Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Public Utility District No. 3 of Mason County

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

Published June 29, 2023

Report No. 1032849

Office of the Washington State Auditor
Pat McCarthy

June 29, 2023

Board of Commissioners
Public Utility District No. 3 of Mason County
Shelton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Public Utility District No. 3 of Mason County's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

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Public Utility District No. 3 of Mason County
January 1, 2022 through December 31, 2022

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of Public Utility District No. 3 of Mason County are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements of the business-type activities and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

Federal Awards

Internal Control over Major Programs:

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

- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Federal Programs

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

ALN	Program or Cluster Title
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

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

Public Utility District No. 3 of Mason County
January 1, 2022 through December 31, 2022

Board of Commissioners
Public Utility District No. 3 of Mason County
Shelton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Public Utility District No. 3 of Mason County, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 21, 2023.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

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

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

June 21, 2023

INDEPENDENT AUDITOR'S REPORT

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

Public Utility District No. 3 of Mason County
January 1, 2022 through December 31, 2022

Board of Commissioners
Public Utility District No. 3 of Mason County
Shelton, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of Public Utility District No. 3 of Mason County, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2022. The District's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

June 21, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Public Utility District No. 3 of Mason County
January 1, 2022 through December 31, 2022

Board of Commissioners
Public Utility District No. 3 of Mason County
Shelton, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Public Utility District No. 3 of Mason County, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate remaining fund information of Public Utility District No. 3 of Mason County, as of December 31, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy, State Auditor

Olympia, WA

June 21, 2023

FINANCIAL SECTION

Public Utility District No. 3 of Mason County
January 1, 2022 through December 31, 2022

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

Management's Discussion and Analysis

As management of the Public Utility District No. 3 of Mason County (District), we offer readers of the District's financial statements this narrative, overview, and analysis of financial activities for the fiscal year ended December 31, 2022. Information within this section should be used in conjunction with the basic financial statements and accompanying notes, as well as the additional information furnished in our letter of transmittal.

Financial Highlights

- The assets and deferred outflow of resources of the District exceeded its liabilities and deferred inflow of resources at the close of fiscal year 2022 by $113.2 million (net position). Of this amount, $10.2 million represents unrestricted net position, which may be used to meet the District's ongoing obligations. Net investment in capital assets (net of depreciation and related debt) was $94.9 million and accounted for 84 percent of the District's net position. The District's overall total net position increased by $11.7 million to $113.2 million between 2021 and 2022.

- The District's net capital assets increased $6.9 million and total bond and direct borrowing debt decreased $2.4 million.

- In 2022, the District's sold 4.33 percent more kWh than the previous year resulting in increased revenues of 8.24 percent or $5.9 million. Of this amount, $5.4 million was attributed to residential sales which saw a 6.4 percent increase in kWh sales combined with an increase in energy and daily system charges implemented January of 2022.

Overview of the Financial Statements

Basic Financial Statements

The Statement of Net Position presents the District's net position as the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The Statement of Net Position provides information about the nature and amount of investments in resources (assets), the consumption of net assets in one period that are applicable to future periods (deferred outflows of resources), the obligations to creditors (liabilities), and the acquisition of net assets that are applicable to future periods (deferred inflows of resources).

The Statement of Revenues, Expenses, and Changes in Net Position reports the revenues and expenses during the periods indicated and identifies operating activity separately from non-operating activity.

The Statement of Cash Flows provides information about the District's cash flows from operating activities, capital, and related financing activities, investing activities, and non-capital financing activities, and presents a reconciliation of net operating income to net cash provided by operating activities.

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reported in the District's financial statements because the resources of those funds are not available to support the District's own programs. The District maintained one fiduciary fund, Other Postemployment Benefits (OPEB) Plan, which is used to report resources held in trust for health care benefits for retired employees and their beneficiaries.

Notes to the Financial Statements

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. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the District's financial statements.

Financial Analysis

Analysis of the comparative financial information is provided in the following table.

Condensed Comparative Financial Data (in thousands)

	2022	2021	Increase (Decrease)	% Change
Current Assets, Investments, and Special Funds	$ 31,435	$ 25,878	$ 5,557	21.47%
Utility Plant	157,596	150,736	6,860	4.55%
Other Assets	23,744	32,667	$ (8,923)	-27.32%
Total Assets	212,775	209,281	3,494	1.67%
Deferred Outflows of Resources	11,378	7,481	3,897	52.09%
Current Liabilities	17,081	15,014	2,067	13.77%
Noncurrent Liabilities	82,343	79,908	2,435	3.05%
Total Liabilities	99,424	94,922	4,502	4.74%
Deferred Inflows of Resources	11,534	20,366	(8,832)	-43.37%
Net Investment in Capital Assets	94,893	88,098	6,795	7.71%
Restricted	8,113	4,664	3,449	73.95%
Unrestricted	10,188	8,713	1,475	16.93%
Net Position	**$ 113,194**	**$ 101,475**	**$ 11,719**	**11.55%**
Operating Revenues	$ 83,032	$ 76,143	$ 6,889	9.05%
Operating Expenses	71,248	66,303	4,945	7.46%
Net Operating Income	11,784	9,840	1,944	19.76%
Interest Expense	(1,914)	(1,919)	5	-0.26%
Other Income and Expense	1,849	(882)	2,731	-309.64%
Change in Net Position	11,719	7,039	4,680	66.49%
Net Position, Beginning of Year	101,475	94,436	7,039	7.45%
Net Position, End of Year	**$ 113,194**	**$ 101,475**	**$ 11,719**	**11.55%**

Assets

Current assets, investments, and special funds increased $5.6 million in 2022 as a result of increased inventory costs due to supply chain challenges, increase in the system capacity fee fund, and the establishment of a special budget reserve fund as a result of a positive 2022 budget balance.

District utility plant, net of accumulated depreciation, increased by $6.9 million. This included an increase of $3.0 million in construction work in progress as the District is working on several major construction projects in 2022. The remaining difference is due to additions to utility plant and other depreciable assets, net of depreciation.

Other assets decreased by $8.9 million from 2021 primarily due to the District’s participation in the Washington State Department of Retirement Systems (DRS) PERS Plan and other post-employment benefits (OPEB) which both reported significant changes in 2022.

Deferred Outflows of Resources

Deferred outflows of resources increased by $3.9 million. This resulted from a net increase of $3.2 million in net pension liability deferrals and from a net increase of $793 thousand in other post-employment benefits (OPEB) liability deferrals.

Liabilities

The District’s total liabilities increased by $4.5 million in 2022 resulting from higher vendor payables, the increase in the net pension liability of $1.6 million, the increase in the net OPEB liability of $2.7 million, while revenue bond plus direct borrowing debt decreased $2.4 million.

Deferred Inflows of Resources

Deferred inflows decreased $8.8 million in 2022 mainly as the result of changes in the valuation of the net pension plan deferrals of $7.9 million.

Net Position

By far the largest portion of the District's net position (84 percent) reflects its investment in capital assets (e.g., land, buildings, substations, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the District's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

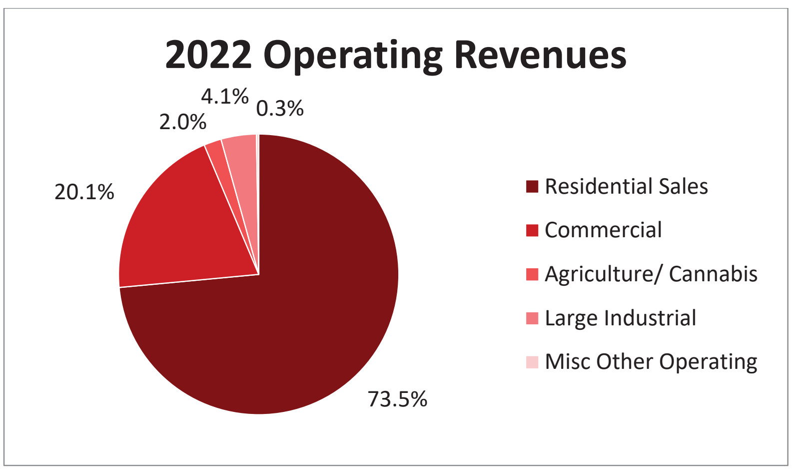
An additional portion of the District's net position (seven percent) represents resources that are subject to external restrictions on how they may be used. In 2022, the restricted net position increased by $3.4 million which was mainly due to changes in the net pension actuarial valuation.

The remaining net position (nine percent) is unrestricted and may be used to meet the District's ongoing obligations. The unrestricted net position increased mainly due to recording the net pension and OPEB valuation adjustments, increase in capital asset investments, and decrease in long-term debt.

Operating Revenues

The District's total revenues increased by $6.9 million to $83.0 million between the fiscal years 2021 and 2022. In 2022, the District saw a $5.9 million increase in Utility Sales and Service Fees mainly due to an increase in residential electric kWh sales coupled with energy and daily system charge rate increases which were implemented in January of 2022.

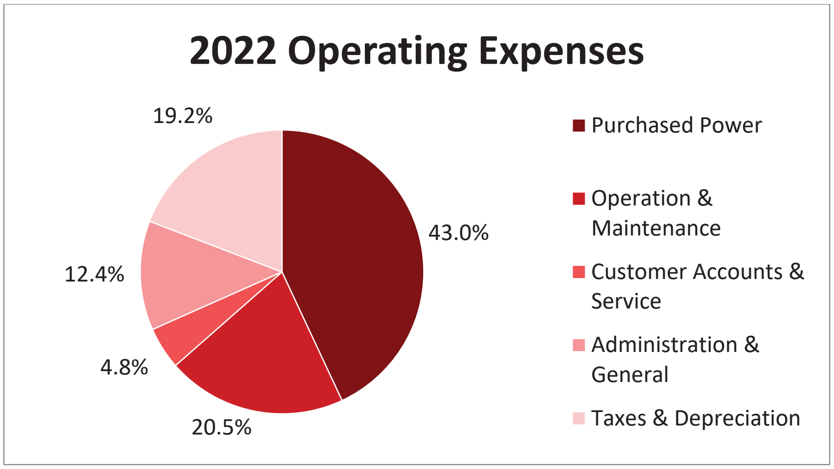
In fiscal year 2022, 73.5 percent of the District's operating revenues came from residential sales, and approximately 20.1 percent from commercial sales. Another 4.1 percent of sales comes from one large industrial customer, 2.0 percent from agriculture/cannabis customers, and the remaining from other miscellaneous sources.



Operating Expenses

The District's total expenses increased by $4.9 million between fiscal years 2021 and 2022. In 2022, the District had a $4.3 million increase in operations, maintenance, and administrative and general expenses. The majority of this is due to the District's increase in pension expense of $2.7 million over 2021. The increase in operating and maintenance expenses can also be attributed to repairs from significant weather events and changes in supply chain costs.

The District's operating expenses include purchased power, transmission and distribution, customer services and informational, customer accounts, and administrative and general expenses. Nearly 43 percent of the District's operating expenses are for the purchase of power.



The District purchased 96 percent of its power from Bonneville Power Administration (BPA) in 2022. In October 2021, BPA implemented an average 2.5 percent wholesale power rate decrease and 6.1 percent transmission rate increase to all BPA customers. However, the actual rate increase or decrease to each Bonneville customer will vary depending on the services provided in its own contract. The primary driver for BPA's decrease in power rates was its increased secondary revenue forecast for surplus sales. BPA's increase in transmission rates was strongly affected by ongoing efforts to address the effects of changing markets and includes investing in system modernization and taking advantage of new markets and technologies vital to BPA's long-term success.

The District will continue to have increased costs due to the Energy Independence Act (I-937) requirements to purchase more expensive, qualified renewable energy, and to continue its conservation efforts. Starting 2012 and through 2015, the District was required to invest three percent of the District's average load in energy for the preceding two years, as well as meet its compliance target for conservation efforts. Starting in 2016 and continuing through 2019, the District's annual renewable energy target increased to nine percent. In 2020, this target increased to 15 percent. To meet the requirement under I-937, the District's expenses were $2.5 million in 2019, $2.3 million in 2020, $2.5 million in 2021, and $2.8 million in 2022. The District will also continue to invest in its own infrastructure to ensure system reliability and standards.

Nonoperating Revenue (Expense)

In other income and expense, the District experienced growth in interest income due to market changes and an increase in interest rates. Changes can also be attributed to the District receiving $657 thousand in Federal Emergency Management Agency (FEMA) grant funds in 2022 from two state of emergency storms. The sale of the Olympic View generator in 2021 resulted in a loss in disposal of equipment and property which explains the decrease in nonoperating other expenses by $1.8 million between 2021 and 2022.

Capital Asset and Long-Term Debt Activity

Capital Assets – At the end of 2022, the District had invested $292.2 million in capital assets. This investment includes land, buildings, generation, transmission, distribution, general plant, machinery, equipment, and lease assets, as well as construction in progress. The total net increase in the District's investment in capital assets for 2022 was 4.6 percent.

More detailed information about the District's capital assets is presented in Note 2 of the financial statements.

Long-Term Debt – At the end of 2022, the District had $64.9 million in bonds and direct borrowings outstanding, a $2.4 million decrease over last year.

More detailed information about the District's long-term liabilities is presented in Note 6 of the financial statements.

