



Office of the Washington State Auditor  
Pat McCarthy

## **Financial Statements Audit Report**

# **Public Utility District No. 1 of Clallam County**

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

*Published July 3, 2023*

Report No. 1032867



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

July 3, 2023

Board of Commissioners  
Public Utility District No. 1 of Clallam County  
Carlsborg, Washington

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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

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## INDEPENDENT AUDITOR'S REPORT

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

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

Board of Commissioners  
Public Utility District No. 1 of Clallam County  
Carlsborg, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Clallam 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 27, 2023.

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or

significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

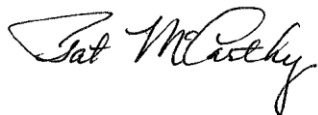
## **REPORT ON COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

June 27, 2023

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

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

Board of Commissioners  
Public Utility District No. 1 of Clallam County  
Carlsborg, Washington

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

### **Opinion**

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

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

### **Basis for Opinion**

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and

fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

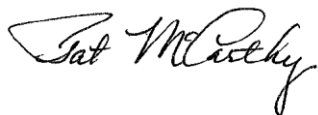
- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## Required Supplementary Information

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

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 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.

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Pat McCarthy, State Auditor

Olympia, WA

June 27, 2023



## **FINANCIAL SECTION**

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

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2022

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2022

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

Statement of Cash Flows – 2022

Notes to the Financial Statements – 2022

#### **REQUIRED SUPPLEMENTARY INFORMATION**

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

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

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

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Management's Discussion and Analysis is designed to provide an overview and analysis of the financial activities of the Public Utility District No. 1 of Clallam County (District) for the year ended December 31, 2022. Information in this section should be used in conjunction with the basic financial statements and accompanying notes.

### **Overview of the Financial Statements**

The District is a municipal corporation duly organized and existing under the laws of the State of Washington. The District operates and maintains three divisions: the Electric Division, the Water Division (consisting of nine water systems), and the Wastewater (Sewer) Division (consisting of four sewer systems). These three divisions are reported in a combined format in a single proprietary fund.

In accordance with the requirements set forth by the Governmental Accounting Standards Board (GASB), the District uses full accrual basis accounting in recognizing increases and decreases in economic resources where revenues are recognized when earned and expenses are recognized when incurred. The basic financial statements are comprised of:

- **Statement of Net Position:** This statement presents information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) at year-end. Net position is separated into three categories: net investment in capital assets, net position—restricted and net position—unrestricted.
- **Statement of Revenue, Expenses and Changes in Net Position:** This statement reflects the transactions and events that have increased or decreased the District's total economic resources during the period. Revenues are summarized by major source. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.
- **Statement of Cash Flows:** This statement reflects the sources and uses of cash separated into four categories of activities: operating, noncapital financing, capital and related financing, and investing. It provides insight into the District's ability to generate cash flow and to meet its obligations.

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

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Condensed Statement of Net Position (in thousands)

	2022	2021	Increase (Decrease)	% Change
<b>Assets and Deferred Outflows of Resources</b>				
Current Assets	\$ 65,987	\$ 64,137	\$ 1,850	2.9%
Capital Assets, net	183,298	179,726	3,572	2.0%
Other Assets	11,182	14,676	(3,494)	-23.8%
Total Assets	260,467	258,539	1,928	0.7%
Deferred Outflows of Resources	4,577	1,846	2,731	147.9%
<b>Liabilities and Deferred Inflows of Resources</b>				
Current Liabilities	16,286	15,399	887	5.8%
Noncurrent Liabilities	36,214	40,798	(4,584)	-11.2%
Total Liabilities	52,500	56,197	(3,697)	-6.6%
Deferred Inflows of Resources	5,536	12,891	(7,355)	-57.1%
<b>Net Position</b>				
Net Investment in Capital Assets	147,373	138,487	8,886	6.4%
Restricted for:				
Debt Service	3,678	5,157	(1,479)	-28.7%
Rate Stabilization Fund	4,145	3,911	234	6.0%
Net Pension Asset	3,990	1,647	2,343	142.3%
Unrestricted	47,822	42,094	5,728	13.6%
<b>Total Net Position</b>	<b>\$ 207,008</b>	<b>\$ 191,296</b>	<b>\$ 15,712</b>	<b>8.2%</b>

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Condensed Statement of Revenue, Expenses and Changes in Net Position (in thousands)

	2022	2021	Increase (Decrease)	% Change
<b>Operating Revenues</b>				
Utility Sales	\$ 78,018	\$ 75,045	\$ 2,973	4.0%
Other	3,267	1,812	1,455	80.3%
<b>Non-Operating Revenues</b>				
Interest Income	541	186	355	190.9%
Net Increase/(Decrease) in Fair Value of Investments	68	(1)	69	6900.0%
Gain on Defeased Debt	354	-	354	100.0%
Other Income	754	677	77	11.4%
Total Revenues	83,002	77,719	5,283	6.8%
<b>Operating Expenses</b>				
Purchased Resources	29,375	29,564	(189)	-0.6%
Operations, Maintenance, and Admin & General *	23,558	17,389	6,169	35.5%
Taxes and Depreciation Expense	15,535	14,964	571	3.8%
<b>Non-Operating Expenses</b>				
Interest Expense, Amortization, Debt Issuance/Defeasance	1,012	1,334	(322)	-24.1%
Other Expenses *	413	495	(82)	-16.6%
Total Expenses	69,893	63,746	6,147	9.6%
Income/(Loss) before Contributions	13,109	13,973	(864)	-6.2%
Capital Contributions	2,603	2,363	240	10.2%
<b>Change in Net Position</b>	15,712	16,336	(624)	-3.8%
Beginning Net Position	191,296	174,960	16,336	9.3%
<b>Ending Net Position</b>	<b>\$ 207,008</b>	<b>\$ 191,296</b>	<b>\$ 15,712</b>	<b>8.2%</b>

\*2021 CETA low income expense was reclassified to operating expenses for 2022 comparability

## Financial Analysis

The District maintained a strong financial performance throughout 2022 despite the ongoing challenges it faced with supply chain constraints and rising costs in the wake of COVID-19 impacts. Over time, net position may serve as a useful indicator of an entity's financial position, and as the District met these challenges and optimized its financial resources, overall financial position and results of operations improved over 2021, with total net position increasing 8.2%. The following is a comparative analysis of the change in net position by major components of income and expense.

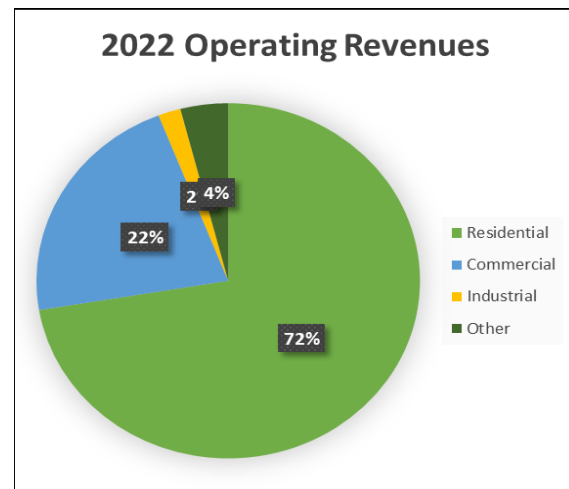
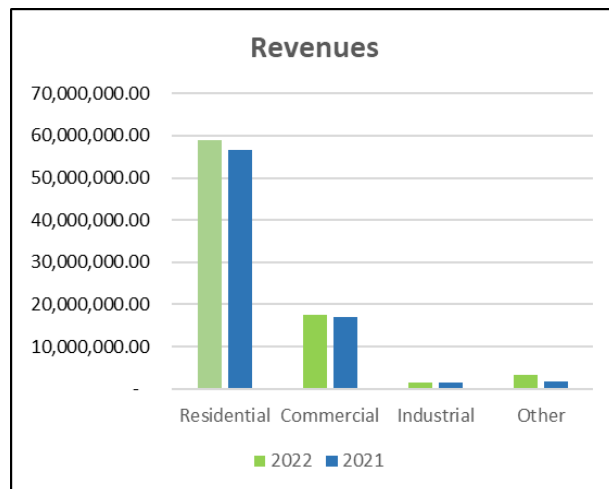
### Operating Revenue

The District's operating revenues increased in 2022 by 5.8% over 2021. In 2022, retail kWh sales for the Electric Division showed an increase of 5.5% over 2021. Weather is the primary driver for energy usage within the District's service territory, and with cooler weather conditions in 2022 coming in at 1.25 degrees cooler on average over the heating months along with an increase in rates, utility sales increased by \$3 million. In addition, increases were seen over all retail rate classes as shown in the graph below with

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

residential customers making up 72% of operating revenues. Other operating revenue grew year over year primarily due to a \$904 thousand increase in Energy Efficiency Incentive rebates provided by Bonneville Power Administrative (BPA) for conservation efforts. The District's electric customers increased by 253 billable meters, water customers increased by 27 billable meters, and sewer customers increased by 2 services in 2022.



### Non-Operating Revenue

The District's non-operating revenue increased by \$855 thousand in 2022, a 99% increase. This increase was a result of two main factors. Interest income increased year over year by \$355 thousand due to interest rates on investments largely improving throughout 2022. In addition, the District saw a gain on defeased debt in the amount of \$354 thousand related to the District's defeasement of a portion of its 2014 revenue bonds.

### Operating Expenses

The District's operating expenses include purchased resources (power and water), operations and maintenance, customer accounts, taxes and depreciation, and administrative and general expenses. Purchased resources accounted for 43% of the District's operating expense in 2022 and is primarily made up of purchased power from BPA for the Electric Division providing 98.8% of its power purchases, and purchased water from the City of Port Angeles that services three of the Water Division's water systems.

