheet.

PEBB Retiree Health Plan	
Total OPEB Liability at 01/01/2020	\$ 2,013,221
Service cost	26,857
Interest	70,757
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in experience data and assumptions	(1,907,580)
Benefit payments	(37,212)
Other changes	-
Total OPEB Liability at 12/31/2020	\$ 166,043

Methodology

Actuarial Valuation Date	6/30/2020
Actuarial Measurement Date	6/30/2020
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A

Assumptions

Discount Rate (beginning of year)	3.50%
Discount Rate (end of year)	2.21%
Projected Salary Changes	3.5% + Service Based Increases
Healthcare Trend Rates	Initial rate 7%, trends down to 5.0% in 2020
Base Mortality Table	Healthy RP-2000
Age Setback	1 Year
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	2.75%
Post-Retirement Participation %	65%
Percentage with Spouse Coverage	45%

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 11 – RISK MANAGEMENT

The District is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). RCW Chapter 48.62 authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Liability Pool was formed on December 31, 1976 when certain PUDs in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. There are currently 21 active members in the PURMS.

The PURMS operates three separate insurance pools: the Liability Pool, the Property Pool, and the Health and Welfare Pool. PURMS members may belong to one, two, or all three pools according to their insurance needs. The liability pool has a \$1 million self-insured retention with \$3.45 million reserves. The fund purchases \$35 million of excess general liability insurance over the \$1 million retention. The District also participate in the second excess insurance pool of \$25 million. The majority of the property in the property pool has a \$250,000 self-insured retention. Certain classes of property have higher retention requirements up to \$500,000. Reserves for the Property Pool are set at \$750,000. In addition, the fund purchases \$200 million of excess insurance over the \$250,000 (or higher) retention level. The Health and Welfare Pool is funded by paid claims reimbursement from the member generating the claim and by pooled assessment for administration and excess stop-loss insurance coverage. In all pools, members are assessed as necessary to maintain designated minimum pool balances. Because the PURMS is a cooperative program, there is joint liability among the participants of each pool. The District participates in only the Liability and Property Pools.

Should any member terminate its affiliation with the PURMS, it remains financially responsible to the PURMS for any unresolved, unreported, and in-process claims for the period that it was a signatory to the agreement. Self-insured retentions are fully funded by current and former members, and claims settlements have rarely exceeded retention levels resulting in escalation to excess coverage policies. Claims are processed by Pacific Underwriters Corporation, P.O. Box 68787, Seattle, WA 98168, a private entity contracted to perform administrative, claims adjustment, and loss prevention services, and which also compiles an annual financial report for the PURMS.

The Pool is governed by a Board of Directors which is comprised of one designated representative from each participating member. An executive committee is elected at the annual meeting, and is responsible for conducting the business affairs of the pools.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

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

The District, along with 9 other Washington State public entities, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout the Pacific Northwest for assisting its members in the efficient management of load, conservation and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001.

The District provides communications transport and related services to NoaNet. Accounts and Notes receivable from NoaNet as of December 31, 2020 was approximately \$262,000. Revenue for the year ended December 31, 2020 was approximately \$997,000.

In 2017, NoaNet transferred their banking activities to Washington Trust Bank and the prior \$13 million Wells Fargo Bank line of credit was refinanced to a \$10.2 million note, payable in equal installments over seven years. Also, in 2017, NoaNet obtained a \$5 million line of credit to finance capital expenditures and a \$2 million line of credit for operating expenses. In 2018, NoaNet converted the \$5 million line of credit to a \$3 million note, payable over five years and a \$2 million line of credit to finance capital expenditures. In 2019, both of the lines of credit are with Washington Trust Bank. In 2019, NoaNet obtained a \$665,000 note from Washington Trust Bank, payable over three years. In 2020, NoaNet issued \$24,775,000 of revenue bonds to retire all outstanding debt other than one vehicle loan and to use for capital expenditures to the network.

In December 2019, NoaNet and eight members entered into a \$1.56 million line of credit agreement, to assist NoaNet with financing capital expenditures. Draws on this line of credit were allowed from the eight members through March 2021 and the line of credit matures on July 1, 2025. Quarterly payments begin on July 1, 2020. The District's portion of this line of credit is up to \$200,000, of which the balance receivable from NoaNet was \$179,995 as of December 31, 2020.

NoaNet recorded a decrease in net position of \$4,125,150 for 2020. In accordance with Government Accounting Standards Board No. 14, *The Financial Reporting Entity*, a proportionate share of these losses has not been recorded by the District, since the District has no explicit measurable positive equity interest in NoaNet.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Accounting Department, 7195 Wagner Way Suite 104, Gig Harbor, WA 98335.

NOTE 13 – TELECOMMUNICATIONS SERVICES

The District was a founding member of NoaNet in 1999. The District began installation of fiber-optic communications for utility use in 1999 after examining various types of infrastructure that could be used to deliver advanced telecommunications services. The resulting research showed that fiber-optic cable provided the most robust and cost-effective solution. Fiber has an extremely long-life cycle and almost unlimited bandwidth capacity, which will allow the District to migrate to new technologies without replacing an expensive outside plant infrastructure.

Public utility districts in Washington State have had the authority to offer wholesale telecommunication service since 2000 (RCW 54.16.330). A new law was passed in 2021, which gave public entities, including public utility districts, the authority to provide retail broadband services to the citizens of Kitsap County. The District currently focuses on providing wholesale telecommunications services to private service providers and bills those providers directly for services. The private service providers are directly responsible for billing each end-user.

NOTE 14 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through September 30, 2021, the date the financial statements were available to be issued.