Bond Ratings – The District's credit rating with Standard & Poor's is A+ and its credit rating is Aa3 on Moody's Global Ratings Scale.

Bond covenants require the District to establish, maintain, and collect rates and charges that shall be adequate to provide net revenues in each fiscal year in an amount equal to at least 1.25 times the annual debt service on the parity bonds outstanding in such fiscal year. The District’s debt service coverage ratio was 4.80 percent in 2022, with a four-year average of 4.78 percent.

Requests for Information

The financial report is designed to provide a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. Questions concerning any of the information provided in this report should be directed to the Finance Manager of the District at PO Box 2148, Shelton, WA 98584.

STATEMENT OF NET POSITION
Proprietary Fund
December 31, 2022

ASSETS		
Current Assets		
Cash and Cash Equivalents		
Cash and Cash Equivalents	$	17,378,322
Restricted Bond Fund - Principal and Interest		480,769
Accounts Receivable, Net		6,345,144
Accrued Interest Receivable		16,146
Lease Receivable		1,258,644
Inventory Material and Supplies		5,902,294
Prepayments		53,766
Total Current Assets		31,435,085
Noncurrent Assets		
Investments		3,336,799
Funds Designated for Future Construction		3,164,632
Restricted Construction Funds		12,433,765
Net Pension Asset		4,808,435
Utility Plant		
Land and Intangible Plant		2,514,286
Electric Plant in Service		275,030,012
Right-to Use Lease Assets		351,312
Construction Work in Progress		14,314,951
Less Accumulated Depreciation & Amortization		(134,614,361)
Net Utility Plant		157,596,200
Total Noncurrent Assets		181,339,831
Total Assets		212,774,916
DEFERRED OUTFLOWS OF RESOURCES		
Pension Deferred Outflow		4,894,856
OPEB Deferred Outflow		5,541,992
Unamortized Loss on Defeased Debt		940,683
Total Deferred Outflows of Resources		11,377,531
LIABILITIES		
Current Liabilities		
Revenue Bonds and Direct Borrowings, Current		2,187,265
Leases and Compensated Absences, Current		2,345,082
Warrants Payable		551,297
Accounts Payable		6,441,998
Customer Deposits		938,457
Taxes Accrued		1,603,999
Interest Accrued on Long-Term Debt		199,087
Other Current and Accrued Liabilities		2,813,435
Total Current Liabilities		17,080,620
Noncurrent Liabilities		
Revenue Bonds and Direct Borrowings		70,247,491
Leases and Compensated Absences		2,255,447
Net Pension Liability		2,768,720
Net OPEB Liability		7,071,648
Total Noncurrent Liabilities		82,343,306
Total Liabilities		99,423,926
DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflow		4,907,414
OPEB Deferred Inflow		5,494,138
Lease Deferred Inflow		1,132,919
Total Deferred Inflows of Resources		11,534,471
NET POSITION		
Net Investment in Capital Assets		94,892,839
Restricted		
Debt Service		480,769
Future Construction		2,705,921
Pension		4,926,497
Unrestricted		10,188,024
Total Net Position	$	113,194,050

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Proprietary Fund
For the Year Ended December 31, 2022

OPERATING REVENUES		
Utility Sales and Service Fees	$	76,879,314
Other Charges for Services		4,406,423
Other Operating Revenues		1,746,845
Total Operating Revenues		83,032,582
OPERATING EXPENSES		
Purchased Power		30,668,497
Operation		8,172,791
Maintenance		6,420,325
Customer Accounts		1,830,981
Customer Service, Information, and Advertising		1,614,462
Administrative and General		7,692,317
Maintenance of General Plant		1,177,416
Depreciation		8,495,768
Taxes		5,175,538
Total Operating Expenses		71,248,095
OPERATING INCOME (LOSS)		11,784,487
NONOPERATING REVENUES AND EXPENSES		
Revenue (Cost) of Merchandising		193,990
Interest Income		469,510
Net Increase (Decrease) in the Fair Value of Investments		(216,292)
Interest and Amortization on Long-Term Debt		(1,913,947)
Other Nonoperating Revenue (Expense)		1,401,552
Total Nonoperating Revenues and Expenses		(65,187)
Change In Net Position		11,719,300
Total Net Position, Beginning of Year		101,474,750
Total Net Position, End of Year	$	113,194,050

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

STATEMENT OF CASH FLOWS

Proprietary Fund

For the Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	$ 83,072,816
Cash Paid to Suppliers and Service Providers	(32,778,041)
Cash Paid to Employees for Salaries and Wages	(27,168,742)
Taxes Paid	(5,036,133)
Use of Non-Grant Funds	(86,389)
Miscellaneous Other Revenue (Expense)	1,341,700
Net Cash Provided by (Used for) Operating Activities	19,345,211
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipt of Non-Grant Funds	86,389
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	361,994
Acquisition and Construction of Capital Assets	(14,469,523)
Principal Paid on Capital Debt	(2,205,326)
Interest Paid on Capital Debt	(2,367,909)
Proceeds from Sale of Capital Assets	420,219
Net Cash Used for Capital Financing Activities	(18,260,545)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sale of Investments	3,513,802
Purchase of Investments	(2,477,029)
Interest Income	429,411
Net Cash Flow Provided by Investing Activities	1,466,184
Net Increase (Decrease) In Cash	2,637,239
Cash and Cash Equivalents, Beginning of Year	15,221,852
Cash and Cash Equivalents, End of Year	$ 17,859,091

Reconciliation of Operating Income (Loss) to Net Cash Operating Activities	
Operating Income	$ 11,784,487
Adjustments to Reconcile Operating Income to Net Cash provided by Operating Activities	
Merchandising, Net	193,990
Depreciation and Amortization	8,495,768
Miscellaneous Other Revenue (Expense)	1,255,312
Net Pension Adjustments	(1,949,663)
Net OPEB Adjustments	(127,159)
Decrease (Increase) in Customer Accounts Receivable	179,568
Decrease (Increase) in Other Accounts Receivable	(370,906)
Decrease (Increase) in Material Inventory	(1,624,623)
Decrease (Increase) in Prepayments	29,453
Increase (Decrease) in Customer Deposits	37,581
Increase (Decrease) in Outstanding Warrants	176,485
Increase (Decrease) in Accounts Payable	451,963
Increase (Decrease) in Taxes Accrued	139,405
Increase (Decrease) in Miscellaneous Accrued Liabilities	673,550
Net Cash Provided by (Used for) Operating Activities	**$ 19,345,211**

Schedule of Noncash Investing, Capital, and Financing Activities:
The District had a net decrease in the fair value of investments of $216,292 at December 31, 2022

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

STATEMENT OF NET POSITION

Fiduciary Funds

December 31, 2022

		Other Postemployment Benefits Plan (OPEB)
ASSETS		
Cash and Cash Equivalents	$	6,497
Investments		
Mutual Funds		
Global Fixed Income		4,855,936
Global Equity		7,507,890
Real Assets		2,342,328
Total Investments		14,706,154
TOTAL ASSETS		**14,712,651**
LIABILITIES		
Warrants Payable		-
TOTAL LIABILITIES		**-**
TOTAL NET POSITION RESTRICTED FOR OPEB	**$**	**14,712,651**

STATEMENT OF CHANGES IN NET POSITION

Fiduciary Funds

For the Year Ended December 31, 2022

		Other Postemployment Benefits Plan (OPEB)
ADDITIONS		
Contributions		
Member	$	-
Employer		1,162,059
Total Contributions		1,162,059
Investment income:		
Net change in fair value of investments		(2,356,040)
Interest and dividends		359,456
Net Investment Income		(1,996,584)
TOTAL ADDITIONS		**(834,525)**
DEDUCTIONS		
Benefits Paid to or for Participants		537,059
Administrative Expense		97,177
TOTAL DEDUCTIONS		**634,236**
CHANGE IN NET POSITION RESTRICTED FOR OPEB		**(1,468,761)**
NET POSITION, BEGINNING OF YEAR		**16,181,412**
NET POSITION, END OF YEAR	**$**	**14,712,651**

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

Notes to Financial Statements

As of December 31, 2022

NOTE 1 – Summary of Operations and Significant Accounting Policies

Mason County Public Utility District No. 3 (District) is a customer-owned utility providing electrical and wholesale telecommunications services in Mason County, Washington. Formed by a public vote in 1934, the utility is a municipal corporation organized under the laws of the state of Washington. It is legally and fiscally independent of other state or local governments. It began providing electrical service in 1939. The District provided electric service to 35,525 customers as of December 31, 2022.

A board of three commissioners, elected by the voters, serves the District to establish policy, review operations, and approve plans, budgets, and expenses. The legal responsibilities and powers of the District, including the establishment of rates and charges for services rendered, are exercised through the commission.

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. The following is a summary of the more significant policies:

A. Basis of Accounting and Presentation: The accounting policies of the District conform to Generally Accepted Accounting Principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Accounting records are maintained in accordance with methods prescribed by the Washington State Auditor's Office under the authority of Revised Code of Washington, Chapter 43.09 RCW and the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC). The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting where revenues are recognized when incurred, regardless of the timing of related cash flows. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing, and investing activities are considered to be nonoperating revenues and expenses.

Change in Accounting Principle: In fiscal year 2022, the District implemented GASB Statement No. 87, Leases which addresses accounting and financial reporting for leases. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Disclosure and required supplementary information requirements about leases are addressed in the Statement.

B. Utility Plant and Depreciation: Utility plant in service and other capital assets are recorded at cost, which includes both direct and indirect costs of construction or acquisition. The District's capitalization threshold is $1,000 for non-infrastructure capital, while its threshold for infrastructure capital is $50,000. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and improvements is capitalized.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Structures and Improvements	40-50 Years
Generation Plant	17-30 Years
Plant - Transmission	25-36 Years
Plant - Distribution	23-50 Years
Plant/Equipment	8-25 Years
Transportation Equipment	4-8 Years
General Plant and Equipment	3-17 Years

The District's Continuing Property Records system reflects the recording of property units added and retired. Initial depreciation on utility plant is generally recorded in the month subsequent to purchase or completion of construction. As prescribed by FERC, the book cost of operating property retired or otherwise disposed of, less salvage, is charged to accumulated depreciation. As a result of this guidance, the decreases to accumulated depreciation can exceed the decreases to depreciable assets.

The District follows FERC operating instructions for depreciation expense, which includes all classes of depreciable electric plant in service except depreciation expense chargeable to clearing accounts. Depreciation expenses applicable to transportation equipment and shop equipment are charged to clearing accounts in order to obtain a proper distribution of expenses between construction and operation. The depreciation expense charged to clearing accounts is included in Maintenance under Operating Expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

<u>C. Deposits and Investments</u>: The District's cash is considered to be cash on hand. Cash equivalents are considered demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The District measures and reports investments at fair value.

Deposits and investments are recorded in accounts as required by the District's bond indentures. Restricted assets represent accounts that are restricted by bond covenants or third-party contractual agreements. Accounts that are allocated by resolution of the commissioners are considered to be board designated accounts. Board designated accounts are a component of unrestricted assets as their use may be redirected at any time by approval of the commissioners.

The District considers all deposits with the Washington State Treasurer's Local Government Investment Pool (LGIP) cash and cash equivalents. Since the pool is sufficiently liquid to permit withdraw of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

As required by state law, all deposits and investments of the District's funds are obligations of the U.S. Government and its agencies, including certificates of deposit, general obligations of Washington State municipalities, LGIP, and deposits with Washington State banks and savings and loan associations, or other investments allowed by Chapter 39.59 RCW.

The District's deposits and certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

<u>D. Restricted Assets</u>: In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. These assets are restricted for specific uses including debt service, bond reserve, and capital additions. These are classified as current or noncurrent assets, as appropriate. When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as needed. In the restricted net position amount, the unspent bond proceeds and the portion of debt attributable to those proceeds were included in the calculation.

<u>E. Receivables</u>: The percentage-of-sales allowance method is used to estimate uncollectible accounts. The reserve is then reviewed for adequacy against an aging schedule of accounts receivable. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis.

<u>F. Inventories</u>: Inventories are valued at weighted-average cost, which approximates the fair value.

<u>G. Compensated Absences</u>: The District accrues unused compensated absence benefits as amounts are earned. Compensated absences include vacation, sick leave, and other leave. Compensated absences, which may be accumulated up to 960 hours, is payable in full upon resignation, retirement, or death. The liability for unused leave was $4,349,699 as of December 31, 2022.

<u>H. Debt Premium and Discount</u>: Original issue bond premiums and discounts relating to revenue bonds are amortized over the terms of the respective bond issues using the bonds outstanding method. Bond premiums and discounts offset the debt outstanding balance. In accordance with GASB Statement No. 23, Accounting and Financial Reporting for Refundings of Debt

Reported by Proprietary Activities, losses on debt refundings have been deferred and amortized over the shorter of the remaining life of the old or new debt.

I. Leases: For long-term leases of January 1, 2022, that have a present value of future payments over $50,000, which do not transfer ownership of the underlying asset, and the District is the lessee, a lease liability, and a lease asset have been established in accordance with GASB Statement No. 87 (Note 5). The lease liability was established at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset was established at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

For long-term leases as of January 1, 2022, that have a present value of future receipts over $50,000, which the District is the lessor, a lease receivable and a deferred inflow of resources have been established in accordance with GASB Statement No. 87 (Note 5). The lease receivable was established at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources was established at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

J. Reclassifications: Certain 2021 account balances may have been reclassified to conform to the 2022 presentation. Such reclassifications would have no effect on previously reported results of operations and cash flows.