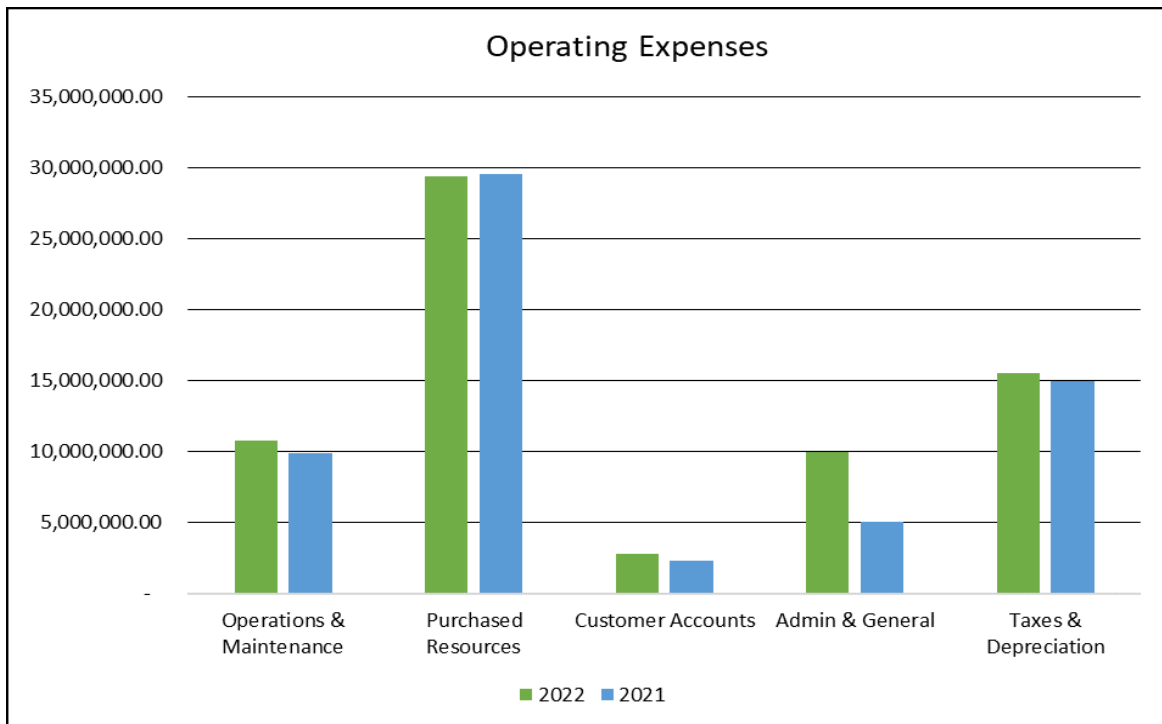
During 2022, overall operating expenses increased \$6.6 million, a 10.6% increase over 2021. \$2.6 million of this increase is a result of recording the required non-cash adjustments for the District's proportionate share of the Washington State Department of Retirement System's pension plan in which the District participates. For more information on these pension plan adjustments, see Note 7. Additionally, the District's medical cost for its employees increased \$1.4 million over the previous year as the District experienced a higher claims rate.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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In November 2022, the District experienced a severe winter storm causing widespread outages. Maintenance costs increased 15.9% over 2021 primarily due to the cost to restore the electric system after this storm. The Water Division also saw increased maintenance costs as they dealt with ongoing system issues with aging infrastructure.



### **Non-Operating Expenses**

Non-operating expenses decreased \$404 thousand in 2022 primarily due to a decrease in interest expense due to the defeasance of a portion of the Electric Division's 2014 bonds.

### **Capital Contributions**

Revenue from capital contributions increased in 2022 by \$240 thousand, a 10.2% increase. The majority of the customer contributions were residential line extensions for individual customers for the Electric and Water Divisions. Along with contributions from individual customers, the Water Division completed some larger commercial projects receiving contributions for developments in the Fairview water system totaling \$213 thousand.

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Summary of Financial Position**

In summary, the financial condition of the District improved during 2022 over 2021. The overall increase to net position for 2022 was \$15.7 million leaving the District with an ending net position of \$207 million.

District management monitors the effectiveness of its financial operations by evaluating the metrics of its Board adopted financial policy. The metrics of the policy provide benchmarks that foster financial stability and fiscal responsibility to the District's ratepayers. The financial metrics are as follows:

- Maintain operating cash reserves at or above 120 days cash on hand with a target of 180 days
- Maintain a Debt Service Coverage Ratio (DSCR) of 2.0x or greater
- Maintain a debt to asset ratio of 40% or less
- Maintain a rate stabilization fund of 6% of budgeted rate revenue

All metrics of the financial policy were met for 2022 and further support the objectives of the District's strategic plan.

There were no significant restrictions, commitments, or other limitations that would affect the availability of resources for future use in 2022 and 2021.

### **Capital Asset and Long-Term Debt Activity**

#### **Capital Assets**

At the end of 2022, the District had total Net Capital Assets of \$183 million, a 2% increase over 2021. Projects in the Electric Division included pole replacements, underground replacements and transmission rebuilds. Major projects capitalized for the Electric Division included a 115 kV transmission rebuild in Port Angeles for \$494 thousand, the completion of a project to relocate transmission poles west of Port Angeles for \$483 thousand, a roof restoration of the Central Warehouse Facility at a cost of \$289 thousand, and the relocation of electrical facilities on Towne Road in the amount of \$229 thousand. Projects for the Water Division included upgrades to water mains and services throughout all water systems. Major projects capitalized for the Water Division included a water main relocation at Siebert Creek as part of a Washington State Department of Transportation project. This project came in at \$247 thousand. Additionally, the Water Division completed the design and installation of a 70-kW standby generator for reliability in the Evergreen water system for a cost of \$205 thousand. Construction work in progress had a \$4.7 million increase for the year. For the Electric Division, work moved forward with the rebuild of the Forks 1 and 2 substations and for the Water Division, work continued on the Clallam Bay infrastructure replacement projects.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Capital Assets (in thousands)

	2022	2021	Increase (Decrease)	% Change
Land and Intangible Plant	\$ 3,774	\$ 3,774	\$ -	0.0%
Utility Plant in Service	329,396	320,656	8,740	2.7%
Construction Work In Progress	11,497	6,753	4,744	70.3%
Accumulated Depreciation	(161,369)	(151,457)	(9,912)	6.5%
Total Net Capital Assets	\$ 183,298	\$ 179,726	\$ 3,572	2.0%

Additional information on the District's capital assets is presented in Note 3.

### Long Term Debt

The District's long term debt decreased 14.9% in 2022. This was a decrease of \$6.1 million. In 2021, the District began the process to defease a portion of its outstanding Electric Division 2014 bonds and to issue new Electric bonds, but due to market conditions, these transactions did not take place until 2022. In January 2022, the District defeased a portion of the 2014 bonds in the amount of \$9.77 million. This transaction resulted in a gain of \$354 thousand. In February 2022, the District issued Electric revenue bonds in the amount of \$6.9 million.

The Water Division drew \$166 thousand on its 2019 Public Works Board loan in 2022. The funds were used for preconstruction work on water main and reservoir upgrade projects.

At the end of 2022, the District had \$29.5 million in bonds outstanding including unamortized premiums and \$5.3 million in drinking water loans outstanding.

### Long Term Debt (in thousands)

	2022	2021	Increase (Decrease)	% Change
Long Term Debt	\$ 34,848	\$ 40,950	\$ (6,102)	-14.9%

More detailed information regarding the District's long term debt is presented in Note 6.

### Bond Ratings

In 2022, the District's credit rating was affirmed by Moody's at Aa3.



# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Requests for Financial Information**

Please direct questions relating to this financial report or additional financial information to the District's Controller at PO Box 1000, Carlsborg, WA 98324.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## STATEMENT OF NET POSITION

As of December 31, 2022

### ASSETS

#### CURRENT ASSETS

Cash and Cash Equivalents (Note 2)	\$ 30,742,263
Restricted Debt Service Funds	2,073,714
Restricted Rate Stabilization Fund	4,145,145
Investments (Note 2)	6,075,333
Customer Accounts Receivable, Net	6,536,419
Other Accounts Receivable, Net	917,063
Accrued Unbilled Revenues	4,507,027
Inventory-Materials and Supplies	9,571,206
Prepayments	1,419,194

#### Total Current Assets

**65,987,364**

#### NONCURRENT ASSETS

Restricted Debt Service Reserve Funds	1,898,144
Investments (Note 2)	5,016,073
Net Pension Asset (Note 7)	4,145,898
Preliminary Surveys	121,811

#### Utility Plant (Note 3)

Land and Intangible Plant	3,774,032
Utility Plant in Service	329,396,802
Construction Work in Progress	11,496,848
Less: Accumulated Depreciation	(161,369,372)
Total Utility Plant, Net	183,298,310

#### Total Noncurrent Assets

**194,480,236**

### TOTAL ASSETS

**\$ 260,467,600**

### DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflow-Pension (Note 7)	4,103,273
Deferred Outflow-OPEB (Note 8)	318,170
Deferred Outflow-Loss on Refunding	155,919

### TOTAL DEFERRED OUTFLOWS OF RESOURCES

**\$ 4,577,362**

### LIABILITIES

#### CURRENT LIABILITIES

Accounts Payable	\$ 6,347,621
Customer Deposits	1,381,377
Accrued Taxes	1,823,429
Accrued Interest Payable	310,062
Other Credits and Liabilities, Current Portion (Note 5)	3,269,860
Total OPEB Liability, Current Portion (Note 8)	34,731
Long-Term Debt, Current Portion (Note 6)	3,118,648

#### Total Current Liabilities

**16,285,728**

#### NONCURRENT LIABILITIES

Revenue Bonds Payable (Note 6)	27,080,054
Drinking Water State Revolving Fund Loans (Note 6)	4,441,216
Washington State Public Works Board Loan (Note 6)	208,536
Other Credits and Liabilities (Note 5)	885,705
Total OPEB Liability (Note 8)	1,212,303
Net Pension Liability (Note 7)	2,386,704

#### Total Noncurrent Liabilities

**36,214,518**

### TOTAL LIABILITIES

**\$ 52,500,246**

### DEFERRED INFLOWS OF RESOURCES

Deferred Inflows-Pension (Note 7)	4,376,973
Deferred Inflows-OPEB (Note 8)	1,159,242

### TOTAL DEFERRED INFLOWS OF RESOURCES

**\$ 5,536,215**

### NET POSITION

Net Investment in Capital Assets	147,373,110
Restricted For:	
Debt Service	3,678,477
Rate Stabilization Fund	4,145,145
Net Pension Asset	3,990,109
Unrestricted	47,821,660

### TOTAL NET POSITION

**\$ 207,008,501**

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

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION**

**For the year ended December 31, 2022**

### **OPERATING REVENUES**

Utility Sales	\$ 78,017,939
Other Operating Revenues	3,266,823
<b>TOTAL OPERATING REVENUES</b>	<b>81,284,762</b>

### **OPERATING EXPENSES**

Purchased Power (Note 10)	29,144,017
Purchased Water (Note 10)	230,487
Systems Operations	4,906,237
Maintenance	5,888,484
Customer Accounting and Information	2,789,134
Administrative & General Expense	9,974,433
Taxes	4,381,626
Depreciation and Amortization of Intangible Assets	11,153,089
<b>TOTAL OPERATING EXPENSES</b>	<b>68,467,507</b>