On April 30, 2021, the District issued a Telecom System Revenue Bond 2021, secured by revenue of telecom and LUDs, in the amount of \$279,908. Payments due annually, interest at approximately 4.1%.

On August 16, 2021, the District issue a Telecom System Revenue Bond 2021(B), secured by revenue of telecom and LUDs, in the amount of \$745,833. Payments due annually, interest at approximately 4.25%.

NOTE 15 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time.

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2021
LAST 10 YEARS*

PEBB Retiree Medical Benefits

	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
Total OPEB liability - beginning	\$ 166,043	\$ 2,013,221	\$ 2,041,041	\$ 1,969,779
Service Cost	2,505	26,857	113,630	134,367
Interest	3,695	70,757	83,172	75,221
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	(20,969)	(1,907,580)	(213,459)	(132,297)
Changes of assumptions	-	-	-	-
Benefit payments	(2,684)	(37,212)	(11,163)	(6,029)
Other changes	-	-	-	-
Total OPEB liability - ending	<u>\$ 148,590</u>	<u>\$ 166,043</u>	<u>\$ 2,013,221</u>	<u>\$ 2,041,041</u>
 Covered-employee payroll	 82,242	 75,831	 4,491,719	 4,161,434
 Total OPEB liability as a % of covered payroll	 180.67%	 218.96%	 44.82%	 49.05%

Notes to schedule:

Factors that significantly affect the identification of trends in the amounts reported in the schedule include, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. When changes occur in the factors discussed above, the amounts for prior years should not be restated.

*This schedule will be built prospectively until it contains 10 years of data

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
PERS 1 RETIREMENT PLAN
LAST 10 YEARS*

Schedule of Proportionate Share of the Net Pension Liability
as of June 30, 2021, 2020, 2019, 2018, 2017, 2016, 2015 & 2014

	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.033357%	0.030687%	0.030969%	0.029564%	0.028682%	0.028517%	0.029526%	0.030168%
Employer's proportionate share of the net pension liability	\$ 407,367	\$ 1,083,417	\$ 1,190,868	\$ 1,320,338	\$ 1,360,983	\$ 1,531,497	\$ 1,544,484	\$ 1,519,727
Employer's covered employee payroll	\$ 5,119,721	\$ 4,672,348	\$ 4,341,914	\$ 3,928,666	\$ 3,616,909	\$ 3,390,312	\$ 3,383,644	\$ 3,295,831
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	8%	23%	27%	34%	38%	45%	46%	46%
Plan fiduciary net position as a percentage of the total pension liability	89%	69%	67%	63%	61%	57%	59%	61%

Schedule of Employer Contributions
as of December 31, 2021, 2020, 2019, 2018, 2017, 2016, 2015 & 2014

	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 224,230	\$ 232,523	\$ 221,671	\$ 210,805	\$ 182,869	\$ 167,646	\$ 147,240	\$ 132,060
Contributions in relation to the statutorily or contractually required contributions	\$ 224,230	\$ 232,523	\$ 221,671	\$ 210,805	\$ 182,869	\$ 167,646	\$ 147,240	\$ 132,060
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employer payroll	\$ 5,238,612	\$ 4,844,322	\$ 4,491,719	\$ 4,160,434	\$ 3,725,565	\$ 3,514,584	\$ 3,343,823	\$ 3,276,517
Contributions as a percentage of covered employee payroll	4%	5%	5%	5%	5%	5%	4%	4%

Notes to Schedule:

Factors that significantly affect trends in the amounts reported in the schedule include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 in order to fund its unfunded actuarially accrued liability.

*This schedule will be built prospectively until it contains 10 years of data

PUBLIC UTILITY DISTRICT #1 OF KITSAP COUNTY, WASHINGTON
PERS 2/3 RETIREMENT PLAN
LAST 10 YEARS*

Schedule of Proportionate Share of the Net Pension Liability
as of June 30, 2021, 2020, 2019, 2018, 2017, 2016, 2015 & 2014

	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.042805%	0.040169%	0.039953%	0.038135%	0.036892%	0.036588%	0.038128%	0.038841%
Employer's proportionate share of the net pension liability (asset)	\$ (4,264,067)	\$ 513,739	\$ 388,079	\$ 651,121	\$ 1,281,821	\$ 1,842,177	\$ 1,362,335	\$ 785,117
Employer's covered employee payroll	\$ 5,119,721	\$ 4,672,348	\$ 4,341,914	\$ 3,928,666	\$ 3,616,909	\$ 3,390,312	\$ 3,383,644	\$ 3,295,831
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-83%	11%	9%	17%	35%	54%	40%	24%
Plan fiduciary net position as a percentage of the total pension liability	120%	97%	98%	96%	91%	86%	89%	93%

Schedule of Employer Contributions
as of December 31, 2021, 2020, 2019, 2018, 2017, 2016, 2015 & 2014

	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 373,451	\$ 383,671	\$ 326,309	\$ 312,078	\$ 257,107	\$ 218,959	\$ 189,213	\$ 163,538
Contributions in relation to the statutorily or contractually required contributions	\$ 373,451	\$ 383,671	\$ 326,309	\$ 312,078	\$ 257,107	\$ 218,959	\$ 189,213	\$ 163,538
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employer payroll	\$ 5,238,612	\$ 4,844,322	\$ 4,491,719	\$ 4,160,434	\$ 3,725,565	\$ 3,514,584	\$ 3,343,823	\$ 3,273,517
Contributions as a percentage of covered employee payroll	7%	8%	7%	8%	7%	6%	6%	5%

Notes to Schedule:

Factors that significantly affect trends in the amounts reported in the schedule include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 in order to fund its unfunded actuarially accrued liability.

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ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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