K. Financial Statements: Separate fund financial statements are provided for the proprietary fund and the fiduciary funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's electric enterprise fund are charges to customers for sales and services. The District also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District has one fiduciary trust fund, the OPEB Plan Trust, as described in Note 11.

L. Pensions: For purposes of measuring the net pension liability, net pension asset, 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 – Utility Plant and Depreciation

Utility plant activity for the year ended December 31, 2022:

Utility Plant Assets	Balance 12/31/2021	Increase	Decrease	Balance 12/31/2022
Utility plant not being depreciated:				
Land and intangible plant	$2,461,770	71,851	(19,335)	$2,514,286
Construction work in progress	11,314,386	16,073,607	(13,073,042)	14,314,951
Utility plant being depreciated:				
Generating plant	430,262	0	(106,115)	324,147
Transmission plant	5,452,523	99,800	(35,535)	5,516,788
Distribution plant	200,095,048	9,589,176	(1,136,849)	208,547,375
Right-to-use leased equipment	0	351,312	0	351,312
General plant	57,697,814	3,104,605	(160,717)	60,641,702
Subtotal	263,675,647	13,144,893	(1,439,216)	275,381,324
Less accumulated depreciation for:				
Generating plant	(102,710)	(20,752)	46,366	(77,096)
Transmission plant	(3,844,355)	(182,588)	68,971	(3,957,972)
Distribution plant	(103,087,225)	(6,679,296)	1,610,437	(108,156,084)
Right-to-use leased equipment	0	(102,889)	0	(102,889)
General plant	(19,681,232)	(2,755,682)	116,594	(22,320,320)
Total accumulated depreciation	(126,715,522)	(9,741,207)	1,842,368	(134,614,361)
Net utility plant	$150,736,281	$19,549,144	($12,689,225)	$157,596,200

The District is an electric utility and is guided by the FERC financial reporting. According to the FERC electric plant instruction 10 paragraph B(2), "If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to the accumulated provision for depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account." As a result of this accounting method, the decrease in accumulated depreciation for a given class of capital assets may exceed the decrease for those assets. The depreciation expense reported in the financial statements differs from the total accumulated depreciation due to following this guidance.

NOTE 3 – Construction and Other Significant Commitments

The District had several major active construction projects in 2022.

Belfair Switching Station

Initial plans for the construction of a five-breaker 115 kV ring-bus switching station matured in 2022 to the point where the District selected a professional services engineering firm for the complete design of the facility. A full set of designs and construction documents should be available in early-2024, which will allow the District to proceed to construction via competitive bid near the middle of that year. Other progress has been made on this multi-year project including: relocating the Belfair crew to the Johns Prairie Operations Center; planning for the closing of the Belfair warehouse and reintegrating the existing equipment and material to the Shelton warehouse; surveying a future transmission corridor to the future Olympic Ridge Substation, which will be fed out of this new Belfair Switching Station; and pre-project planning and coordination with the Bonneville Power Administration (BPA) for the modification of the Belfair substation 115 kV tap. This project is required for the continued organic and planned growth in the North Mason community, as well as to increase reliability for the existing customers served by the Union River and Collins Lake substations; in addition to the Belfair, Pioneer, and Benson substations.

Goldsborough Switching Station

Initial plans for the construction of a three-breaker 115 kV ring bus switching station have matured in 2022 to the point where the District will be selecting a professional services engineering firm in early 2023 for the complete design of the facility. This project is required for the continued organic and planned growth in Mason County near Sanderson Field and the large industrially-zoned opportunity zones along Hwy 102. The project will also increase reliability for the existing customers served by the Dayton Substation.

Pole Inspection Test & Treatment Program: Belfair Area & Scheduled Major Feeders

The District's Pole Inspection Test & Treatment (PITT) Program was performed on 2,930 wood poles in 2022, which includes distribution and service poles in the Belfair area, Mason Lake Road, Cloquallum Road, Highland Road, and Agate Road. In total, 201 poles were identified as needing replacement. The District suffered a 6.86 percent failure rate, which is in line with the expected results (<10 percent), but higher than the prior two years' rate. The District is committed to inspecting aging infrastructure and making plans for appropriate replacement of end-of-life assets to ensure the safe, reliable, and economical operation of the electric grid.

Transmission Pole Replacements: Union River, Collins Lake, Pioneer

The District replaced rejected transmission poles on its Union River, Collins Lake, and Pioneer 115 kV transmission circuits in summer 2022. This work is highly coordinated as the transmission circuit must be de-energized, which means the substations must be brought offline. While the transmission circuits are turned off, the distribution circuits lower on the pole remain energized to keep customers in power, which makes this work extremely hazardous. District's engineering and operations teams completed this highly technical project safely and efficiently in 2022. In 2023, the Dayton transmission circuit will have its rejected poles replaced, and plans will be made for the final reject structure on the Skookum transmission circuit.

Underground Power Line Replacement Program

The District experienced 133 primary underground cable faults in 2022 involving 106 unique line segments. This is up 17 percent from 2021 (112) and up 31 percent from 2020 (97). Old Farm Road, which was replaced in late-Summer/early-Fall 2022, was a significant driver in the increased number of underground outages this year. The average time out of power for affected customers of all underground cable fault outages was four hours and 16 minutes. There were 22-line segments that experienced their first fault this year. It is extremely difficult, if not impossible, to predict when underground faults will occur and on which lines, although trends clearly show a sharp increase in outages during dry summer months. The District is currently tracking 360 unique line segments that have experienced a fault.

Generally speaking, underground faults occur on primary cable that is direct buried and not in a conduit system. In 2022, the District made significant progress on replacing direct buried cable either by using a conduit system or going overhead, which reduces the potential for exposure to underground faults.

Major underground replacement/conversion projects completed in 2022 include: Old Farm Road (10,925 feet), Lillie Road (3,000 feet), State Route 3: Beyond Beil Road (3,000 feet), Shelton Matlock Road: Killion Creek to Matlock Store 3Ø (7,124 feet), Fredson Road (4,810 feet), Little Egypt Road (955 feet), Marine View Drive (450 feet), Shelton Valley Road (1,500 feet), Riverside Lane (750 feet), Cedarshade Lane (960 feet), and South Island Drive (2,145 feet).

PUD 3 has a total of 1,116 miles of primary underground cable installed; 45 percent (498 miles) is in conduit.

Fiberhood Program

In September 2018, the District was awarded a grant/loan from the Community Economic Revitalization Board (CERB) for the construction of designated Fiberhoods throughout Mason County to help bridge the rural broadband gap. Financial assistance is made up of a revenue loan totaling $408,325 (1.5 percent interest, up to 20 years), $408,324 grant, and $911,324 in local match, which includes make-ready costs. The projects were broken into four areas and preparations began in earnest. First up were five contiguous fiber distribution hut service zones in Southwest Mason County: Matlock Brady Road, Ford Loop Rd, Ripplewood, Haven Drive, and the Schafer State Park area. Before fiber construction, the District's electric maintenance engineers evaluated existing overhead pole facilities and line crews worked to replace aging infrastructure. Fiber network designs were completed, and the fiber stringing and splicing contract was placed out for competitive bid at the end of 2019, with construction wrapping up in Fall 2020. The Tahuya River Valley Fiberhood and pole replacement project was placed out to competitive bid at the end of 2020, with construction completed in Summer 2021. The Lake Christine Fiberhood was also constructed in 2021. The Island View Fiberhood construction was placed out for competitive bid at the end of 2021 and was completed in early 2022. South Island Drive Fiberhood on Harstine Island was placed out for competitive bid at the end of 2022 and is scheduled for completion in early 2023. Orchard Beach in Grapeview will follow in early 2023, utilizing in-house resources. The District has four years to complete the total project (May 2023).

Upon the success of the CERB grant/loan program in 2018, the District applied for additional financial aid in "Round 2" of CERB's Rural Broadband Program. Again, the District was awarded funds for the construction of designated Fiberhoods throughout Mason County. The TriLakes area (Panther, Tiger, Mission Lakes), Dana Drive on Harstine Island, Philips Road, and Totten Shores were included. Financial assistance is made up of a revenue loan totaling $1,000,000 (1.25 percent interest, up to 12 years), $1,000,000 grant, and $689,260 in local match. Initial engineering designs were started in 2019 and continued throughout 2021, including the construction of a fiber path to the TriLakes community and fiber distribution network designs for the Dana Drive and Panther/Tiger Lakes Fiberhoods. In 2022, the Dana Drive Fiberhood was completed through a competitive bid process, and engineering designs for Phillips Road, Totten Shores, and Mission Lake Fiberhoods were completed in-house. These remaining areas will go to construction through competitive bid process in early/mid 2023. The District has four years to complete the total project (November 2023).

The District has been working for many years to gain approval to apply for federal funds to support rural broadband expansion efforts in Mason County. In March 2019, United States Department of Agriculture's Rural Utility Service's ReConnect Program confirmed that a wholesale telecommunications utility such as Mason PUD 3 would be eligible for funds. District staff quickly mobilized to put together a comprehensive application for 250 households in the Three Fingers Area of Grapeview. The application requested $2,476,279 in grant funds and proposed $825,427 in local matching funds. The District received notification of the award on December 19, 2019. The District finally received its Release of Funds letter in April 2021, which signified the official start of the project. Work on equipment purchases and in-house engineering began immediately. Engineering designs for conduit installation and fiber-to-the-home networks were completed in 2022 and the District will utilize internal construction resources to install the conduit beginning in early-2023. Fiber-to-the-home construction will follow. The District has five years to complete the project (April 2026).

The District's existing Fiberhood program was also very productive in 2022, connecting Kamilche Valley, Clear Lake, California Road, and SR3/Yacht Club Fiberhoods. In addition to the grant committed projects, Tee Lake, Spaulding/Tornow, Capital Prairie, Boyer Road, Collier Road, Wingert Road, Arcadia Point/Teagle, and Arcadia Shores Fiberhoods were in various stages of the design and construction process in 2022.

The Fiberhood program is designed to expand access to the District's fiber-optic network for gigabit speed broadband service. The Fiberhood process identifies potential neighborhoods that are unserved or underserved by broadband providers. Among other factors, expansion of service is based on a guaranteed level of customer commitment to obtain service from the fiber network. As of December 31, 2022, over forty Fiberhoods are connected or under design/construction through the Fiberhood, CERB, and/or ReConnect programs. Twenty-one Fiberhoods are in the sign-up phase, with some zones coming very close to their 75 percent commitment requirement. As the network is expanded, new Fiberhood zones are added to the signup process regularly.

The Commission approved initial funding of the Fiberhood project with $2.5 million from its reserves. Additional financial aid has been pursued through the CERB and ReConnect rural broadband programs, and the District continues to evaluate and apply for other broadband expansion funding opportunities. Cost recovery for the Fiberhood project comes

through a $25 monthly Construction Adder fee plus service revenues paid back over 12 years, which are billed through the customer's internet service provider. The initial funding plus the fees collected by the customer's internet service provider, and passed along to the District, go into a special account established to pay for future Fiberhood construction.

NOTE 4 – Deposits and Investments

Deposits

Custodial Credit Risk Deposits – Is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party.

The District's deposits are mostly covered by the federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District does not have a deposit policy for custodial credit risk.

Cash and Cash Equivalents Deposits – The District moves cash as necessary between accounts, LGIP and various bank revolving or holding accounts, to pay its obligations. The District's deposits are held by public depositaries authorized by the Washington Public Deposit Protection Commission (PDPC) and are not subject to custodial credit risk.

Investments

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

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

As of December 31, 2022, the District had the following investments measured at fair value:

Valuation Method	Amount	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Federal Agency Securities	$ 3,336,799	$ -	$ 3,336,799	$ -
Total Investments by Fair Value Level	$ 3,336,799	$ -	$ 3,336,799	$ -
Total Investments Measured at Fair Value	$ 3,336,799			
Other Securities not Measured at Fair Value				
Deposits in Private Institution	$ 7,236,989			
Deposits in State LGIP	26,220,499			
Total Investments	**$ 36,794,287**			

Interest Rate Risk – The risk the District may face should interest rate variances affect the fair value of investments. The District manages its exposure to declines in fair values by matching investment maturities to meet anticipated cash flow requirements. The District does not have a formal policy that addresses interest rate risk.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal policy that addresses credit risk.

As of December 31, 2022, District investments had the following credit quality and risk exposure:

Credit Quality Ratings	Fair Value	Average Maturity	Held by Counterparty	S&P/Moody's Rating
Investments				
Federal Agency Securities	$ 3,336,799	1-5 Years	US Bank	AA+/Aaa

Investments in Local Government Investment Pool

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

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

NOTE 5 – Leases

For the year ended December 31, 2022, the financial statements include the adoption of GASB Statement No. 87, Leases. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that certain leases are financings of the right-to-use underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

For leases with a maximum possible term of 12 months or less at commencement, the District recognizes revenue or expense based on the provisions in each contract. For all other leases (i.e., those that are not short-term) as a lessee or lessor the District recognizes a right-to-use asset, and lease liability or a lease receivable, and deferred inflow, respectively, in accordance with GASB Statement No. 87.