### **NET OPERATING INCOME**

**12,817,255**

### **NON-OPERATING REVENUES AND EXPENSES**

Interest Income	540,991
Interest and Amortization on Long-Term Debt	(906,395)
Gain on Investments	67,980
Gain on Insurance Recovery	28,521
Gain on Defeased Debt	354,501
Debt Issuance/Defeasement Costs	(106,023)
COVID-19 Non-Grant Revenue (Note 14)	74,825
COVID-19 Non-Grant Expense (Note 14)	(74,825)
Other Non-operating Revenue (Expense)	118,010
Miscellaneous Grant Revenue (Note 13,14)	465,031
Gain/(Loss) on Sale/Retirement of Plant	(270,235)
<b>TOTAL NON-OPERATING REVENUES AND EXPENSES</b>	<b>292,381</b>

### **CAPITAL CONTRIBUTIONS**

2,602,459

### **CHANGE IN NET POSITION**

**15,712,095**

Net Position, Beginning of the Year 191,296,406

### **NET POSITION, ENDING**

**\$ 207,008,501**

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

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## STATEMENT OF CASH FLOWS

**For the year ended December 31, 2022**

### CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 80,316,186
Cash Paid to Suppliers	(41,519,677)
Cash Paid to Employees	(14,958,154)
Taxes Paid	(4,242,306)
Other Cash Receipts	84,697
Other Cash Payments	(67,928)
<b>Net Cash Provided From Operating Activities</b>	<b>19,612,818</b>

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Grant Revenue-Storm Damage Recovery	4,839
Grant Revenue-Other	25,981
COVID-19 Non-Grant Revenue	74,825
COVID-19 Non-Grant Expense	(74,825)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>30,820</b>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Utility Plant	(14,232,691)
Proceeds from Sale of Utility Plant	64,082
Principal paid on Revenue Bonds/Drinking Water Loans	(2,944,620)
Interest Paid on Debt	(1,105,113)
Principal and Interest paid on Lease Liability	(75,162)
Contributions in Aid of Construction	2,428,254
Proceeds from Revenue Bond/Drinking Water Loans/Public Works Loan	8,268,406
Cash Defeasance of Revenue Bonds	(10,819,391)
Grant Revenue-Storm Damage Recovery	26,718
Debt Issuance Expense Paid on Capital Debt	(100,123)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(18,489,640)</b>

### CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	540,941
Investments-Purchased	(19,989,651)
Investments-Proceeds	15,000,000
<b>Net Cash Provided by Investing Activities</b>	<b>(4,448,710)</b>

<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(3,294,712)</b>
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<b>Cash and cash equivalents, including restricted cash - Beginning of the Year</b>	42,153,978
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<b>Less Restricted Cash</b>	(8,117,003)
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<b>Cash and cash equivalents - End of the Year</b>	<b>\$ 30,742,263</b>
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The accompanying notes are an integral part of these financial statements.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## STATEMENT OF CASH FLOWS (CONTINUED)

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Continued

### RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

<b>Operating Income</b>	\$	12,817,256
<b>Adjustments to reconcile Operating Income To Net Cash Provided by Operating Activities</b>		
<b>Add (Deduct):</b>		
Depreciation		11,153,089
Other Non-Operating (Receipts) Payments		16,769
Change in Accounts Receivable		(1,029,139)
Change in Unbilled Revenues		317,420
Change in Other Receivables		(53,773)
Change in Materials		(2,278,314)
Change in Prepayments		22,644
Change in Deferred Charges		84,515
Change in Accounts Payable		98,849
Change in Customer Deposits		159,630
Change in Accrued Taxes		139,319
Change in Accrued Liabilities		5,702
Change in Other Post-Employment Benefits (OPEB)		(46,779)
Change in Pension Expense(Credit) (GASB 68)		(1,797,024)
Change in Unearned Revenues		2,660
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$</b>	<b>19,612,818</b>

### SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES

- Customer installed services brought into plant and included in Capital Contributions totaled \$387,631 and had no effect on cash.
- Capital asset acquisition related to lease liability was \$439,494.
- The deferred inflows and deferred outflows related to GASB 68 had no cash effect in 2022.  
The pension deferred outflow was \$4,103,273 and the pension deferred inflow was \$4,376,973.
- The deferred inflows and deferred outflow related to GASB 75 had no cash effect in 2022.  
The OPEB deferred inflow was \$1,159,242 and the OPEB deferred outflow was \$318,170.

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

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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

#### **Reporting Entity**

Public Utility District No. 1 of Clallam County (District) is a municipal corporation providing electric, water, and wastewater (sewer) service. The District was voted into existence on November 5, 1940. In July 1944 the District acquired electric facilities and began providing service. In the following year, the District began providing water service and in 1990 began providing sewer utility service.

The District is governed by a three-member board of elected commissioners and is comprised of an electric system, nine water systems, and four sewer systems. The accompanying combined financial statements include the financial position of the Electric, Water and Sewer Divisions and the results of their operations. For the purpose of these statements, all interdepartmental transactions for services rendered between the divisions have been eliminated upon consolidation.

As required by Generally Accepted Accounting Principles (GAAP), 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 accounting policies used in the preparation of the District's financial statements:

#### **A. Basis of Accounting and Presentation**

The accounting policies of the District conform to GAAP as applicable to proprietary funds of governments. The District adheres to the accounting standards and pronouncements of the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for governmental entities. In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and reporting for leases by governments. The requirements of this statement were effective for reporting periods beginning after December 15, 2019. The District elected to postpone the adoption of this standard as allowed by Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, and implemented Statement No. 87 in 2022.

Accounting records are maintained in accordance with methods prescribed by the Washington State Auditor's Office under the authority of Revised Code of Washington (RCW) 43.09 and the Uniform System of Accounts for public utilities and licensees as published by the Federal Energy Regulatory Commission (FERC). The District uses the full accrual basis of accounting recognizing revenues when earned and expenses as incurred. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the principal operations of the District. All other revenues and expenses are reported as non-operating revenues and expenses.

#### **B. Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of less than three months from the date of acquisition and are investments

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value due to market forces.

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 withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

It is the District's policy to record investments at fair value. For various risks related to the investments see Note 2.

### **C. Restricted Assets**

In accordance with bond resolutions, related agreements and the District's adopted financial policy, separate restricted accounts have been established. These assets are restricted for specific uses including bond reserve and debt service coverage. 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.

### **D. Accounts Receivable**

Management reviews accounts receivable and provides for estimated uncollectible accounts using the percentage-of-receivables method. Amounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis. Customer accounts receivable is presented in the Statement of Net Position net of the provision for uncollectible account balance. The District's provision for uncollectible accounts was \$117,071 as of December 31, 2022.

Customer accounts receivable contain credit balances for advance payments, primarily from Average Payment Plan residential customers. The total dollar amount of the credit balances was \$647,976 at December 31, 2022 and has been reclassified as accounts payable.

### **E. Inventories**

Inventories are valued at average cost which approximates the market value.

### **F. Utility Plant and Depreciation**

Utility Plant assets are recorded at cost and include both direct and indirect costs of construction or acquisition. The District's capitalization threshold for non-infrastructure plant is \$5,000 with a useful life of greater than one year. All costs related to infrastructure are capitalized. The cost of maintenance and repairs is expensed as incurred; replacements and improvements are capitalized.

The District, beginning with the adoption of GASB Statement No. 87, *Leases* in FY 2022, has capitalized existing and new leases accordingly as Right to Use Lease Assets and amortizes them over the life of the lease.

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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Composite depreciation rates are used for groups of infrastructure assets and, accordingly, no gain or loss is recorded on the retirement of an asset unless it represents a major retirement. Initial depreciation on utility plant is recorded in the month subsequent to purchase or completion of construction. Property, plant and equipment are depreciated based on the straight-line method over estimated useful lives with the ranges summarized in the table below.

Electric Plant – Generation	20 - 25 years
Electric Plant – Transmission	20 - 40 years
Electric Plant – Distribution	15 - 40 years
Electric Plant – General	3 - 50 years
Electric Plant – Right to Use Lease Assets	2 - 10 years
Water Plant – Distribution	5 - 50 years
Water Plant – General	2 - 40 years
Sewer Plant – Collection & Transmission	10 - 50 years

As prescribed by FERC, utility plant assets are retired or otherwise disposed of at cost plus cost of removal less salvage and recorded to accumulated depreciation. For additional information on plant assets see Note 3.

### **G. Leases**

When the District is a lessee in a non-cancellable lease of real property or equipment valued at \$5,000 or more, it recognizes a lease liability and an intangible right to use lease asset in the financial statements. At the commencement of a lease, the District measures the lease liability at a present value of payments expected to be made during the lease term and then reduces the liability when principal payments are made. The lease asset is also recorded at the present value of payments to be made after commencement plus any additional costs necessary to place the asset in service and is then amortized on a straight-line basis over the lease term. Lease assets are reported as noncurrent assets and lease liabilities are included with Other Credits and Liabilities on the Statement of Net Position. The District is currently a lessee of real properties and equipment.

In the case when the District is a lessor and the underlying assets are owned and have been recorded in noncurrent assets, a lease receivable is recorded and a new deferred inflow of resources representing future payments is recorded if the value of the receivable is \$5,000 or more. Lease payments are comprised of the rental amount and interest income and as they are made, the lease receivable is reduced. The District is currently a lessor of real property and utility plant, but none of the agreements are subject to treatment under GASB 87.

If the interest rate charged by the lessor is not provided, or when the District is the lessor, the District's incremental borrowing rate is used as the discount rate. The lease term includes the non-cancellable period of the lease, including options to extend if reasonably expected to do so, and must be more than 1 year.



# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **H. Preliminary Survey Charges**

Costs incurred for proposed projects are recorded as Preliminary Survey Charges pending the decision to move forward with the project. Charges related to projects ultimately constructed are transferred to utility plant; charges related to projects abandoned are charged to expense. The Preliminary Survey Charges are presented as noncurrent assets in the Statement of Net Position. As of December 31, 2022, the charges totaled \$121,811. Major pending projects include a water storage project for the Evergreen water system and the Morse Creek diversion transfer in the Fairview water system.

### **I. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting under this category:

- Deferred loss on refunding
- Deferred actuarial amounts related to pensions and other post-employment benefits

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred actuarial amounts related to pensions and other post-employment benefits

### **J. Compensated Absences**

Employees earn Paid Time Off (PTO) as a benefit of their employment. The District presents accrued PTO in Other Credits and Liabilities on the Statement of Net Position. Employees earn PTO in accordance with length of employment, and per District policy, PTO may accumulate to no more than 1,000 hours and is payable upon separation of service. As of December 31, 2022, the District's PTO liability was \$1,746,608. A Compensatory Time Bank (CTB) is available to all non-salaried/non-exempt employees and runs yearly from May 1 to April 30. Maximum accumulation in the CTB is 80 hours per year and is solely comprised of up to 40 overtime hours. Any hours remaining in the CTB at April 30 are cashed out at the employee's current rate of pay. The balance in the CTB at December 31, 2022 was \$40,128.