Lessee Activities:

The District is involved in one building lease and multiple computer equipment leases to perform District operations. The obligations relating to these leases have been recognized on the Combined Statement of Net Position as both a right-to-use asset and the related lease liability equal to the present value of the lease payments in each agreement payable during the contracted term.

Beginning January 1, 2022, the District entered into an agreement to lease office space for eight months but exercised its one option to extend the lease an additional 60 months which now terminates on August 31, 2027. The District is required to make monthly fixed payments of $1,700 and recognized a right-to-use asset and a lease liability of $107,744. During the fiscal year, the District recorded $19,014 in amortization expense and $2,307 in interest expense for the right-to-use the office space. As of December 31, 2022, the value of the lease liability was $89,653. In calculation of the lease liability the District used an interest rate of 2.55 percent based on the all-in true interest cost of our most recent bond issuance.

Beginning January 1, 2022, the District entered into multiple computer equipment leases with the initial lease liability and right-to-use asset being recorded in the amount of $183,076. In May 2022, an additional right-to-use lease agreement was entered in the amount of $60,492. The leases have terms ranging from 27 months to 36 months with a final termination date of April 30, 2025. The District is required to pay monthly base fees of $7,861 and recognized right-to-use computer equipment assets of $243,568. During the fiscal year, the District recorded $83,875 in amortization expense and $4,273 in interest expense for the right-to-use the computer equipment. As of December 31, 2022, the value of the lease liability is $161,178. In calculation of the lease liability the District used an interest rate of 2.55 percent based on the all-in true interest cost of our most recent bond issuance.

The following table summarizes the balances of leased assets by major classes reported in Net Utility Plant as of December 31, 2022:

Amount of Lease Assets by Major Classes of Underlying Asset

	As of Fiscal Year-end	
Asset Class	Lease Asset Value	Accumulated Amortization
Building	$ 107,744	$ 19,014
Computer Equipment	243,568	83,875
Total Leases	$ 351,312	$ 102,889

The following schedule presents future annual lease payments as of December 31, 2022:

Principal and Interest Requirements to Maturity			
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2023	$ 108,903	$ 5,132	$ 114,035
2024	82,459	2,542	85,001
2025	26,220	1,153	27,372
2026	19,780	618	20,398
2027	13,469	129	13,598

Lessor Activity:

On January 1, 2022, the District entered into multiple 30-month pole attachment lease agreements as lessor. As of December 31, 2022, the value of the lease receivable is $1,258,644 and the lessees are required in total to make annual fixed payments of $653,508. The District uses an interest rate of 2.55 percent for calculation of lease receivable, which is based on the 2020 bond interest rate. During the fiscal year, the District recognized $23,954 in interest income related to these agreements. The value of the deferred inflow of resources as of December 31, 2022, is $1,132,919 and the District recognized lease revenue of $755,279 during the fiscal year.

NOTE 6 – Long-Term Liabilities

The District has two revenue bonds outstanding as of December 31, 2022. The original amounts of these bonds totaled $67,460,000. The funds were used for the acquisition and construction of major capital facilities. Current revenue bonds outstanding are as follows:

Purpose	Interest Rate	Original Amount
2016 - Electric Revenue Refunding Bonds	1.86%	10,000,000
2020 - Electric Revenue & Refunding Bonds	3.00% - 5.00%	57,460,000
Total		**$ 67,460,000**

The following is a list of the long-term liability activity and year-end summary as of December 31, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Long-Term Debt:					
2016 Revenue Direct Placement Refunding Bonds	$ 8,839,644	$ -	$ 230,832	$ 8,608,812	$ 235,126
2020 Revenue and Refunding Bonds	57,460,000	-	1,780,000	55,680,000	1,855,000
Direct Borrowings	420,890	302,408	93,978	629,320	97,139
Unamortized Premiums	8,147,564	-	630,940	7,516,624	-
Total Bonds and Direct Borrowings Payable	74,868,098	302,408	2,735,750	72,434,756	2,187,265
Other Liabilities:					
Right-to-use Lease Liabilities	290,820	60,492	100,481	250,831	108,903
Compensated Absenses	3,579,154	3,063,869	2,293,324	4,349,699	2,236,179
Net Pension Liability	1,200,986	1,567,734		2,768,720	-
Net OPEB Liability	4,383,495	2,688,153		7,071,648	-
Total Other Liabilities	9,454,455	7,380,248	2,393,805	14,440,898	2,345,082
Total Long-Term Liabilites	$ 84,322,553	$ 7,682,656	$ 5,129,555	$ 86,875,654	$ 4,532,347

Debt Service Requirements on long-term debt at December 31, 2022 are as follows:

	Bonds		Notes from Direct Borrowings and Direct Placements	
Year Ending December 31,	Principal	Interest	Principal	Interest
2023	$ 1,855,000	$ 2,145,500	$ 332,265	$ 177,285
2024	1,925,000	2,071,300	337,898	171,652
2025	2,000,000	1,994,300	343,630	165,921
2026	-	1,914,300	2,618,881	160,091
2027	-	1,914,300	2,654,084	103,184
2028-2032	13,185,000	8,715,350	2,772,689	67,694
2033-2037	19,375,000	5,614,850	109,172	10,175
2038-2042	14,905,000	1,841,000	69,513	2,096
2043-2045	2,435,000	197,400	-	-
	$ 55,680,000	$ 26,408,300	$ 9,238,132	$ 858,098

In January 2020, the District issued $57,460,000 of Electric Revenue and Refunding Bonds, Series 2020 with an all-in true interest cost of 2.55 percent. Net proceeds of the bonds totaled $66,708,202 of which $13,000,000 was deposited with the District to finance capital projects, $53,286,590 was deposited with an escrow agent to provide for future debt service payments on the 2010B Series bonds, and $421,612 was used for the cost of issuance, underwriter's discount, and other issuance costs. The debt issuance costs were expensed in the current period as incurred, in accordance with GASB 65.

The District's outstanding direct placement 2016 Revenue Bond contains a provision in the event of a default; a mandamus action may be brought to enforce payment of amounts due. In addition, the Bank may increase the interest rate on the bond up to 1.5 percent with written notice.

The District was awarded a direct borrowing loan from the Washington State Community Economic Revitalization Board (CERB) in 2018 with a maximum amount of $408,325 for the purpose of constructing rural broadband fiber. As of December 31, 2022, the District's outstanding debt amount of CERB 1 is $374,095. No assets are pledged as collateral for this debt. The outstanding loan contains a provision if the District is unable to pay any installment, or any portion thereof, of principal or interest, CERB may at its option declare the entire remaining balance of the loan, together with interest accrued immediately due and payable.

The District was awarded a second direct borrowing loan from CERB in 2019 with a maximum amount of $1,000,000 for the purpose of constructing rural broadband fiber. Construction on this project began in 2021 and as of December 31, 2022, the District's outstanding debt amount of CERB 2 is $255,225. No assets are pledged as collateral for this debt. The outstanding loan from this direct borrowing contains a provision if the District is unable to pay any installment, or any portion thereof, of principal or interest, CERB may at its option declare the entire remaining balance of the loan, together with interest accrued immediately due and payable.

There are limitations and requirements contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions including compliance with federal arbitrage requirements.

The District establishes, maintains, and collects rates and charges that shall be adequate to provide in each fiscal year net revenues in an amount equal to at least 1.25 times the annual debt service on the parity bonds outstanding in accordance with the bond covenants.

The District did not engage in any short-term debt activity. The District does not have any outstanding in-substance defeased debt at year end.

NOTE 7 – Pension Plans

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 2,768,720
Pension asset	$ 4,808,435
Deferred outflows of resources	$ 4,894,856
Deferred inflows of resources	$ 4,907,414
Pension expense/expenditures	$ (264,349)

State Sponsored Pension Plans

All full-time and qualifying District 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 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 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.

<u>Contributions</u>

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

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
January – August 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**
September – December 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan UAAL	3.85%	
Administrative Fee	0.18%	
Total	**10.39%**	**6.00%**

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

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

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

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of five 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.

<u>Contributions</u>

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 2022 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2**
January – August 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**10.25%**	**7.90%**
September – December 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**10.39%**	**6.36%**

The District's actual PERS plan contributions were $625,304 to PERS Plan 1 and $1,060,010 to PERS Plan 2/3 for the year ended December 31, 2022.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Demographic Experience Study and the 2021 Economic Experience Study.

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

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

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

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

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.

- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5 percent (7.4 percent for LEOFF 2) to 7.0 percent, and the salary growth assumption was lowered from 3.5 percent to 3.25 percent. This action is a result of recommendations from OSA's biennial economic experience study.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022. The inflation component used to create the table is 2.2 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%	1.5%
Tangible Assets	7%	4.7%
Real Estate	18%	5.4%
Global Equity	32%	5.9%
Private Equity	23%	8.9%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
PERS 1	$ 3,698,970	$ 2,768,720	$ 1,956,827
PERS 2/3	5,662,561	(4,808,435)	(13,411,019)

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 December 31, 2022, the District reported its proportionate share of the net pension liabilities (assets) as follows:

	Liability (or Asset)
PERS 1	$ 2,768,720
PERS 2/3	(4,808,435)

At December 31, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 12/31/21	Proportionate Share 12/31/22	Change in Proportion
PERS 1	0.098342%	0.099438%	.001096%
PERS 2/3	0.125267%	0.129650%	.004383%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

Pension Expense

For the year ended December 31, 2022, the District recognized pension expense as follows:

	Pension Expense
PERS 1	$ 1,303,320
PERS 2/3	(1,567,669)
TOTAL PENSION EXPENSE	$ (264,349)

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	458,858
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	$ 328,237	$ -
TOTAL	$ 328,237	$ 458,858

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,191,418	$ 108,851
Net difference between projected and actual investment earnings on pension plan investments	-	3,554,911
Changes of assumptions	2,680,040	701,731
Changes in proportion and differences between contributions and proportionate share of contributions	144,410	83,063
Contributions subsequent to the measurement date	550,751	-
TOTAL	$ 4,566,619	$ 4,448,555
TOTAL ALL FUNDS	$ 4,894,856	$ 4,907,414

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

Year ended December 31:	PERS 1	PERS 2/3
2023	$ (194,179)	$ (1,081,948)
2024	$ (176,365)	$ (964,472)
2025	$ (221,244)	$ (1,164,050)
2026	$ 132,931	$ 1,642,438
2027	$ 0	$ 580,750
Thereafter	$ 0	$ 554,594

NOTE 8 – Deferred Compensation

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457 permitting employees to defer a portion of their salary until future years. The District match is locked at a maximum rate of 3.5 percent. The deferred compensation is not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries. In 2022, the District made matching contributions of $448,001 and employees made contributions of $958,667 to the Washington State Department of Retirement Systems 457 Plan.

NOTE 9 – Power Supply/Power Sales Contract

Bonneville Power Administration (BPA) – In 1937, the Bonneville Project Act (Act) created the BPA and directed it to market federally produced hydroelectric power to customers, giving preference and priority in power sales to public bodies and cooperatives. Public bodies include public utility districts, people's utility districts, tribal utilities, municipalities, and federal customers. The Act also authorized the BPA to provide, construct, operate, maintain, and improve transmission facilities to deliver federal power at cost. The BPA is part of the U.S. Department of Energy but is self-financing and receives no federal tax revenues. Costs are recovered by selling wholesale power, capacity, transmission, and related services at cost to utility, industrial, governmental, market, and transmission customers inside and outside of the region. About 28 percent of all power used in the Pacific Northwest is sold by the BPA. Its resources, primarily hydroelectric, make the BPA power nearly carbon free.

The BPA uses its sales revenue to make annual payments to the U.S. Treasury for repayment of the federal investment in the Federal Columbia River Power System (FCRPS). Federal loans are paid back with interest. The BPA also funds recreation and fish and wildlife mitigation costs associated with the federal hydropower development in the Columbia River Basin. Approximately 25 percent of the BPA's 2021 wholesale rate is associated with its fish and wildlife programs. The BPA also provides capacity for integration of renewable generation resources within its balancing area.

The BPA's function is to market wholesale electrical power over its transmission grid. The U.S. Army Corps of Engineers and the Bureau of Reclamation operate and maintain 31 federal hydroelectric projects which constitute the backbone of the federal base system. In addition, all of Energy Northwest's Columbia Generation Station (CGS) output is provided to the BPA at the cost of production under a formal net billing agreement. CGS is the Pacific Northwest's only commercial nuclear energy facility. The BPA operates and maintains approximately 15,000 miles of high-voltage transmission in its service territory. The BPA has nearly 5,100 MW of wind integrated into its transmission system; enough to power a city three times the size of Seattle. The BPA expects to connect another 3,000 to 4,000 MW of wind energy to its system by 2025. The BPA balances the ups and downs of wind energy primarily with hydropower generated at federal dams. The BPA is working to find ways to do more with its resources and are expanding its access to other resources to balance wind energy.

Tiered Rates – The BPA determined the capacity of the FCRPS has been reached. Therefore, in 2008, after nearly three years of regional dialogue discussions, the BPA offered new power sales contracts for the term of 2011 to 2027, which allocate the capacity of the existing FCRPS based on the historical worst-case water year and maintain the relatively low cost of the resource. It requires any energy purchased in excess of that capacity to be at the BPA's cost of acquiring the additional resources (Tier 2 product) or provided by the customer from a separate non-federal resource. The District signed the contract, with reservations, on November 25, 2008. The new contract went into effect October 1, 2011.

Post-2028 Initiative – Public power customers started engaging with the BPA as early as 2016 to discuss wants and needs for the next contract set to start October 1, 2028. In July 2022, the BPA released its Provider of Choice Concept Paper which provides the high-level framework for its post-2028 contract policies, products, and services. Public processes will be held through October 2023 with the BPA ultimately releasing a final policy and record of decision in January 2024. Contract negotiations will continue with the contract policy record of decision expected in September 2025 and contracts executed prior to 2026. In addition to the Provider of Choice contracts which will establish the long-term preference power sales policy and agreements, the Post-2028 initiative also includes policy updates for conservation, rate methodology, and residential exchange.

Energy Efficiency Programs – The District has an Energy Conservation Agreement with the BPA to sell it qualified energy savings effective September 12, 2022. The Agreement supports the BPA's energy efficiency plan to pursue cost-effective conservation as a resource to reduce the firm power load requirements of its customers in the Pacific Northwest.
The BPA determined Energy Efficiency Incentive (EEI) funding for FY 2022 and 2023 is based on the Tier One Cost Allocators established in the BP-18 final proposal. Customer incentives paid by the District are reimbursed by the BPA upon submission of required supporting documentation. These projects include residential, commercial, and industrial energy efficiency programs and measures. The determined amounts by the BPA for the District's EEI budget are $1,290,747 for FY 2022 and $860,498 for FY 2023. The BPA customers' funding allocations for EEI were decreased as a result of the BPA's FY 2015 decision to transition conservation from capital to expense.

The District achieved about 1,230 megawatt-hours (MWh) or 1,230,107 kilowatt-hours (kWh) of energy savings in 2022 through its residential, commercial, and industrial programs, spending $536,967 from its EEI budget. Spending levels were less than projected in 2022 due to the various impacts of the COVID-19 global pandemic along with supply chain challenges. The average District residential customer uses approximately 14,460 kWh/year. The District achieved enough energy savings to power 85 homes over the two-year period.
Qualifying measures for the BPA's Energy Efficiency Program are determined by the Regional Technical Forum (RTF) and reported on the BPA's Interim Reporting Solution 2.0 (IS 2.0) website. The RTF is an advisory committee of the Northwest Power Planning Council, established in 1999 to develop standards to verify and evaluate conservation savings. Members are appointed by the Council and include individuals experienced in energy efficiency program planning, implementation, and evaluation.

Community Shared Solar – In 2015, the District installed Mason County's first shared solar energy project. The 75-kilowatt project is located at the District's Johns Prairie operations center. Approximately 110 District customers benefit from the energy produced by the solar array, a Washington State Production Incentive, and federal tax credits. Nearly 2,900 "solar units" were allocated to customers who had registered to participate and collectively pay for the project. Customers signing up for the program requested nearly twice as many units as were available.
In 2019, participants saw the complete return on their 2015 investment. This was achieved through an annual credit on the customer's electric bill based on the electricity generated by their share of the project along with an annual Washington State production incentive of $1.08 per kWh that the customer's solar units generated through FY 2019. Participants saw

their last Washington State production incentive check in 2020, but billing credits will continue to be applied to customer accounts for the life of the project.

With approximately 210 solar power systems installed throughout Mason PUD 3's service territory, customers have shown a great deal of interest in renewable energy. The shared solar project helps customers who, for a number of reasons, cannot take advantage of solar energy at their homes. Some examples include cost; the weight of solar panels, brackets, and connectors on a roof; lack of southern exposure to catch the sun; nearby trees blocking the sun; restrictive homeowner's association covenants; and an inability to adopt a lifestyle required for a home renewable energy system. On June 30, 2017, Governor Inslee signed ESSB 5939 which established a new replacement renewable energy system incentive program for customers in Washington State. In addition to establishing a new incentive structure designed to wean the solar industry off of state incentives, the bill transferred administrative responsibility of the program from Department of Revenue to the Washington State University's (WSU) Energy Program. It also raised the utility's incentive cap to 1.5 percent of a utility's 2014 taxable power sales. The increased cap space allowed us to continue serving new and existing customers who were interested in renewable energy production.

As of June 14, 2019, the WSU Energy Program announced it had reached its financial limit and would therefore no longer review applications for certification. However, staff continues to help new and existing customers process applications and agreements that still allow customers interested in renewable energy to connect to the District's grid provided interconnection requirements are met.

Energy Independence Act (Initiative 937) – Approved by Washington State voters in 2006, the Energy Independence Act (the Act), also known as Initiative 937 (I-937) requires electric utilities with more than 25,000 customers to invest in prescribed renewable energy sources and energy conservation programs. I-937 requirements are codified in state law under Chapter 19.285 RCW and Chapter 194-37 WAC.

The Act has two requirements. The first is that each qualifying utility pursue all cost-effective resources and meet the conservation target set using a utility-specific Conservation Potential Analysis within its service territory. The second requirement dictates each qualifying utility to acquire set percentages of its retail load from qualifying renewable resources or acquire equivalent Renewable Energy Credits (RECs) by specific timelines (three percent by 2012, nine percent by 2016 and 15 percent by 2020). An REC represents the legal rights to the environmental attributes and carbon offsets associated with the generation of one MWh of qualified renewable energy.

The District has taken many steps to comply with the Act. These include continued emphasis on residential, commercial, and industrial conservation programs; participation in all three phases of the Nine Canyon Wind Project; a long-term power purchase agreement from the White Creek Wind Project; ownership of a 173.2-kilowatt AC rated solar project (which is located on one of the buildings at the District's operations center), and ensuring the District receives its proportionate share of RECs from renewables that the BPA has contracted to serve its customers' load. The District met its mandate of three percent renewables in 2012 through 2015. In 2015, the District entered into long-term contracts with both Emerald People's Utility District and Klickitat Public Utility District in order to enable the District to meet its mandate of nine percent renewables in 2016 and 15 percent in 2020, while minimizing compliance costs. In addition, this option allows the District to serve load growth as it occurs, with a less expensive, more reliable baseload resource. The specific strategy for compliance will be re-examined prior to 2025 as contracts start to expire.

Clean Energy Transformation Act (CETA) – In 2019 Washington State approved CETA, an act to address the impacts of climate change by leading the transition to a clean energy economy. CETA requirements are codified in state law under Chapter 19.405 RCW and Chapter 194-40 WAC.

CETA has several requirements. Electric utilities must make energy assistance programs and funding available to low-income households by July 31, 2021. Electric utilities must eliminate coal-fired resources from its allocation of electricity on or before December 31, 2025. Then, all retail sales of electricity to Washington electric customers must be greenhouse gas neutral by January 1, 2030. Ultimately, all retail sales of electricity to Washington electric customers must be supplied by renewable or non-carbon emitting resources by January 1, 2045. The importance of equitable distribution of energy benefits and the reduction of burdens to vulnerable populations and highly impacted communities is also recognized in the requirements.

The District already meets the first-mentioned requirement to make energy assistance programs and funding available to low-income households. The District and other stakeholders are working with the BPA to ensure it can meet the requirement to eliminate coal-fired resources by the end of 2025, the transition to 100% carbon-neutral resources by 2030, and the transition to 100% carbon-free resources by 2045. Right now, the only carbon-resources in the District's mix are attributable to the BPA's purchases.

Climate Commitment Act (CCA) – In 2021 Washington State enacted the CCA, an act to address the impacts of climate change by capping and reducing greenhouse gas (GHG) emissions from Washington's largest emitting sources and industries. The CCA requirements are codified in state law under Chapters 70A.45.020 RCW and 173-446 WAC.

The District will likely have a GHG reporting requirement in 2023. Washington State's Department of Ecology is currently developing its calculator and reporting tools for electric power entities so more will be known in the near future.

Energy Northwest (EN) – EN, previously Washington Public Power Supply System (WPPSS), is a municipal corporation and joint operating agency organized and existing under the laws of Washington State. Organized in 1957, it is empowered to finance, acquire, construct, and operate facilities for the generation and transmission of electric power. The District is a participant in EN's Nuclear Projects Nos. 1, 2, and 3. Project No. 2, known as the Columbia Generating Station, currently is operating. The other projects have been terminated.

There are 27-member utilities, and all members own and operate electric systems within Washington State. EN has no taxing authority. Financial statements for EN may be obtained by writing to: Energy Northwest, P.O. Box 968, Richland, WA 99352-0968. Its website is available at www.energy-northwest.com.

Nuclear Projects 1, 2, and 3 – The District continues to fulfill its obligations consistent with the terms and conditions of the Net Billing Agreements with EN and the BPA.

The District, EN, and the BPA have entered into separate agreements with respect to EN's Project No. 1, Project No. 2, and 70 percent ownership share of Project No. 3 (collectively, the "Net Billed Projects") under which the District has purchased from EN and, in turn, assigned to the BPA a maximum of 1.274 percent, 1.446 percent, and 1.265 percent of the capability of Projects No. 1, 2, and EN's ownership share of Project No. 3, respectively. Under the agreements, the District is unconditionally obligated to pay EN its pro rata share of the total costs of the projects, including debt service, whether or not the projects are completed, operable, or operating and notwithstanding the suspension, reduction, or curtailment of the project's output. Under the Net Billing Agreements, the BPA is responsible for the District's percentage share of the total annual cost of each project, including debt service on revenue bonds issued to finance the costs of construction. The District's electric revenue requirements are not directly affected by the cost of completion of the Net Billed Projects. The revenue requirements are affected only to the extent that the costs of the projects result in increases in the BPA's wholesale power rates.

Columbia Generating Station (CGS), began commercial operation in December 1984. In May 1994 the BPA and WPPSS terminated Project 1 and Project 3, subject to repayment of the debt service on the outstanding revenue bonds.
The District's obligations under the Net Billing Agreements have been extended for CGS, Project 1 and Project 3 pursuant to the BPA and EN's Debt Optimization and Regional Cooperation Debt agreements. The Debt Optimization Program (2001-2011) restored approximately $2 billion in borrowing authority for the BPA and achieved approximately $500 million in interest expense savings. This was accomplished by extending EN debt in order to prepay higher interest rate debt to the U.S. Treasury. In turn, this savings provides economic benefit to preference customers, who are the ultimate ratepayers that repay both types of debt. A new program, coined Regional Cooperation Debt, was enacted in 2014 to achieve the same objectives through 2020. During that time, it saved the BPA approximately $2.79 billion in interest payments. In September 2018, EN extended the Regional Cooperation Debt program through 2030 to restore up to $3.5 billion in borrowing authority. EN is planning to consider extensions of maturing debt every year through 2030.

Columbia Generating Station (CGS) – CGS is a reliable, carbon free energy resource and the third largest generator in Washington. It has a maximum permitted generation capacity of 1,207 gross MW and produces electricity 24 hours a day, seven days a week. Operators are able to adjust power levels to meet the BPA's needs based on river conditions; referred to as a base load power source. Refueling and maintenance outages occur every two years during the spring, when the Columbia River Basin has ample runoff for hydroelectricity.

On January 19, 2010, EN announced that it had applied to the Nuclear Regulatory Commission (NRC) for a 20-year renewal of the operating license for CGS. The license renewal process took approximately 2 ½ years and involved comprehensive reviews and public hearings by the NRC. In May 2012, the NRC approved the CGS license for an additional 20 years, extending the operation through 2043.

Packwood Hydroelectric Project – The Packwood Hydroelectric Project is located near the town of Packwood in eastern Lewis County, Washington. The project has the capacity to produce 27.5 MW of electricity. Commercial operation began in June 1964.

The District has a ten percent share of the project (participant owners are not equally invested in the project). The participant owners are obligated to pay annual costs of the project. In March 2009, debt service on the Packwood Hydroelectric Project was retired. This was earlier than the originally scheduled date of 2012.
Under power sales agreements, some of the EN member public utility districts purchased the project output of Packwood. In August of 2008, the participants agreed to sell the total generation output to Snohomish County Public Utility District, another project participant. The power sales contract was a two-year term with the option to renew with full agreement by all parties. In 2010, Snohomish opted to renew the power sales contract for another one-year term. However, the District began to bring its ten-percent share to load starting in October 2011 with an 18-year agreement, as a Tier 1 resource under the BPA Regional Dialogue Contract.

The FERC license for Packwood expired in 2010. The project was granted a continuance to operate under the existing license on a year-to-year basis until the new license is issued. EN began the relicensing process in 2005. Application for a new 50-year operating license was submitted to the FERC in February of 2008. The final Environmental Assessment and Water Quality Certification were completed in July of 2009. A relicensing application was submitted in 2010. FERC issued the new license on October 11, 2018 for a period of 40 years. The license is subject to the terms and conditions of the Federal Power Act and the regulations the Commission issues under the provisions of the Federal Power Act.