### **K. Debt Premium and Discount**

Original issue bond premiums and discounts relating to revenue bonds are amortized over the lives of the respective bond issues using the straight-line method. Unamortized 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.

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **L. Revenue Recognition and Unbilled Revenues**

Revenues are based on monthly cyclical customer billings. This system of billing results in earned but unbilled revenues at year-end, which are included in the financial statements. Estimated earned but unbilled revenues were \$4,507,027 as of December 31, 2022.

### **M. Capital Contributions**

Capital contributions from customers consist mainly of line and service extension fees. They are typically recorded as advances for construction in Other Credits and Liabilities when received and reclassified to revenue when the related project is completed. The District also receives Capital Facilities and Capital Maintenance fees from Water Division customers that are recorded directly to capital contributions at the time customers sign up for service. The District reported capital contributions on the Statement of Revenues, Expenses and Changes in Net Position of \$2,602,459 for the year ended December 31, 2022. In 2022, contributions reported by the Electric Division were \$1,904,198. The Water Division had contributions of \$690,516 and the Wastewater Division had contributions of \$7,745.

### **N. Pensions**

The District is a member of the Washington State Public Employees' Retirement System (PERS) cost-sharing plan. 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 or deductions from those plans' fiduciary net position have been determined on the same basis as 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, while 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.

### **O. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Specific estimates include allowance for doubtful accounts, unbilled revenue, depreciation, and pension and post-employment benefit obligations. Actual results may differ from those estimates.

### **P. Federal and State Assistance**

In 2022, the District was awarded funding from multiple agencies primarily for assistance with storm recovery and customer account arrearages. Programs funded by grants were conducted on a cost reimbursement basis with no funds advanced to the District. These funds are shown in the Non-operating Revenue and Expense section of the Statement of Revenues, Expenses and Changes in Net Position. See Notes 13 and 14 for further information.

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **Q. Significant Risks and Uncertainties**

The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include interest rates, weather and natural disaster-related disruptions, collective bargaining labor disputes, changing local and national economic conditions, the financing and completion of significant capital projects, changing federal and state laws, regulations and requirements associated with operations and power procurement, and price risks inherent in the purchase of power.

### **NOTE 2 – DEPOSITS AND INVESTMENTS**

#### **Deposits**

Cash on hand at December 31, 2022 was \$3,200. The carrying amount of the District's deposits was \$38,856,066.

***Custodial Credit Risk*** – For a deposit, this 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 the possession of an outside party. The District's deposits and certificates of deposit (CD) are entirely covered by 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.

As required by state law, all District cash is deposited with Washington state banks and savings and loan institutions or invested in obligations of the U.S. Government or governmental agencies, the Washington State Local Government Investment Pool (LGIP), or other investments allowed by RCW 39.59. The District's Investment Policy prohibits investments in banker's acceptances and repurchase agreements.

#### **Investments**

The District's investments are subject to the following risks:

***Interest Rate Risk*** – The risk that the District may face should interest rate variances affect the fair value of investments. The District's investment policy requires matching investment maturities with the anticipated cash flow requirements. The policy limits the weighted average maturity of the overall portfolio to three years or less without the prior written approval of the Treasurer excluding bond reserve funds.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

As of December 31, 2022, the average maturity of the investments are as follows:

Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years
Bank CDs	11,091,406	6,075,333	5,016,073
<b>Total</b>	<b>\$ 11,091,406</b>	<b>\$ 6,075,333</b>	<b>\$ 5,016,073</b>

**Concentration of Credit Risk** – The risk of loss attributable to the magnitude of an investment in a single issuer. The District’s investment policy requires diversification of investments by institution with the exception of the U.S. Treasury and the District’s operating accounts.

**Credit Risk** – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s Investment Policy conforms with state law, which restricts investments of public funds to the following:

- Debt securities and obligations of the U.S. Treasury, U.S. government agencies and certain other U.S. government sponsored corporations
- CDs and other evidences of deposit at financial institutions qualified by the PDPC
- Investment-grade general obligation debt of state and local governments and public authorities
- Washington State Treasurer’s Local Government Investment Pool (LGIP)

At December 31, 2022, the District held investments in bank CD’s only. The District has a third-party safekeeping agreement for investments through U.S. Bank when such investments are in effect.

**Washington State 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 RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

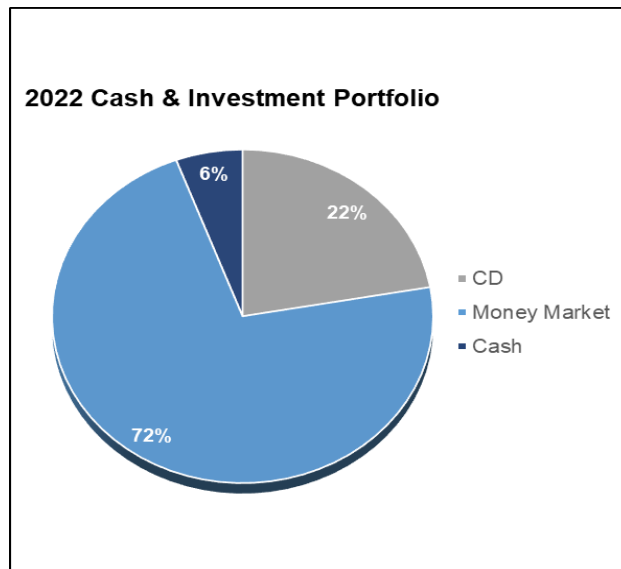
Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates 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](http://www.tre.wa.gov).

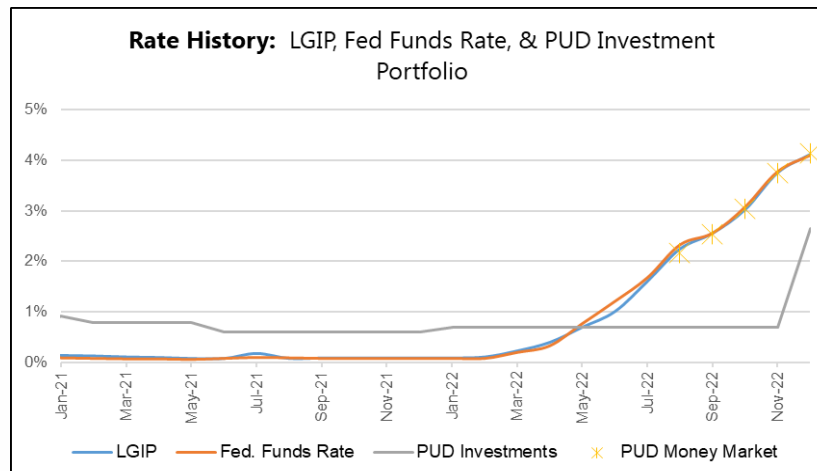
# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

As of December 31, 2022, District funds were deposited with local banks only. As illustrated by the graph titled *Rate History: LGIP, Fed Funds Rate, & PUD Investment Portfolio*, rates started an upward climb in March of 2022. Although the District had previously placed most of its liquid funds in bank money market accounts which were matching the performance of the LGIP, some funds were invested in U.S. Treasuries as of February 2022. Those investments matured in November and were moved back to money market accounts. Similar to LGIP, the money market accounts permit withdrawal of cash at any time without prior notice or penalty. A certificate of deposit was also purchased to lock in a longer-term rate.



For most of 2022, the market performed with an inverted yield curve where longer-term bonds had lower yields than short-term debt instruments. Although the District opted to invest in U.S. Treasuries for a period of time, the decision was made to keep the term short to take advantage of the unusual interest rate environment. By the end of 2022, one and three year CDs offered the District both a comparative rate of return and accessibility of funds.



# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

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**Fair Value** – When applicable, the District’s investments on the Statement of Net Position are adjusted to reflect available fair values as of the end of the year which are obtained from available financial industry valuation services. The calculation of realized gains and losses on investments is independent of the calculation of the change in the fair value of investments, and realized gains and losses in the current year include unrealized gains and losses from prior years. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs;
- Level 3 inputs are significant unobservable inputs.

All of the District’s fair value measurements are classified as Level 1.

### **Summary of Deposits and Investment Balances**

As of December 31, 2022, the District had \$49,950,672 in deposits and investments.

<b>Deposit or Investment Type</b>	<b>Maturities</b>	<b>Fair Value</b>
Cash in Banks and Working Funds		38,859,266
Bank CD	1/28/2023	3,037,509
Bank CD	1/21/2023	3,037,824
Bank CD	12/8/2025	5,016,073
<b>Total</b>		\$ 49,950,672
<b>Reconciliation of Statement of Net Position</b>		
<b>Unrestricted</b>		
Cash and Cash Equivalents		30,742,263
Investments		11,091,406
<b>Restricted</b>		
Debt Service Fund		2,073,714
Debt Service Reserve Fund		1,898,144
Rate Stabilization Fund		4,145,145
<b>Total</b>		\$ 49,950,672

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 3 –UTILITY PLANT AND DEPRECIATION

Utility Plant activity for the year ended December 31, 2022, was as follows:

	Balance 12/31/2021	Increases	Decreases	Balance 12/31/2022
<b>Electric Plant Assets</b>				
Utility Plant Not Being Depreciated				
Land & Intangible Plant	\$ 3,233,138	\$ -	\$ -	\$ 3,233,138
Construction Work In Progress	4,629,263	9,692,651	(7,230,239)	7,091,675
Utility Plant Being Depreciated				
Transmission	23,515,460	1,023,016	(252,654)	24,285,822
Distribution	195,545,177	6,583,575	(1,910,605)	200,218,147
General Plant	61,926,735	1,449,542	(111,906)	63,264,371
Right-To-Use Lease Assets	-	439,494	-	439,494
Other	225,880	-	-	225,880
Subtotal	281,213,252	9,495,627	(2,275,165)	288,433,714
Less Accumulated Depreciation				-
Transmission	(6,679,893)	(795,164)	267,559	(7,207,498)
Distribution	(103,070,869)	(7,332,010)	1,811,093	(108,591,786)
General Plant	(27,417,057)	(2,802,658)	42,423	(30,177,292)
Right-To-Use Lease Assets	-	(77,481)	-	(77,481)
Other	(28,141)	(8,856)	-	(36,997)
Total Accumulated Depreciation	(137,195,960)	(11,016,169)	2,121,075	(146,091,054)
<b>Net Electric Plant</b>	<b>\$ 151,879,693</b>	<b>\$ 8,172,109</b>	<b>\$ (7,384,329)</b>	<b>\$ 152,667,473</b>
<b>Water Plant Assets</b>				
Utility Plant Not Being Depreciated				
Land & Intangible Plant	\$ 509,789	\$ -	\$ -	\$ 509,789
Construction Work In Progress	2,122,663	3,801,261	(1,519,431)	4,404,493
Utility Plant Being Depreciated				
Transmission & Distribution	37,188,228	1,284,296	(116,783)	38,355,741
General Plant	1,309,035	351,456	-	1,660,491
Subtotal	38,497,263	1,635,752	(116,783)	40,016,232
Less Accumulated Depreciation				
Transmission & Distribution	(12,668,085)	(1,007,297)	116,783	(13,558,599)
General Plant	(1,053,039)	(97,931)	-	(1,150,970)
Total Accumulated Depreciation	(13,721,124)	(1,105,228)	116,783	(14,709,569)
<b>Net Water Plant</b>	<b>\$ 27,408,591</b>	<b>\$ 4,331,785</b>	<b>\$ (1,519,431)</b>	<b>\$ 30,220,945</b>