Nine Canyon Wind Project – In early 2001, EN approached public utilities about developing a wind generation project. In September of 2001, the District signed an agreement with EN and seven other participants to purchase a 1.5 MW share of the Nine Canyon Wind Project Phase I. It consists of 37 wind turbines with a peak generating capacity of 48 MW. This phase of the project began commercial operation in September 2002. As with the Packwood Hydroelectric Project, participants of Nine Canyon are obligated to pay the annual costs of the project, including debt service, whether or not the project is operable, until the outstanding bonds are paid, or provision is made for their retirement in accordance with the bond resolution (see Note 16).

In April 2003, the District signed an agreement with EN and four other participants to purchase a 0.5 MW share of Phase II. It consists of 12 wind turbines with a peak generating capacity of 15.6 MW. Commercial operation began in September 2003. The combined capacity of first two phases total 63.7 MW with the District's share of the output at 2 MW.

In October of 2005, EN announced the investigation into another expansion of the Nine Canyon Wind Project. In October 2006, the District signed an agreement for 1 MW share of the Phase III expansion.

The District's output share of all three phases is 3.14 percent of its total 95.9 MW capacity of electricity (or 3 MW). The contracts for all phases expire in July 2030 with an option to extend for additional five-year terms.

The Nine Canyon Wind Project is one of the largest publicly owned wind projects in the nation. The renewable energy produced by all three phases is used to serve District load, as well meet the District's renewables mandates under I-937.

White Creek Wind Project – In 2010, the District entered into an 18-year purchase agreement with Lakeview Light and Power Wind Energy, Inc. for the electrical output and all associated environmental attributes or RECs from 3.22 MW of capacity in the White Creek Wind Project. Due to minimal District load growth, the energy was previously resold on the open market and the RECs retained for the District's compliance with the renewables mandate under I-937. However, on October 1, 2014, the District began using the energy to serve load and is no longer selling it.

NOTE 10 – Public Entity Risk Pools

PURMS

The District is a member of the Public Utility Risk Management Services (PURMS) formerly known as the Washington Public Utility District's Utilities System Joint Self Insurance Fund. Chapter RCW 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-insurance, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-hire, 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 Pool was formed on December 31, 1976, when certain Washington State PUDs joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Twelve Districts have joined the Pool.

The Pool operates under an Interlocal Agreement and Operational Rules. An elected commissioner from each member makes up the Board of Directors. They are the policy making body of the group. Two committees report directly to the Board. A staff person from each member and the Administrator are on these committees.

In general, PURMS, via its Members and its third-party Administrator, operates three separate Risk Pools known as the Liability Pool, Property Pool, and the Health and Welfare Pool ("H&W Pool"). The Members of each Risk Pool self-insure primary coverages for their Members and jointly acquire excess or stop-loss insurance, all financed by assessments of the Members pursuant to the Assessment Formula applicable to the particular Risk Pool ("Assessment").

Settlements in each risk pool have not exceeded insurance coverage in any of the past three years.

Liability Risk Pool

1. Jointly Self-Insured Liability Coverage

PURMS provides liability insurance coverage for its members participating in the Liability Risk Pool, and to a limited extent for the benefit of their employees, under an agreement entitled "PURMS Joint Self-Insurance Agreement". Coverage under the agreement includes: (1) Commercial General Liability; (2) Public Officials & Entity; (3) Automobile Liability; (4) Pollution Liability; (5) Employment Practices Liability ("EPL"); and (6) Cyber Security-Breach ("CSB") coverages. The Liability Pool has a self-insured retention (Liability Coverage Limit) of $1,000,000 per occurrence for coverages (1) – (4). The coverage limits for the EPL and CSB coverages is stated in the respective coverage sections.

2. Excess Liability Coverages

The Liability Pool also maintains Excess Liability Coverage for its members. For 2022, the first layer of Excess Liability Coverage, in which all liability pool members must participate, was $35,000,000 excess of the Liability Pool's $1,000,000 self-insured liability coverage limit. The Liability Pool also offers a mandatory second layer of excess liability insurance in the amount of $65,000,000. In 2022, all Liability Pool Members participated in this second layer of Excess Liability Coverage.

The Liability Pool also offers excess Director's and Officer's Coverage ("Excess D&O Coverage") for members of the Liability Pool who choose to participate in the coverage. For 2022, the Excess D&O Coverage was $35,000,000 in excess of the coverage provided by the liability pool's $1,000,000 coverage limit and all members chose to participate in this Excess D&O Coverage.

3. Funding Levels and Assessment Mechanisms

This Pool is financed through assessments of its members up to the amount of its designated balance. These assessments occur at the beginning of each calendar year and at any time the Liability Pool Balance falls below the designated $3,500,000 Liability Pool Balance by $500,000 or more.

As of December 31, 2022, there were 95 known incidents or unresolved liability claims pending against one or more members or former members of the Liability Pool. The total dollar amount of the risk posed by these claims to such members and to the Liability Pool itself is unknown and can only be estimated. The case reserves set by the administrator for these Claims, as of December 31, 2022, was $237,969. The Liability Pool's actual balance was replenished to the $3,500,000 designated balance via the automatic annual assessment issued in January 2023.

Commencing with fiscal year ending 2016, it is PURMS' policy to inform the Liability Pool Members in writing of their respective potential future assessment shares of the actuarially based "Claims Reserve Receivable" ("CRR Allocation"), determined in accordance with a "10-Year Look-Back Rule". PURMS' Administrator calculates each Liability Pool Member's CRR Allocation for FY 2022, based on the 80 percent confidence level estimated by the 2022 Actuarial Report. The District's portion of the Liability Pool CRR Allocation for 2022 is $226,805.

Property Risk Pool

PURMS provides property insurance coverage for its members participating in the Property Risk Pool in accordance with the terms of the Self Insurance Agreement (SIA). Coverages include general property and auto physical damage coverage. Under the SIA, the Property Pool has had a "Property Coverage Limit" of $250,000 per property loss.

PURMS also maintains excess property insurance for its members in the Property Pool. For 2022, the amount of the excess property insurance was $200,000,000, with various sub-limits, and with excess coverage attaching at the $250,000 property coverage limit for all property losses except those subject to increased retention levels for certain property risks.

The Property Pool also provides its members with automatic extended property coverage for property losses that exceed the Property Pool's $250,000 property coverage limit if those losses were also subject to increased retentions under the excess property insurance.

The Property Pool is funded to the amount of its designated Property Pool balance, which in 2022 was $750,000. Of this amount, $250,000 is used to pay claims costs as they are incurred and ongoing Property Pool operating expenses, including program administration. The $250,000 of Operating Funds is replenished by assessments of property pool members. The amount of Cash Assets held for the Property Pool below the $250,000 of Operating Funds is retained as reserves and held toward satisfying applicable regulatory funding requirements.

The total paid for property claims in 2022 was $342,243, including claim adjusting expenses (but excluding Property Pool Operating Expenses). As of December 31, 2022, there were 23 known property claims pending from the members of the Property Pool. The total dollar amount of the risk posed by these claims to the Property Pool is unknown and can only be estimated. The case reserves set by the administrator for these claims, as of December 31, 2022, was $136,089. The Property Pool's actual balance was replenished to its $750,000 designated balance via the automatic annual assessment issued in January 2023. The District's portion of the CRR Allocation for the Property Pool for the year ending December 31, 2022, is $23,332.

Health & Welfare (H&W) Risk Pool

PURMS provides health and welfare insurance coverage for the employees of each of its Members participating in the Health & Welfare (H&W) Risk Pool in accordance with the terms of the Health & Welfare Coverage of the SIA and the terms of each Member's respective Coverage Booklet provided to its Employees. The H&W Pool was established as one of PURMS' Risk Pools effective March 31, 2000.

The H&W Pools operations are financed through assessments of its Members under the H&W General Assessment Formula. Each month, each Member of the H&W Pool is assessed for the cost the H&W Pool incurred during the preceding month for such member's employees and for such member's share of Shared H&W Costs which includes administrative expenses, premiums for Stop-Loss Insurance, PPO charges and Shared H&W Claims.

The exposure of each H&W Pool Member to the H&W Claims Costs of its employees is limited by two stop-loss points. The first pair of Stop-Loss Points are established annually by the Excess Stop-Loss Insurance that the H&W Pool acquires and maintains for its Members. These Stop-Loss Points represent the dollar amounts at which the Stop-Loss Insurance attaches and begins paying either the H&W Claim Costs for an individual employee's total medical claims for the year or the H&W Claims Costs of all employees of all members for the year.

For 2022, the H&W Pool Individual Stop-Loss Point was $365,000 per individual and the H&W Pool Aggregate Stop-Loss Point was $22,793,900 for the combined H&W Claims Costs of the employees of all members of the H&W Pool.

In addition, each H&W Pool member's exposure to the H&W claims costs of its employees is further limited by even lower Stop-Loss Points determined by the H&W Pool for its members. Medical expenses that exceed these Stop-Loss Points become Shared H&W Claims and are paid by all H&W Pool members except the member whose employee's H&W Claim exceeded the applicable Stop-Loss Point. The member Stop-Loss Points are calculated annually under the H&W assessment formula.

The total paid by the H&W Pool for H&W Claims Costs in 2022 was $17,141,264 (including shared H&W claims but excluding H&W pool operating expenses). The District's portion of the CRR Allocation for the H&W Pool for the year ending December 31, 2022, is $271,715.

Unemployment Insurance

The District is self-insured for unemployment compensation, in that it reimburses the State of Washington for actual claims made. Unemployment claims are infrequent; the District recognized unemployment compensation expense of $11,142 in 2022.

NOTE 11 – Defined Benefit Other Postemployment Benefit (OPEB) Plans

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

OPEB Plan		
OPEB liabilities	$	7,071,648
Deferred outflows of resources	$	5,541,992
Deferred inflows of resources	$	5,494,138
OPEB expense/expenditures	$	1,126,348

OPEB Plan Description

A. **Plan Administration** – The District administers the Public Utility District No. 3 of Mason County OPEB Trust (hereinafter "Trust") — a single-employer defined benefit OPEB plan that is used to provide a viable long-term stand-alone funding source for postemployment benefits other than pensions for all permanent full-time District employees. The trust was established in 2008. Per Resolution 1598 dated June 11, 2013, the trust is administered by the District under supervision of the trustees consisting of a Commissioner, District Manager, Attorney, Auditor, and Finance Manager.

B. **Benefits Provided** – The Trust provides healthcare, dental, and vision benefits for retirees and their dependents. Benefits are provided through a third-party insurer and the full cost of benefits is covered by the plan. Chapter 11.100 RCW grants the authority to establish and amend the benefit terms to the District's Board of Commissioners.

C. **Employees Covered by benefit terms** – On December 31, 2022, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	66
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	155
Total	221

D. **Contributions** – Chapter 11.100 RCW statute grants the authority to establish and amend the contribution requirements of the District and plan members to the District's Board of Commissioners. Per Commission Resolution No. 1446, the District funds, at minimum, $625,000 per year into the OPEB Trust to cover the liability of the for post-employment benefits. The District's total contribution to the trust was $1,253,507 in 2022. Plan members are not required to contribute to the plan.

E. The plan is administered by the District and a separate, audited GAAP-basis postemployment benefit plan report is not available.

Net OPEB Liability

The District's net OPEB liability was measured as of December 31, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2022, and rolled forward with updated assumptions to December 31, 2022.

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation of January 1, 2022, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- The inflation rate of 2.30% based on the Milliman standard assumption.
- The investment return assumption of 6.00%.
- The discount rate of 6.00% based on the District following a funding policy of paying the benefits as they come due and contributing $625,000 per year to the trust until the funded ratio is 100 percent.
- Healthcare cost trend rates were based on the Society of Actuaries' published report on long-term medical trend.
- Demographic assumptions regarding retirement, turnover, and mortality are based upon the Washington State Public Employees' Retirement System (PERS) Plans 2 and 3 as shown in the *2013-2018 Experience Study* by the Washington State Public Retirement Systems.
- Mortality tables and projections, retirement rates, termination rates, and member/beneficiary age difference assumptions were updated based on the assumptions used by the Washington Office of the State Actuary.
- The effect of the assumption changes or inputs decreased the net OPEB Liability $486,716 in 2022.

Changes in Assumptions/Methods since Prior Valuation:

- The general wage increase assumption was updated to 2.80% based upon the real wage growth assumption from the most recent pension valuation of the Public Employees Retirement System (PERS) and assumed price inflation.
- The price inflation assumption was updated to 2.30%.
- The marriage assumption, the percent of actives assumed to elect spousal medical coverage at retirement was updated to 75% based on recent experience.
- The Health Care cost increases, or trend rates, were updated to better reflect current expectations and anticipated future experience.
- The investment return assumption was updated to 6.00% based on current capital market assumptions.
- The discount rate assumption was updated to 6.00%.

Sensitivity Analysis. The following presents the total OPEB liability of the District, calculated using the discount rate of 6.00 percent, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate.

	1% Decrease 5.00%	Discount Rate 6.00%	1% Increase 7.00%
Total December 31, 2022 OPEB liability	$ 25,306,599	$ 21,784,299	$ 18,942,139
Fiduciary net position	14,712,651	14,712,651	14,712,651
Net OPEB liability	10,593,948	7,071,648	4,229,488

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

	1% Decrease	Current Trend Rate	1% Increase
Total December 31, 2022 OPEB liability	$ 18,437,024	$ 21,784,299	$ 26,107,315
Fiduciary net position	14,712,651	14,712,651	14,712,651
Net OPEB liability	3,724,373	7,071,648	11,394,664

The best-estimate range for the long-term expected rate of return is determined by combining expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are those of Milliman's investment consultants as of December 31, 2022.

Asset Class	Long-Term Expected Real Rate of Return
Cash	0.61%
US Core Fixed Income	2.27%
Global Equity	6.43%
Assumed Inflation - Mean	2.30%
Long-Term Expected Rate of Return	6.00%

Changes in the Net OPEB Liability of the District

The components of the net OPEB liability of the District on December 31, 2022, were as follows:

OPEB	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 605,567	$ 1,177,402
Changes of assumptions	4,006,694	4,316,736
Net difference between projected and actual investment earnings on OPEB plan investments	929,731	-
TOTAL	$ 5,541,992	$ 5,494,138

OPEB		Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 12/31/2021	**$**	**20,564,907**	**$ 16,181,412**	**$ 4,383,495**
Changes for the year:				
Service cost		515,439	-	515,439
Interest on total OPEB liability		1,142,366	-	1,142,366
Effect of plan changes		-	-	-
Effect of economic/demographic (gains) or losses		676,810	-	676,810
Effect of assumptions changes or inputs		(486,716)	-	(486,716)
Benefit payments		(628,507)	(628,507)	-
Contributions - employer		-	1,253,507	(1,253,507)
Net investment income		-	(1,996,584)	1,996,584
Administrative expense		-	(97,177)	97,177
Net changes		**1,219,392**	**(1,468,761)**	**2,688,153**
Balances at 12/31/2022		**$21,784,299**	**$14,712,651**	**$7,071,648**

The Plan's fiduciary net position as a percentage of the total OPEB liability: 67.54%

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

Year ended December 31:	
2023	$ 80,432
2024	326,456
2025	497,781
2026	765,212
2027	185,037
Thereafter	(1,807,064)

OPEB Plan Investments

Investment Policy (updated August 2022) – The District's policy regarding the allocation of invested assets is established and may be amended by the Trust's Board by a majority vote of its members. It is the policy of the Trust's Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Trust's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Trust's adopted asset allocation policy as of August 2022:

Asset Class	Target Allocation
Global Fixed Income	30%
Global Equity	52%
Real Assets	18%
	100%

Rate of return – For the year ended December 31, 2022, the annual money-weighted rate of return on investments, net of investment expense, was a negative 12.18 percent. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

Fair Value – OPEB Investments have been adjusted to reflect available fair values as of December 31, 2022 obtained from available financial industry valuation services. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The District's OPEB money market investments are classified as Level 1 and valued at $14,712,651.

NOTE 12 – Participation in Northwest Open Access Network, Inc. dba 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 fiber leased from the BPA throughout Washington. This communications backbone throughout 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 15.11 percent.

As a member of NoaNet and as allowed by Chapter 54.16 RCW, the District guaranteed a portion of the 2020 NoaNet $24.8 million bonds based upon an agreed share of 12.12 percent of the outstanding balance. See Note 14 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 (excluding grant proceeds) of $1,639,076 in 2022, and a decrease of $2,923,198 for 2021. In accordance with Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, as well as a position statement issued by the Washington State Auditor concerning the appropriate accounting treatment for NoaNet, a proportionate share of the changes in net position has not been recorded by the District. NoaNet had positive net position of $41,419,643 as of December 31, 2022, and positive net position of $43,058,719 as of December 31, 2021.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Corporate Office, 5802 Overlook Avenue NE, Tacoma, WA 98422. Their website is available at www.noanet.net

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. The fiber-optic network provides a backbone for the District's utility communications. The District uses its fiber-optic network backbone for internal communications, Supervisory Control and Data Acquisition, communications with other utilities, long-haul data transmissions via NoaNet, grid modernization projects, and automated meter infrastructure.

With the passage of wholesale telecommunications authority in 2000 by the Washington State Legislature, high-speed communication capability was brought to Mason County. The District continues to build out its fiber-optic network to meet its data needs, and to share the benefit of the technology investment. The District is a wholesaler for private service providers and bills the providers directly for wholesale telecommunications services. These private service providers are directly responsible for billing each end-user. The District ended 2022 with 2,642 installed gateways and 716 fiber primary miles as of December 31, 2022.

A summary of telecommunications revenues, expenses, and capital investment for 2022 is listed as follows:

For Year Ended December 31, 2022		
Operating revenues		
Wholesale fiber services to ISPs	$ 1,640,857	
Installation charges	105,988	
Total Operating revenues	1,746,845	
Total Revenues		**1,746,845**
Operating expenses		
Operation	215,655	
Maintenance	34,128	
Customer Accounts	33	
Administrative and General	113,671	
Maintenance of General Plant	345	
Depreciation	241,261	
Total Operating expenses	605,093	
Nonoperating expenses	78	
Total Expenses		**605,171**
Change in net position		**$ 1,141,674**
Capital investment		
Current year change in net plant		$ 5,481,852
Cumulative net plant		$ 28,266,932

The District has been awarded two Community Economic Revitalization Board Rural Broadband Program Loans/Grants from the State of Washington. The Community Economic Revitalization Board (CERB) made available loans and grants to local governments and federally recognized Indian tribes to build infrastructure to provide high-speed, open-access broadband service to rural and underserved communities, for the purpose of economic development or community development. The District was awarded almost $3 million to build fiber-to-the-home networks in 12 communities across the County. This money will be used to extend fiber to an additional 1,200 homes and businesses that lack access to high-speed broadband service.

The first CERB (CERB 1) award, initially offered September 2018, consists of a half grant and half low-interest revenue loan. The revenue loan has a maximum principal amount of $408,325 with an interest rate of 1.5 percent for a term of twenty years from the date the loan is drawn. The grant award amount is $408,324 with a local match of $911,324. The outstanding loan amount of CERB 1 as of December 31, 2022 is $374,095. The first principal amount paid on this loan was on January 31, 2021. The District has four years to complete the total project (May 2023).

The second CERB (CERB 2) award, initially offered May 2019, consists of a half grant and half low-interest revenue loan. The Revenue Loan has a maximum principal amount of $1,000,000 with an interest rate of 1.25 percent on the outstanding principal balance with a maximum term of twelve years from the date the loan is drawn. The grant award amount is $1,000,000 with a local match of $689,260. The outstanding loan amount of CERB 2 as of December 31, 2022 is $255,225. The first principal amount paid on this loan was on July 31, 2022. The District has four years to complete the total project (November 2023).

On December 19, 2019, the U.S. Department of Agriculture awarded the District a $2.4 million grant from its ReConnect Pilot Program. It will extend the District's wholesale broadband network to the "Three Fingers" area of Grapeview. The project will build on the success of the District's Fiberhood program and its public-private partnerships. The District began construction on this project in the fourth quarter of 2021 and has five year to complete the total project (April 2026).

NOTE 14 – 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 0.591 percent to 2.120 percent.

The 2020 Bonds were issued and guaranteed pursuant to Chapter 24.06 and 39.34 RCW's 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 guarantee is 12.12 percent of the outstanding Bonds.

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 guarantee of $2,440,362 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 (GASB 70). Currently, NoaNet has sufficient gross revenues to pay the principal amount of $20,135,000 and interest on their 2020 Bonds and therefore, the District has not recorded a liability.

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 which was not lifted until October 21, 2022. Precautionary measures to slow the spread of the virus continued for the majority of 2022. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

As an essential service, the District has an obligation to continue services, while at the same time protecting the health and safety of its employees and customers. Not only ensuring the continuity in service for the electricity the District provides for customers, but also the District's fiber optic backbone in conjunction with NoaNet which supports the Emergency 9-1-1 services. From the early stages of the emergency, the District began following its pandemic and business continuity plans as well as the recommendations and guidelines of the county, state, and federal agencies.

Some of the measures to comply with these recommendations include:

- Continual monitoring of changing guidelines and updating the District's Virus Prevention Plan and COVID-19 Response Guide as guidelines changed.
- The District faced staff shortages throughout 2022 due to county, state, and federal isolation and quarantine guidelines.
- Significant staff time was required in the HR Department to manage, monitor, and ensure compliance with COVID-19 protocols and employee information and education.
- The District's lobbies remained closed to the public until May of 2022 when it opened with new hours for customer convenience.
- The public auditorium spaces remained closed to the public throughout 2022 to accommodate social distancing for internal training and meetings.

- Like many employers during this time, the District has experienced an unprecedented amount of retirees, separations from employment, and new hires since the beginning of the pandemic.
- The District increased efforts to recruit and retain employees by implementing a 4/10 work week and maintaining remote work options for eligible positions.
- Increased outreach to inform customers regarding payment options and available assistance.
- Steps were taken to encourage continuing social distancing, such as field employees driving in separate vehicles, closed shared spaces in all buildings, and limited access to offices through October of 2022.
- Continued to allow as many employees as possible to work remotely (if the work permitted) requiring some new fiber connections and computer equipment cameras, printers, etc.
- Continued cleaning and sanitation efforts to keep essential staff safe.
- Continued compliance with masking protocols until the state mandate was lifted in March of 2022.
- Increased automated and electronic workflows saving the District in postage and labor costs.

The District has been impacted financially and operationally due to supply chain constraints. As a result of the pandemic, unexpected shortages, substantial price increases, and supply-chain disruptions have become significant and widespread due to labor shortages and low inventories among various sectors. Even though the economy is recovering, consumer demand is increasing, and businesses have not yet been able to bring inventories fully back to pre-pandemic levels, which has caused cascading issues (such as excessive pricing) in industrial supply chains. The pandemic has also influenced consumer behavior adding to the demand of low inventories and adding pressure to the electric and telecommunications utility industry to keep up with growth due to increased housing starts as well as technology needs such as remote working, telemedicine, distance learning, etc. Some specific materials and general plant items have become increasingly difficult for the District to procure due to low response rates for quote requests, quotes with excessive lead times, and extreme price increases. In addition to the emergency resolution adopted at the beginning of the pandemic, the Commission responded to this supply chain challenge by adopting Resolution No. 1782, which allowed for the waiving of formal competitive bidding processes for the purchase of certain materials and general plant items in order to continue providing essential services.

The District anticipated and incurred a significant increase in past due accounts throughout the pandemic. Stay-at-home orders launched a series of unfortunate events including lost wages and an increasing inability for customers to pay their power bills, coupled with the requirement to suspend all disconnects, including prepayment accounts. Once the moratorium on utility disconnections was lifted in October of 2021, the District resumed its collection activities which resulted in getting more customers connected with available assistance, transitioning customers to prepay accounts with payment schedules for past due balances, and making payment arrangements. In 2022, the state legislature appropriated $100 million for public and private water, sewer, garbage, electric and natural gas utilities arrearages. The funding was to be used by utilities to reduce residential customer arrearages accrued between March 1, 2020, and December 31, 2021. Only customers who received help from the Low-Income Home Energy Assistance (LIHEAP) or rate-payer-funded assistance programs were eligible to receive funding. The District applied for these arrearages’ funds through the Washington State Department of Commerce and was able to successfully apply $86,389 to accounts meeting the eligibility criteria in December of 2022.

While the pandemic has had a financial impact on the utility, the District’s finances are sufficient and well-managed, therefore, the impact does not jeopardize the District’s ability to continue operations.

NOTE 16 – Commitments and Contingencies

Litigation – Any pending or threatened lawsuits against the District are either adequately covered by insurance or would not materially affect the financial statements.

Nine Canyon Wind Project – The Nine Canyon Wind Energy Project is owned and operated by Energy Northwest (EN). The District, along with nine other public utilities, is a participant in Phases I, II, and III of the Project. Under its Power Purchase Agreement (Agreement), the District is obligated to pay its percentage share of the annual debt service of each project phase and the operation and maintenance costs of the project in return for its percentage share of project output, whether or not the project is operating or capable of operating. Under the Agreement, the District is obligated to pay an amended percentage share effective May 2008 when Phase III achieved commercial operation. Under a step-up provision, the District could be required to pay up to a maximum of 125 percent of its percentage share in the event of default by another purchaser. The Agreement limits EN's total annual operation and maintenance cost to $5.4 million prior to Phase III Commercial Operation and to $7 million post Phase III Commercial Operation. These limits will change annually based on certain inflation indexes. All debt will be paid for Phases I and II as of June 2023.

The District does not own or operate the underlying asset of the project and therefore, a long-term liability related to an asset retirement obligation has not been included in the District's financials.

The agreement terminates July 1, 2030, with an option to extend for additional five-year terms. The District's applicable percentage share obligations are:

Allocation of Cost	District % Share	District % Share under Step-up Provision
Debt Service - Phase I	2.08%	2.60%
Debt Service - Phase II	6.41%	8.01%
Debt Service - Phase III	3.14%	3.93%
O&M Costs	3.14%	3.93%

The District will cover a portion of the costs if the facilities are decommissioned. A decommissioning trust was established by EN and all participants started contributing to it in July 2022. The trust funds are collected through rates charged to the District; these rates may increase over time. There are currently no plans to decommission or replace the assets. EN is performing a study and will be providing participants with several options to include: 1) upgrading the equipment; 2) removing equipment and installing new; and 3) decommissioning the project(s).