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

<b>(continued from prior page)</b>	<b>Balance 12/31/2021</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12/31/2022</b>
<b><u>Sewer Plant Assets</u></b>				
Utility Plant Not Being Depreciated				
Land & Intangible Plant	\$ 31,105	\$ -	\$ -	\$ 31,105
Construction Work In Progress	1,518	707	(1,545)	680
Utility Plant Being Depreciated				
Collection and Transmission	945,311	1,545	-	946,856
Subtotal	<u>945,311</u>	<u>1,545</u>	<u>-</u>	<u>946,856</u>
Less Accumulated Depreciation				
Collection and Transmission	(540,228)	(28,521)	-	(568,749)
<b>Net Sewer Plant</b>	<u><u>\$ 436,188</u></u>	<u><u>\$ (26,976)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 409,892</u></u>
<b><u>Total Utility Plant</u></b>				
Utility Plant Not Being Depreciated				
Land & Intangible Plant	\$ 3,774,032	\$ -	\$ -	\$ 3,774,032
Construction Work In Progress	6,753,444	13,494,619	(8,751,215)	11,496,848
Utility Plant Being Depreciated				
Transmission-Electric/Sewer	24,460,771	1,024,561	(252,654)	25,232,678
Distribution-Electric/Water	232,733,405	7,867,871	(2,027,388)	238,573,888
General Plant-Electric/Water	63,235,770	1,800,998	(111,906)	64,924,862
Right-To-Use Lease Assets	-	439,494	-	439,494
Other-Electric	225,880	-	-	225,880
Subtotal	<u>320,655,826</u>	<u>11,132,924</u>	<u>(2,391,948)</u>	<u>329,396,802</u>
Less Accumulated Depreciation				
Transmission-Electric/Sewer	(7,220,121)	(823,685)	267,559	(7,776,247)
Distribution-Electric/Water	(115,738,954)	(8,339,307)	1,927,876	(122,150,385)
General Plant-Electric/Water	(28,470,096)	(2,900,589)	42,423	(31,328,262)
Right-To-Use Lease Assets	-	(77,481)	-	(77,481)
Other-Electric	(28,141)	(8,856)	-	(36,997)
Total Accumulated Depreciation	<u>(151,457,312)</u>	<u>(12,149,918)</u>	<u>2,237,858</u>	<u>(161,369,372)</u>
<b>Total Combined Utility Plant, Net</b>	<u><u>\$ 179,725,990</u></u>	<u><u>\$ 12,477,625</u></u>	<u><u>\$ (8,905,305)</u></u>	<u><u>\$ 183,298,310</u></u>

In compliance with GASB 87, the right-to-use lease asset category was added for FY 2022. Right-to-use assets include leases for the District's warehouse facility located in Port Angeles, billing equipment, land for a substation location and space on a building and cell tower for communications equipment.

In late 2021, the District experienced a storm event that damaged a main and pump station in the Clallam Bay water system. The damaged main and pumphouse motors were retired as impaired assets in 2022 after the extent of the damage was determined. An insurance recovery for the repair of the damaged motors was approved by the District's insurance carrier and recorded on the Statement of Revenues, Expenses and Changes in Net Position as a gain on insurance recovery in the amount of \$28,521.



# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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The District has historically accounted for accumulated depreciation as prescribed by the Federal Energy Regulatory Commission (FERC) where the book cost of utility property retired or otherwise disposed of together with removal costs less salvage is charged to accumulated depreciation. 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 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 certain intangible assets are charged to clearing accounts in order to obtain a proper distribution of expenses between construction and operation. The depreciation expense charged to transportation clearing accounts is distributed to maintenance and operations expenses and work orders associated with the usage of the vehicles during the year.

### **NOTE 4– LEASE COMMITMENTS**

#### **Operating Leases**

The District is committed under various rental leases considered operating leases for accounting purposes. With the implementation of GASB Statement No. 87, *Leases*, the amount recorded as lease expense has significantly decreased. Current operating leases include payment kiosks, cell tower space for a repeater site, and a location for a payment drop box.

The District recorded lease expense of \$40,515 for the year ended December 31, 2022 for the remaining operating leases not falling into scope under GASB 87. Future minimum commitments for operating leases are as follows:

<b>Fiscal Year Ending December 31:</b>	
2023	\$41,040
2024	35,850
2025	9,900
2026	9,900
2027	9,900
Total	<u>\$106,590</u>

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5-OTHER CREDITS AND LIABILITIES

During the year ended December 31, 2022, the following changes occurred in other credits and liabilities:

<b>Other Credits &amp; Liabilities - Current</b>	<b>Beginning Balance 12/31/21</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance 12/31/22</b>
<b><u>Electric System</u></b>				
Compensated Absences	1,042,584	1,939,281	1,877,390	1,104,475
Accrued Payroll	819,615	10,194,156	10,289,486	724,285
Customer Advances for Construction	768,212	1,479,488	1,176,405	1,071,295
Contractor Retainage	34,572	75,823	52,026	58,369
Unearned Revenues	75,264	215,382	212,722	77,924
Lease Liabilities	-	70,792	-	70,792
Other Current Liabilities	5,600	52,647	50,924	7,323
<b><u>Water System</u></b>				
Compensated Absences	99,324	140,057	143,160	96,221
Customer Advances for Construction	19,670	28,482	21,000	27,152
Contractor Retainage	4,252	28,294	740	31,806
Other Current Liabilities	301	1,227	1,309	219
<b><u>Sewer System</u></b>				
	-	-	-	-
Customer Advances for Construction	-	685	685	-
Other Current Liabilities	6	-	6	-
<b>Total Other Credits &amp; Liabilities - Current</b>	<b>\$ 2,869,400</b>	<b>\$ 14,226,314</b>	<b>\$ 13,825,853</b>	<b>\$ 3,269,860</b>

<b>Other Credits &amp; Liabilities - Noncurrent</b>	<b>Beginning Balance 12/31/21</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance 12/31/22</b>
<b><u>Electric System</u></b>				
Compensated Absences	531,150	882,602	911,085	502,667
Lease Liabilities	-	439,494	139,829	299,665
<b><u>Water System</u></b>				
Compensated Absences	65,633	121,357	103,617	83,373
<b>Total Other Credits &amp; Liabilities - Noncurrent</b>	<b>\$ 596,783</b>	<b>\$ 1,443,453</b>	<b>\$ 1,154,531</b>	<b>\$ 885,705</b>

The District has entered into lease agreements as a lessee for facilities and equipment and is required to make principal and interest payments over the lease terms. The lease liability at December 31, 2022 was \$370,457. The future principal and interest lease payments as of December 31, 2022 were as follows:

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

Years Ending December 31	Lease Liability Payments		
	Principal	Interest	Total Payments
2023	70,792	6,201	76,993
2024	73,244	4,896	78,140
2025	74,302	3,565	77,867
2026	77,649	2,194	79,843
2027	71,390	763	72,153
2028-2032	3,080	171	3,251
Total	\$ 370,457	\$ 17,790	\$ 388,247

### NOTE 6 – LONG TERM DEBT

	Original Issue Amount	Beginning Balance 12/31/21	Additions	Reductions	Ending Balance 12/31/22	Due Within One Year
<b><u>Electric System</u></b>						
2010 Electric Revenue Bonds 5.25% due 2011-2030	11,230,000	5,955,000	-	575,000	5,380,000	595,000
2014 Electric Revenue Bonds 5.0% due 2018-2034	14,225,000	11,870,000		10,435,000	1,435,000	700,000
2016 Electric Refunding Bonds 3.0%-4.0% due 2018-2028	8,080,000	5,465,000	-	705,000	4,760,000	725,000
2018 Electric Revenue Bonds 2.0%-5.0% due 2019-2038	9,170,000	8,230,000	-	335,000	7,895,000	350,000
2022 Electric Revenue Bonds 4.00% Due 2022 to 2034	6,935,000	-	6,935,000	-	6,935,000	-
Plus: Unamortized Premium		3,129,604	1,167,352	1,654,901	2,642,055	
<b><u>Water System</u></b>						
2005 Drinking Water Loan 1.0% due 2010-2025	3,535,000	725,726	-	181,432	544,294	181,432
2010 Drinking Water Loan 1.0% due 2015-2034	2,047,525	665,446	-	51,188	614,258	51,188
2011 Drinking Water Loan 1.5% due 2016-2035	2,673,267	1,309,901	-	93,565	1,216,336	93,564
2012 Drinking Water Loan 1.0% due 2018-2036	3,073,935	2,298,003	-	153,200	2,144,803	153,200
2016 Drinking Water Loan 1.5% due 2019-2038	649,935	454,362	-	26,727	427,635	26,727
2019 Public Works Board Loan 0.63% due 2021-2024	607,800	376,528	166,055	125,509	417,073	208,537
Direct Placement 2019 Water Revenue Bonds 3.0% due 2019-2033	570,000	470,000	-	33,000	437,000	34,000
<b>Total Bonds &amp; Loans Payable</b>	<b>\$ 62,797,462</b>	<b>\$ 40,949,570</b>	<b>\$ 8,268,407</b>	<b>\$ 14,369,522</b>	<b>\$ 34,848,454</b>	<b>\$ 3,118,648</b>

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

Remaining scheduled payments, as of December 31, 2022, of principal and interest on long-term debt are as follows:

Years Ending December 31	Electric System Bonds		Water System Drinking Water Loans		Water System Direct Placement Bond		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2023	2,370,000	1,118,156	714,648	59,908	34,000	13,110	4,309,822
2024	2,465,000	1,014,094	714,648	53,344	35,000	12,090	4,294,176
2025	2,365,000	909,725	506,111	46,368	36,000	11,040	3,874,244
2026	2,460,000	805,100	324,680	40,705	37,000	9,960	3,677,445
2027	2,550,000	696,525	324,680	36,857	38,000	8,850	3,654,912
2028 - 2032	8,925,000	2,063,963	1,623,399	126,562	211,000	26,250	12,976,174
2033 - 2037	4,580,000	623,175	1,129,506	33,295	46,000	1,380	6,413,356
2038 - 2042	690,000	17,250	26,727	401	-	-	734,378
Total	\$26,405,000	\$ 7,247,988	\$5,364,399	\$397,440	\$437,000	\$ 82,680	\$ 39,934,508

Electric and water debt payments were \$2.9 million in principal and \$1.1 million in interest in 2022.