Columbia Generating Station (CGS) – EN owns and operates the Columbia Generating Station. As such, the CGS is not a tangible asset to the District and therefore a long-term liability related to an asset retirement obligation has not been included in the District's financials. Although the District will cover a portion of the costs if the facility was decommissioned, these costs would be recovered through rates charged to the District that may increase over time as a result of decommissioning costs. There are currently no plans to decommission or replace the assets.

Packwood Hydroelectric Project – The Packwood Hydroelectric Project is owned and operated by EN. The District has a ten percent share. The District does not own or operate the underlying asset of the project and therefore a long-term liability related to an asset retirement obligation has not been included in the District's financials. The District will cover a portion of the costs if the facility is decommissioned. The costs would be recovered through rates charged to the District; these rates may increase over time. There are currently no plans to decommission or replace the assets.

NOTE 17 – Subsequent Events

After 28 years of service, Commissioner Bruce Jorgenson announced his retirement at the December 6, 2022, Board of Commissioners meeting with an effective date of December 31, 2022. The commission appointed lifelong Mason County resident and local business owner, Jeff McHargue to fulfill, until the next election, Commissioner Jorgenson's term of service that expires December 31, 2024. Commissioner McHargue's term of service was effective January 1, 2023.

On February 21, 2023, the Commission approved Resolution 1798, a resolution modifying the authority to enter into payment agreements for financing to the Northwest Open Access Network (NoaNet). This resolution gave authority to the

District Manager to execute and take actions necessary to assist in providing funds to NoaNet. NoaNet has a pension liability in the amount of $10,400,000 that must be paid as NoaNet moves employees to the Washington State Department of Retirement System. Payment of the pension liability is necessary for NoaNet to continue its operations and fulfill its purpose to provide cost-effective high-speed communications to its Members. The District's loan amount is $1,400,000 to be repaid in equal annual installments commencing May 1, 2024. The interest rate on the loan is equal to the twelve-month average of the Washington State LGIP 30-day yield and calculated on April 1st proceeding the annual payment. All outstanding principal and interest on the loan must be repaid by May 1, 2034.

Pension Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 1
As of June 30, 2022
Last 10 Fiscal Years *

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.099438%	0.098342%	0.091921%	0.092434%	0.093519%	0.093822%	0.093234%	0.088510%	0.089818%
Employer's proportionate share of the net pension liability	$ 2,768,719	$ 1,200,987	$ 3,245,308	$ 3,554,416	$ 4,176,590	$ 4,451,927	$ 5,007,105	$ 4,629,896	$ 4,524,624
Covered payroll	$ 16,196,591	$ 15,033,031	$ 13,770,620	$ 12,850,500	$ 12,163,700	$ 11,660,523	$ 11,203,913	$ 10,410,682	$ 9,868,276
Employer's proportionate share of the net pension liability as a percentage of covered payroll	17%	8%	24%	28%	34%	38%	45%	44%	46%
Plan fiduciary net position as a percentage of the total pension liability	77%	89%	69%	67%	63%	61%	57%	59%	61%

PERS Plan 2/3
As of June 30, 2022
Last 10 Fiscal Years *

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.129650%	0.125267%	0.117148%	0.117470%	0.115302%	0.117600%	0.117063%	0.111922%	0.113197%
Employer's proportionate share of the net pension liability (asset)	$ (4,808,435)	$ (12,478,609)	$ 1,498,256	$ 1,141,033	$ 1,968,679	$ 4,086,038	$ 5,894,030	$ 3,999,037	$ 2,288,120
Covered payroll	$ 16,196,591	$ 14,983,631	$ 13,660,314	$ 12,737,823	$ 11,967,154	$ 11,529,541	$ 11,112,407	$ 10,321,834	$ 9,782,044
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-30%	-83%	11%	9%	16%	35%	53%	39%	23%
Plan fiduciary net position as a percentage of the total pension liability	107%	120%	97%	98%	96%	91%	86%	89%	93%

Notes to Schedule:
There are no factors at year end that significantly affect trends in the amounts reported above.

* The ten year information will be provided as it is available.

Pension Required Supplementary Information, cont.

Schedule of Employer Contributions
PERS Plan 1
For the year ended December 31, 2022
Last 10 Fiscal Years *

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 625,304	$ 676,224	$ 705,983	$ 699,765	$ 634,593	$ 596,029	$ 543,761	$ 465,551	$ 405,692
Contributions in relation to the statutorily or contractually required contributions	(625,304)	(676,224)	(705,983)	(699,765)	(634,593)	(596,029)	(543,761)	(465,551)	(405,692)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 16,666,803	$ 15,661,078	$ 14,550,880	$ 13,950,426	$ 12,301,589	$ 11,975,700	$ 11,503,133	$ 10,681,885	$ 10,139,479
Contributions as a percentage of covered payroll	4%	4%	5%	5%	5%	5%	5%	4%	4%

PERS Plan 2/3
For the year ended December 31, 2022
Last 10 Fiscal Years *

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 1,060,010	$ 1,124,064	$ 1,143,920	$ 1,066,185	$ 910,284	$ 805,795	$ 695,154	$ 585,127	$ 491,803
Contributions in relation to the statutorily or contractually required contributions	(1,060,010)	(1,124,064)	(1,143,920)	(1,066,185)	(910,284)	(805,795)	(695,154)	(585,127)	(491,803)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 16,666,803	$ 15,661,078	$ 14,443,606	$ 13,836,193	$ 12,126,347	$ 11,824,239	$ 11,400,902	$ 10,591,729	$ 10,051,939
Contributions as a percentage of covered payroll	6%	7%	8%	8%	8%	7%	6%	6%	5%

Notes to Schedule:

There are no factors at year end that significantly affect trends in the amounts reported above.

* The ten year information will be provided as it is available.

OPEB Required Supplementary Information
OPEB plan administered through a qualifying trust

Schedule of Changes in Net OPEB Liability and Related Ratios
Public Utility District No. 3 of Mason County OPEB Trust
For the year ended December 31, 2022
Last 10 Fiscal Years [1]

	2022	2021	2020	2019	2018
Total OPEB liability					
Service cost	$ 515,439	$ 500,670	$ 513,303	$ 384,852	$ 717,417
Interest	1,142,366	1,082,238	1,237,517	792,596	700,567
Change of benefit terms	-	-	-	-	-
Effect of economic/demographic gains/(losses)	676,810	-	(877,297)	-	(858,717)
Effect of assumption changes or inputs	(486,716)	-	(1,343,615)	6,974,618	(4,391,262)
Benefit payments	(628,507)	(383,652)	(544,545)	(876,115)	(850,933)
Net change in total OPEB Liability	1,219,392	1,199,256	6,261,314	7,275,951	(4,682,928)
Total OPEB Liability - beginning	20,564,907	19,365,651	13,104,337	13,104,337	17,787,265
Total OPEB Liability - ending (a)	21,784,299	20,564,907	19,365,651	20,380,288	13,104,337
Plan fiduciary net position					
Contributions - employer	1,253,507	1,008,652	1,169,545	1,501,115	3,746,203
Net investment income	(1,996,584)	2,097,053	1,559,583	1,879,894	(732,450)
Benefit payments	(628,507)	(383,652)	(544,545)	(876,115)	(392,043)
Administrative expense	(97,177)	(95,653)	(74,377)	(69,213)	(57,807)
Net changes in plan fiduciary position	(1,468,761)	2,626,400	2,110,206	2,435,681	2,563,903
Plan fiduciary net position - beginning	16,181,412	13,555,012	11,444,806	9,009,125	6,445,222
Plan fiduciary net position - ending (b)	14,712,651	16,181,412	13,555,012	11,444,806	9,009,125
Net OPEB liability - ending (a) - (b)	$ 7,071,648	$ 4,383,495	$ 5,810,639	$ 8,935,482	$ 4,095,212
Plan fiduciary net position as a percentage of the total OPEB liability (b)/(a)	67.54%	78.68%	70.00%	56.16%	68.75%
Covered-employee payroll [2]	$ 17,019,727	$ 16,200,126	$ 15,038,328	$ 13,328,771	$ 12,349,484
District's net OPEB liability as a percentage of covered-employee payroll	41.55%	27.06%	38.64%	67.04%	33.16%

Past amounts were derived using valuation criteria under previous standards, therefore the years presented are not comparable to prior years

[1] The ten year information will be provided as it is available.

[2] Contributions to the plan are not based on a measure of pay.

OPEB Required Supplementary Information, cont.

Notes to Schedule:

Benefit changes : No changes in benefit terms.

Changes of assumptions:

2022 Updated methods and assumptions used to determine contribution rates:

Inflation	2.3 percent based on the Milliman standard assumption
Discount Rate	6.00 percent
Investment rate of return	6.00 percent
Healthcare cost trend rates	Updated to better reflect current expectations and anticipated future experience.
Wage Increase	Updated to 2.80 percent based upon the real wage growth assumption from the most recent pension valuation of the PERS and assumed
Marriage and spousal coverage	The percent of actives assumed to elect spousal medical coverage at retirement was updated to 75 percent based on recent experience.

2021: No changes to assumptions

2020 Updated methods and assumptions used to determine contribution rates:

Discount Rate	5.50 percent
Investment rate of return	5.50 percent
Healthcare cost trend rates	Updated to better reflect current expectations and anticipated future experience.
Demographic assumptions	Assumptions regarding retirement, termination, and mortality tables and projections were updated to better reflect future demographic experience. The assumptions are based on the 2013-2018 Demographic Experience Study for Washington State Public Retirement Systems.

2019 Updated methods and assumptions used to determine contribution rates:

Inflation	2.2 percent based on the Milliman standard assumption
Discount Rate	6.0 percent, based on the PUD following a funding policy of paying the benefits as they come due and contributing $625,000 per year to the
Investment rate of return	6.0 percent
Healthcare cost trend rates	Using the model based on the Society of Actuaries' published report on long-term medical trend
Mortality	RP-2000 Healthy Mortality, projected with 100 percent of Scale BB offset one year (-1)
Marriage and spousal coverage	65 percent of all active members, regardless of current marital status, are assumed to cover their spouse upon retirement.
Participation	Updated to better reflect anticipated future experience

2018 Methods and assumptions used to determine contribution rates:

Projected unit credit actuarial funding	Total liability for all benefits is the present value of total benefits expected to be paid
Amortization method	Open period, UAAL is reamortized for the same number of years with each valuation
Amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.0 percent
Healthcare cost trend rates	8.0 percent initial, decreasing 0.5 percent per year to an ultimate rate of 5.0 percent
Retirement and termination	Based on the actuarial assumptions adopted by the Washington state PERS plan with adjustments for the District's experience in turnover
Investment rate of return	6.07 percent, net of OPEB plan investment expense, including inflation
Retirement age	In the 2018 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	In the 2018 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RPA-2000 Healthy Mortality Table
Participation	Participants have a one-time option to enroll in the plan at retirement. It is assumed that there is 100 percent participation.

Past amounts were derived using valuation criteria under previous standards, therefore the years presented are not comparable to prior years.

* The ten year information will be provided as it is available.

OPEB Required Supplementary Information, cont.

OPEB plan administered through a qualifying trust

Schedule of Investment Returns

Public Utility District No. 3 of Mason County OPEB Trust

For the year ended December 31, 2022

Last 10 Fiscal Years [1]

	2022	2021	2020	2019	2018
Annual money-weighted rate of return, net of investment expense	-12.18%	15.16%	13.29%	20.21%	13.06%

Past amounts were derived using valuation criteria under previous standards, therefore the years presented are not comparable to prior years.

[1] The ten year information will be provided as it is available.

Public Utility District No. 3 of Mason County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
RURAL UTILITIES SERVICE, AGRICULTURE, DEPARTMENT OF	Rural eConnectivity Pilot Program	10.752		-	103,106	103,106	-	1,2
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via Commerce Energy Division)	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027	22-56104-058	86,389	-	86,389	-	1,2
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via Mason County)	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027	MC #22-041	51,442	-	51,442	-	1,2
			Total ALN 21.027:	**137,831**	**-**	**137,831**	-	
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington Department of Military)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4539-DR-WA PW 4 v.1	10,674	-	10,674	-	1,2,3
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington Department of Military)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4593-DR-WA PW 39	259,869	-	259,869	-	1,2,3
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington Department of Military)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PW 4650-DR-WA PW 16	195,939	-	195,939	-	1,2,3

The accompanying notes are an integral part of this schedule.

Public Utility District No. 3 of Mason County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington Department of Military)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4560-DR-WA PW 24	144,139	-	144,139	-	1,2,3
			Total ALN 97.036:	**610,621**	**-**	**610,621**	**-**	
			Total Federal Awards Expended:	**748,452**	**103,106**	**851,558**	**-**	

The accompanying notes are an integral part of this schedule.

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

Note 1 – Basis of Accounting
This Schedule is prepared on the same basis of accounting as the District's financial statements. The District uses the accrual method of accounting.

Note 2 – Federal De Minimis Indirect Cost Rate
The District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Program Costs
The amounts shown as current year expenditures represent only the federal award portion of the program costs. Entire program costs, including the District's portion, are more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The amount of eligible expenditures included under Disaster Grants – Public Assistance program (ALN 97.036) incurred in a prior year were $288,934.

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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