As of December 31, 2022, the District has a total of \$3.97 million in restricted assets related to bonded debt of the District. This represents debt service and debt service reserve funds as required by the bond covenants.

As a minimum requirement of the District's bond covenants, an annual net revenue to debt service ratio of 1.25 must be maintained. As of December 31, 2022, management believes the District is in compliance with all bond covenants including those regarding federal arbitrage.

### **Electric Debt**

In December 2010, the District issued \$11,230,000 in Electric Taxable Build America Bonds with a coupon rate of 5.25% maturing in years 2011 through 2030. These bonds are treated as qualified bonds subject to a credit payable from the U.S. Treasury equal to 35% of interest payable on each interest payment date. As a result of sequestration, the 35% credit was reduced by 5.7% to a rate of 33.005% for years 2021 through 2030. The bond proceeds were used to finance various capital additions to the electric system.

In October 2014, the District issued \$14,225,000 in Electric Revenue Bonds with a coupon rate of 5% maturing in years 2018 through 2034. The bond proceeds were used to finance improvements to the electric system including the construction of or additions to three buildings: construction of a new administration building, an addition of an engineering space to the Carlsborg operations center, and construction of a new meter/substation shop.

In July 2016, the District issued \$8,080,000 in Electric Revenue Bonds with a coupon rate ranging from 3% to 4% maturing in years 2018 through 2028. These funds were used to refund the District's 2008 Electric Revenue Bonds. The refunding of the 2008 bonds resulted in a loss of \$356,015 which was recorded as a deferred outflow and a premium of \$1,048,570 recorded as a noncurrent liability on the Statement of Net

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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Position both of which are being amortized over the life of the new bonds. The net present value savings to the District of this refunding was \$770,202.

In August 2018, the District issued \$9,170,000 in Electric Revenue Bonds with coupon rates ranging from 2% to 5% maturing in years 2019 through 2038. The bonds were issued at a premium of \$1,048,601 and were used to finance certain improvements to the District's electric system including the construction of new operations and equipment buildings on the west end of Clallam County, the reconstruction of two substations, and the installation of circuit switchers and relays at the Port Angeles switching yard.

In September 2021, the Board of Commissioners passed a resolution authorizing the defeasance of certain of the outstanding 2014 bonds maturing April 1, 2025 through April 1, 2034, and the issuance of new bonds to finance the capital improvement plan of the District. On January 4, 2022, the District defeased \$9,770,000 of its 2014 bonds by making a cash contribution of \$10,813,490 that was placed in an irrevocable trust for future debt service. The defeasance resulted in an economic gain of \$354,501 for the District. The primary purpose of the defeasance was to lower the District's overall interest expense. Because the defeased portion of the 2014 bonds was placed in an irrevocable trust to provide for all future certain debt service payments, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. As of December 31, 2022, \$9,770,000 of the bonds outstanding are considered defeased.

<b>Defeased Bonds</b>	<b>Principal</b>	<b>Call Date</b>
2014 Electric Revenue Bonds (2022 Defeasance)	\$ 9,770,000	4/1/2024

On February 3, 2022, the District issued \$6,935,000 in Electric Revenue Bonds with a coupon rate of 4% maturing in years 2025 through 2034. The bonds were issued at a premium of \$1,167,352. The bond proceeds were used to finance capital improvements to the Electric system including special equipment procurement, Forks substation rebuilds and central warehouse restorations among other projects.

In 2005, the District entered into a State of Washington Drinking Water State Revolving Fund Loan with the Washington State Public Works Board in the amount of \$3,535,000 at an interest rate of 1% and a term not to exceed 20 years. The final payment is due October 2025. The District closed out the loan in 2007 borrowing \$3,444,447 of the available \$3,535,000. Proceeds were used to replace an existing water treatment plant.

In March 2010, the District entered into a second loan agreement with the Washington State Public Works Board. The amount of the Drinking Water State Revolving Fund loan was \$2,068,000 at 1% interest. The loan amount was amended to \$2,047,525 in January, 2013. Upon completion of the project for which the funds were used in 2015, 50% of the principal was forgiven. The remaining balance is due in annual installments through 2034. The funds were used for the construction of wells in the lower portion of the District's Fairview water system.

In 2011, the District was awarded a third Drinking Water State Revolving Fund loan from the Washington State Public Works Board. The loan amount was \$2,673,267 with an interest rate of 1.5%. The District

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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executed this loan agreement in January 2013. The proceeds of this loan were used for work on the wells in the lower portion of the Fairview water system. Upon completion of the project in 2015, 30% of this loan's principal was forgiven. Repayment on this loan will be complete in 2035.

During 2012 the District was awarded a fourth Drinking Water State Revolving Fund loan from the Washington State Public Works Board. The loan amount was \$3,073,935 with an interest rate of 1%. The District executed this loan agreement in February 2013. The proceeds of the loan were used to complete the construction of the two well sites in the Fairview water system and was designated to be used for a new pipeline and control valves. In 2016, the scope of work was amended to include the replacement of temporary booster pumps with a permanent solution also within the Fairview water system. Repayment of the loan will be made in annual installments through 2036.

In 2016, the District submitted an application for a fifth Drinking Water State Revolving Fund loan in the amount of \$649,935. The loan was approved in February 2017 with an interest rate of 1.5%. The loan was used to fund the completion of the Deer Park Road Pumping project in the Fairview water system. Along with the draw for the loan origination fee in 2019, two draws were made on the available funds in 2020 for a total loan amount of \$504,408. No further draws will be made on this loan and repayment will be made in annual installments through 2038.

In April 2019, the District issued \$570,000 in Water System Revenue Bonds with an interest rate of 3% maturing December, 2033. This bond qualifies under GASB 88 as a direct placement bond. The proceeds were used to finance the replacement of a reservoir cover to the Gales Addition water reservoir, the replacement of a Wastewater lift station in the Sunshine Acres sewer system and other capital improvements.

In October 2019, the District acquired a loan from the Washington State's Public Works Board in the amount of \$607,800 with an interest rate of 0.63%. The funds will be used for preconstruction activities for improvements to 19 water main projects and reservoir upgrades. The District began to draw on this loan in 2021 as preconstruction activities for the improvement projects commenced. The total amount drawn as of December 31, 2022 was \$584,366 with repayment to be made through 2024.

The District applied for a 2021 Washington State Public Works Board loan in the amount of \$6,600,000 that was executed in 2022. This loan has an interest rate of 0.94% with a 20-year term and will be used to fund an infrastructure upgrade project in the District's Sekiu and Clallam Bay service areas. No funds were drawn on this loan as of December 31, 2022.

### **NOTE 7 - PENSION PLANS**

The following table represents the District's aggregate pension amounts for all state sponsored pension plans for the year ended December 31, 2022.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

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Aggregate Pension Amounts - All Plans		
Pension liability	\$	2,386,704
Pension asset		4,145,898
Deferred outflows of resources		4,103,273
Deferred inflows of resources		4,376,973
Pension expense (income)		(354,715)

### **State Sponsored Pension Plans**

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), 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 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](http://www.drs.wa.gov).

### **Public Employees' Retirement System (PERS)**

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

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

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

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### Contributions

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

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January - August 2022:		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.25%</b>	<b>6.00%</b>
September - December 2022:		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.39%</b>	<b>6.00%</b>

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

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

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



# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

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

### Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

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

The District's actual PERS plan contributions for the year ended December 31, 2022 were as follows:

<b>PERS Plan Contributions</b>	
<b>PERS 1</b>	\$ -
<b>PERS Plan 1 UAAL</b>	535,789
<b>PERS 2/3</b>	906,520
<b>TOTAL</b>	\$ 1,442,309

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

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### **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% to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

### **Discount Rate**

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

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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

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

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	<b>100%</b>	

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

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate.

	<b>1% Decrease (6%)</b>	<b>Current Discount Rate (7%)</b>	<b>1% Increase (8%)</b>
<b>PERS 1</b>	\$3,188,603	\$2,386,704	\$1,686,833
<b>PERS 2/3</b>	\$4,882,337	(\$4,145,898)	(\$11,563,164)

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

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### Pension Plan Fiduciary Net Position

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

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

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

Pension Liability/(Asset)	
PERS 1	\$ 2,386,704
PERS 2/3	\$ (4,145,898)

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

	Proportionate Share 6/30/21	Proportionate Share 6/30/22	Change in Proportion
PERS 1	0.086150%	0.085718%	-0.000432%
PERS 2/3	0.110678%	0.111786%	0.001108%

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 Non-employer Allocations*.

### Pension Expense

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

Pension Expense(Credit)	
PERS 1	\$ 1,081,837
PERS 2/3	(1,436,552)
TOTAL	\$ (354,715)

### 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:

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan:	\$ -	\$ 395,547
Contributions subsequent to the measurement date:	277,636	-
<b>Total:</b>	<b>\$ 277,636</b>	<b>\$ 395,547</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience:	\$ 1,027,256	\$ 93,852
Net difference between projected and actual investment earnings on pension plan investments:	-	3,065,093
Changes of Assumptions:	2,310,766	605,041
Changes in proportion and differences between contributions and proportionate share of contributions:	23,640	217,440
Contributions subsequent to the measurement date:	463,975	-
<b>Total:</b>	<b>\$ 3,825,637</b>	<b>\$ 3,981,426</b>

<b>TOTAL</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience:	\$ 1,027,256	\$ 93,852
Net difference between projected and actual investment earnings on pension plan:	-	3,460,640
Changes of Assumptions:	2,310,766	605,041
Changes in proportion and differences between contributions and proportionate share of contributions:	23,640	217,440
Contributions subsequent to the measurement date:	741,611	-
<b>Total:</b>	<b>\$ 4,103,273</b>	<b>\$ 4,376,973</b>

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

<b>Year ended December 31:</b>	<b>PERS 1</b>
2023	\$ (167,387)
2024	(152,031)
2025	(190,718)
2026	114,589
2027	-
Thereafter	-
<b>Total:</b>	<b>\$ (395,547)</b>

<b>Year ended December 31:</b>	<b>PERS 2/3</b>
2023	\$ (1,009,667)
2024	(909,325)
2025	(1,049,914)
2026	1,380,357
2027	485,638
Thereafter	483,147
<b>Total:</b>	<b>\$ (619,764)</b>

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

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### Deferred Compensation Plans

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 457 permitting employees to defer a portion of their salary until future years. Qualified participants include all permanent full and part-time employees and those who have separated service but choose to keep their assets in the plan. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries. The deferred compensation is not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. The defined contribution plan benefits depend solely on the amounts contributed to the plan plus investment earnings. There are no forfeitures of member assets. In 2022, employees made contributions to the Mission Square Retirement 457 plan (formerly ICMA-RC) in the amount of \$365,232 and \$382,455 to the Empower 457 plan (formerly Mass Mutual).

In 2022, the District offered a 401(a) deferred compensation match to non-represented employees. The District contributed 50 cents for every dollar that the employee contributes to their individual 457 plan to the Clallam PUD 401(a) Match Plan up to 3% of gross straight time wages. Only straight time wages are eligible for the match with no overtime, ancillary or non-District pays being included. The employees are vested in the plan after 7 years of service with the District. Starting in 2023, the District will also make this benefit available to represented employees. The total contributed by the District to the 401(a) deferred compensation match plan in 2022 was \$113,676.

In addition to the 401(a) deferred compensation match, effective January 1, 2022, the District provided 401(a) contributions to represented and non-represented employees, irrespective of their 457 contributions, an amount equal to the current percentage associated with Washington State's Long-Term Care Tax. For calendar year 2022, this percentage was equal to 0.58% of the employee's gross wages, and this contribution will be adjusted annually based on the current year's tax rate. The total contributed by the District was \$86,629.

The 401(a) plan is administered through Mission Square Retirement.

### **NOTE 8- OTHER POST-EMPLOYMENT BENEFITS**

Other Post-Employment Benefits (OPEB) are benefits to retired employees beyond those provided by their pension plans. The following table represents the District's OPEB amounts subject to the requirements of GASB 75 for the year ended December 31, 2022:

2022	
OPEB Liabilities	\$ 1,247,034
OPEB Assets	-
Deferred Outflows of Resources	318,170
Deferred Inflows of Resources	1,159,242
OPEB Expense	(46,779)

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **General Information about the OPEB Plan**

#### **Plan Description**

The District administers a single-employer defined benefit healthcare plan to eligible employees and their dependents. District employees are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plans 1, 2 and 3 of the PERS as follows:

- PERS 1: Employees are eligible for full retirement benefits after achieving age 60 with five years of service, age 55 with 25 years of service or having 30 years of service.
- PERS 2: Employees are eligible for full retirement benefits after achieving age 65 with five years of service. In addition, they are eligible for reduced benefits after achieving age 55 with 20 years of service.
- PERS 3: Employees are eligible for full retirement benefits after achieving age 65 with 10 years of service. In additions, they are eligible for reduced benefits after achieving age 55 with 10 years of service.

Coverage for the retired employee must be continuous from his/her active employment to retirement. Subsequent employment by the employee after retirement from the District will terminate the availability of coverage for that employee, provided provisions of the Continuation Omnibus Budget Reconciliation Act of 1985 (COBRA) are met. Spouse employment, which provides health coverage for a District retiree, will also terminate the availability of coverage under the District's health plan for the retiree, consistent with COBRA. Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement. Survivors of members who die prior to retirement are not eligible for medical benefits.

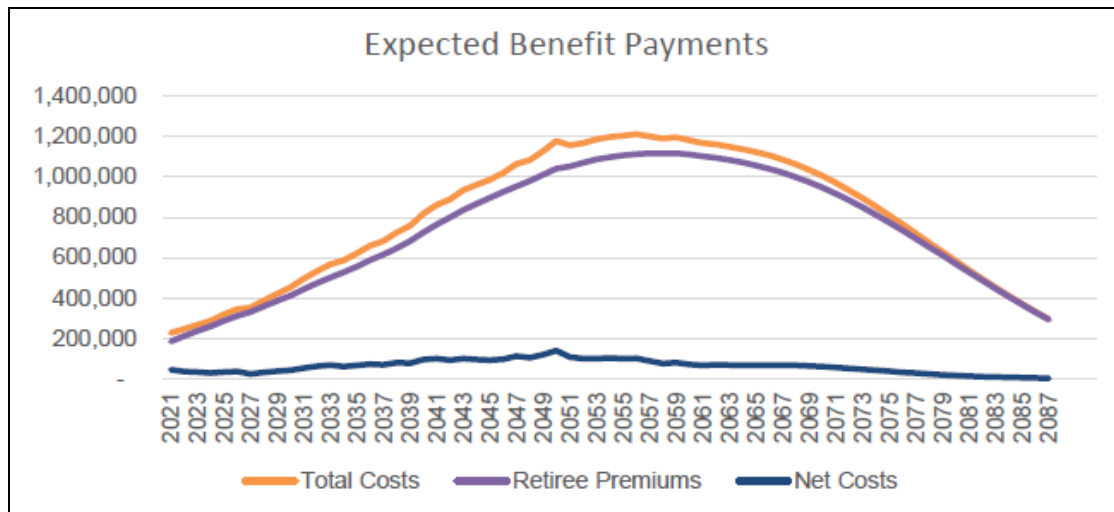
#### **Benefits Provided**

The insurance benefits offered to retirees are provided through the Public Utility Risk Management Services (PURMS) which covers both active and retired members. Such benefits include insurance coverage for medical, prescription drug, dental and vision. Retirees are required to pay the full amount of the premiums for their elected insurance coverage to the District on a monthly basis. In turn, the District pays PURMS for the cost of covered claims for those retirees. The District's explicit subsidy of the cost of claims paid over the premiums paid in by the retirees for 2022 was \$25,717.

The retiree costs are being implicitly subsidized by the inclusion of active lives in calculating the average cost of the premiums. If retiree premiums were calculated based only on retiree health claims experience, the calculated value would be higher for non-Medicare retirees.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS



### Employees Covered by Benefit Terms

As of December 31, 2022, the following employees were covered by the benefit terms:

2022	
Inactive employees or beneficiaries currently receiving benefit payments	65
Inactive employees entitled to but not yet receiving benefits	-
Active employees	149

*Contributions* - The OPEB relationship between the District and its retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the District and the plan members. This understanding is based on communications between the District and its employees and the historical pattern of practice in regard to the sharing of benefit cost. The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

### **Total OPEB Liability**

The District's total OPEB liability was measured as of December 31, 2021, and was determined by an actuarial valuation dated January 1, 2021. The reporting date is December 31, 2022. GASB 75 allows a lag of up to one year between the measurement date and the reporting date with no adjustment required.

*Actuarial Assumptions and Other Inputs* - The total OPEB liability in the January 1, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:



# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

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### Actuarial Assumptions:

Methodology	Entry Age Actuarial Cost Method
Economic Inflation Rate	2.20%
Wage Growth Rate	2.95% by promotions and longevity
Discount Rate	2.06% based on 20 year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher
Disability	No disability rates are assumed
Election Assumptions	75% medical, 92% dental, 64% vision
Medical Inflation Rate:	6.0% pre-65 and 5.7% post-65 in the first year, and an ultimate rate of 3.7%
Healthcare Cost Trend	

Medical Trend		
Trend from Year Ending	Pre-65 Trend	Post-65 Trend
2021-2022	6.00%	5.70%
2022-2023	5.60%	5.40%
2023-2024	5.10%	5.10%
2024-2025	5.00%	5.00%
2025-2026	4.90%	4.90%
2026-2027	4.80%	4.80%
2027-2028	4.70%	4.70%
2028-2029	4.60%	4.60%
2029-2030	4.50%	4.50%
2030-2031	4.50%	4.50%
2040-2041	4.60%	4.60%
2050-2051	4.60%	4.60%
2060-2061	4.50%	4.50%
2070-2071	4.00%	4.00%
2074+	3.70%	3.70%

Dental and Vision Cost Trend	Lower of 4.0% and medical trend
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Assumptions for medical and dental trends were updated for modeling based on a published report by the Society of Actuaries (SOA) on long-term medical trend using the "Getzen Model". The trend rates assume

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

that over time, deductibles and out of pocket maximums will be periodically increased as medical trends increase.

Demographic assumptions regarding retirement, mortality, and turnover are based on the most recent pension valuation of the Public Employees Retirement System, a subset of the Washington State Retirement Systems.

**COVID-19:** Given the substantial uncertainty regarding the impact of COVID-19 on plan costs, including whether the pandemic will increase or decrease costs during the term of the projections, the actuary chose not to make an adjustment in the expected plan costs. It is possible that the COVID-19 pandemic could have a material impact on the projected costs.

### Changes in Total OPEB Liability

Changes in Total OPEB Liability	Increase (Decrease) Total Liability
Balance as of December 31, 2020	\$ 1,187,252
Changes for the year:	
Service cost	65,174
Interest on total OPEB liability	26,102
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	11,137
Expected benefit payments	(42,631)
Balance as of December 31, 2021	\$ 1,247,034

### Sensitivity Analysis

The following presents the total OPEB liability of the District, calculated using the discount rate of 2.06%, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.06%) or 1 percentage point higher (3.06%) than the current rate.

	1% Decrease 1.06%	Discount Rate 2.06%	1% Increase 3.06%
Total December 31, 2021 OPEB Liability	\$ 1,452,194	\$ 1,247,034	\$ 1,076,590

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 1 percentage point lower or 1 percentage point higher than the current trend rates.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

	1% Decrease	Current Trend Rates	1% Increase
Total December 31, 2021 OPEB Liability	\$ 1,023,488	\$ 1,247,034	\$ 1,539,054

### **OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended December 31, 2022, the District recognized OPEB expense of \$(46,779). At December 31, 2022, the District's reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources based on the December 31, 2021 measurement date:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 19,468	\$ (649,950)
Changes of assumptions	263,971	(509,292)
Contributions made subsequent to measurement date	34,731	-
Total	\$ 318,170	\$ (1,159,242)

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

Measurement Period Ending December 31:	
2022	\$ (103,324)
2023	(103,324)
2024	(103,324)
2025	(103,324)
2026	(105,722)
Thereafter	(356,785)
	\$ (875,803)

### **NOTE 9 – RISK MANAGEMENT**

The District is a member of the Public Utility Risk Management Services (PURMS) Self-Insurance fund, a public entity risk pool organized December 30, 1976, pursuant to the provisions of the Revised Code of Washington, Chapter 54.16.200, and interlocal government agreements. PURMS operates under Ch. 48.62 RCW, and the program's general objectives are to formulate, develop, and administer, on behalf of the member public utilities, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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PURMS consists of 19 members. The risks shared by the members are defined in the Self Insurance Agreement. PURMS consists of three pools for liability, property, and health and welfare coverage. The pools operate independently of one another, and all members do not participate in all pools. The District participates in the liability, property, and health and welfare pools.

The pools are governed by a Board of Directors comprised of one designated representative from each participating member. The business of the pools is conducted by Pacific Underwriters as Administrator, and an Administrative Committee comprised of a representative of each member.

The pools are fully funded by its current and former members. Members that withdraw from the fund are still responsible for their share of the assessments for occurrences while they were members. Likewise terminated members continue to receive coverage for the time they were members.

PURMS and its risk pools are audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS submits annual audited financial statements to the State Risk Manager's Office. PURMS also engages an outside accounting firm to perform annual claims audits for each risk pool.

Settled claims for all risks have not exceeded coverage in any of the past three years.

### **Liability Risk Pool**

The liability risk pool has a \$1 million liability coverage limit per occurrence. In addition, the fund maintains \$35 million of excess general liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$65 million is also maintained over the first excess layer of \$35 million. The fund maintains \$500,000 in directors and officer's liability coverage with excess coverage of \$35 million.

Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated reserve level or at any time during the year that the actual reserves drop to \$500,000 less than the designated reserve level of \$3.5 million. In 2022, the District paid \$74,204 in interim assessments.

### **Property Risk Pool**

The majority of the property in the property pool has a self-insured retention of \$250,000 per property loss. Certain classes of property have higher retention requirements up to \$750,000. In addition, the fund purchases \$200 million of excess insurance over the \$250,000 (or higher) retention level. The deductible varies, but for most classes of property it is \$250.

The designated property pool reserve balance is \$750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below \$500,000. The District paid \$53,764 during 2022 in interim assessments.

### **Health & Welfare Risk Pool**

The District participates in the PURMS Health and Welfare Risk Pool. PURMS provides health and welfare insurance coverage for the employees of each of its members participating in the Health & Welfare Risk

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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Pool ("H&W Pool") in accordance with the terms of the Health & Welfare Coverage of the SIA ("H&W Coverage") and the terms of each member's respective Coverage Booklet provided to its employees.

The H&W Pool's operations are financed by assessments of its participants. Each month, each participant of the H&W Pool is assessed for: (a) the cost the H&W Pool incurred during the preceding month for the H&W Claims for such member's employees ("H&W Claims Costs"); and (b) for such member's share of Shared H&W Costs. "Shared H&W Costs" consist of administrative expenses incurred by the H&W Pool, premiums for Stop-Loss Insurance, PPO Charges and Shared H&W Claims.

The exposure of each participant is limited by two different pairs of stop-loss points. For 2022, the Individual Stop Loss Point was \$365,000 per employee and the Aggregate Stop Loss Point was \$22,793,900 for the combined claims costs of the employees of all participants of the H&W Pool.

### **PURMS Notification to Risk Pool Members of their Respective Potential Future Assessment Shares of the "Claim Reserves Receivable"**

Annually, PURMS informs each risk pool member of its share of the actuarially-based "Claims Reserves Receivable" for each risk pool in which it participates, determined in accordance with a 10 year look-back period. The District's shares of the Claims Reserve Receivable for each pool as of December 31, 2022 are as follows:

Liability Pool	\$220,056
Property Pool	\$34,980
Health & Welfare Pool	\$300,120

### **Unemployment**

The District is self-insured for unemployment insurance and reimburses the State of Washington for any claims paid. There were \$56,588 in unemployment claims paid for 2022.

## **NOTE 10 - PURCHASED POWER AND WATER CONTRACTS**

### **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 BPA to provide, construct, operate, maintain and improve transmission facilities to deliver federal power at cost. 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 the region. About 28 percent of all power used in the Pacific Northwest is sold by BPA. Its resources, primarily hydroelectric, make BPA power nearly carbon free.

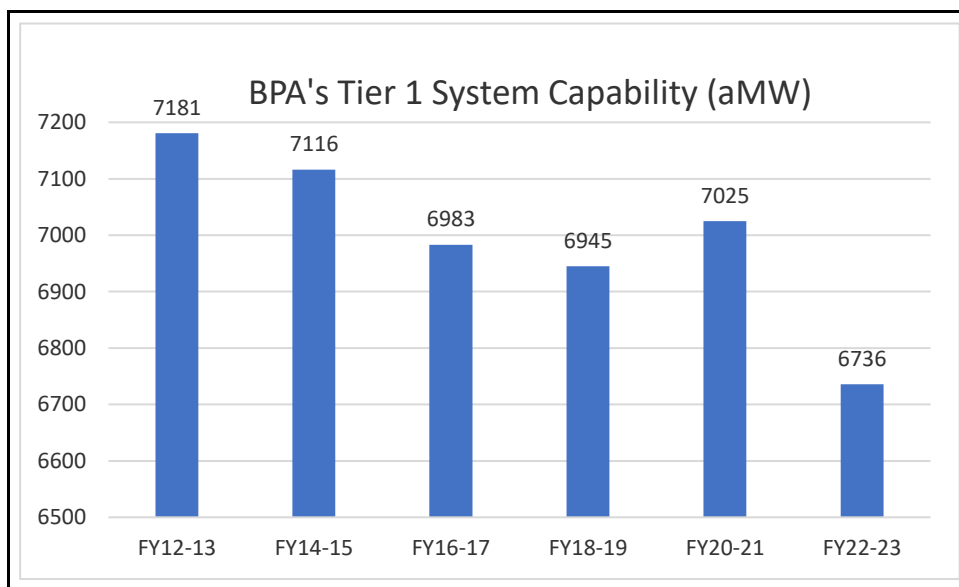
# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

In 2009, the District executed a Load Following Regional Dialog Power Sales Agreement with BPA for the period beginning October 1, 2011 and expiring September 30, 2028. This contract works within BPA's Tiered Rate Methodology providing firm power necessary to meet the District's loads less generating resources. Under this contract, the District has a contractually-defined right to purchase an amount of power at "Tier 1" cost-based rates, also called the High Water Mark (HWM). BPA conducts a study every two years to determine the Rate Period High Water Mark (RHWM) for each utility, distributing a percentage-based allocation of their Tier 1 system. As a BPA customer, the District has the right to have BPA meet their net requirement load (the District's load minus its own resources), but BPA will supply the net requirement load above the HWM at "Tier 2" market-based rates.

In order to establish rates for power and transmission services, a formal evidentiary hearing process, known as a rate case, is held every two years under the Regional Dialogue Power Sales Agreement with BPA. On July 28, 2021 BPA released the Administrator's Final Record of Decision for the BPA BP-22 Rate Case (October 1, 2021 to September 30, 2023). The result of the rate case was a 2.5% rate decrease for total power charges and a 6.1% increase for transmission rates to all BPA customers. However, the actual rate increase or decrease to each BPA customer varies depending on the services provided in its own contract. This settlement on power rates is remarkable in that it was one of the few times in BPA's history when the average power rate decreased compared to current levels. BPA attributed this to the effectiveness of their cost discipline.

BPA finalized their most recent biannual study to determine the allocation of the Tier 1 system on September 30, 2021. The District was given a decreased RHWM of 72.523 aMW for the FY 2022-2023 period, over the prior rate period FY 2020-2021 allocation of 75.625 aMW. The decreased Tier 1 system power production capability was primarily due to mitigation factors for fish and wildlife such as spilling water over dams instead of passing it through the turbines.



In September 2021, the District elected to purchase Tier 2 power at the Short-Term rate for the 4th purchase period election (2025-2028) under the BPA contract. This was based on an estimate of the

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

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Above-RHWM load exposure which is determined from both assumptions on future RHWM's and a forecast of the total retail load for FY's 2025-2028.

Annual Amounts Priced at Tier 2 Rates (aMW)		
<u>BPA Fiscal Year</u>	<u>2022</u>	<u>2023</u>
Tier 2 Short Term Obligation	3.579	3.732
Rate per MWh	\$34.39	\$32.99

Federal law requires BPA to recover all of its costs through the rates it charges its customers. BPA makes various filings with FERC to confirm that rates are sufficient to cover costs. Under BPA's adopted power and transmission rate provisions, its rates are subject to revision to enable BPA to recover its actual costs of service. The rate provisions for the Load-Following Service Product include a Cost Recovery Adjustment Clause (CRAC) and a Power or Transmission Reserves Distribution Clause (RDC). The Power RDC was triggered at the end of FY 2021 resulting in a power reserves distribution of \$13.7 million. The excess in BPA's power reserves was due to increased revenue from secondary sales of electricity on the Western power markets. BPA's Administrator determined that the entire amount would be used to reduce rates resulting in a credit applied to customer bills generated for the period of December 2021 through September 2022. The District received a credit totaling \$166,791 on its January 2022 through September 2022 BPA billings.

At the end of 2022, another Power RDC was triggered due to the amount of financial reserves available for risk attributed to Power Services exceeding the upper limit of 120 days cash on hand. This increase in financial reserves was mainly driven by higher volumes of surplus sales due to favorable water conditions that resulted from a very cold and wet spring and higher electricity prices realized for surplus sales when compared to the sales of the previous year. This RDC was in the amount of \$500 million and the Administrator determined that it will be used as follows:

- 1) \$350 million will go towards a Power Dividend Distribution (a Power rate credit applied to December 2022 through September 2023 customer billings).
- 2) \$100 million will go towards debt reduction or revenue financing in FY 2023.
- 3) \$50 million will be used to address certain non-recurring maintenance needs of fish and wildlife mitigation.

The District received a credit of \$552,305 on the December 2022 BPA bill. Total allocated to the District for the Power Dividend Distribution through September 2023 is \$4,765,442. Because of the financial impact this distribution had on the District, the Board of Commissioners passed a resolution in September 2022 for a decrease in electric rates effective with bills rendered on or after April 1, 2023. The rate decrease is for a 1% decrease to all kWh/energy charges.

Also contained within BPA's rates is a Power Financial Reserves Policy Surcharge (FRP), which will increase the Tier 1 rates applied to the District. At the beginning of each federal fiscal year, the FRP will trigger

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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when BPA's forecasted net revenues are less than the FRP threshold for that applicable year by \$5 million. If the FRP is triggered, the surcharge will go into effect for the period of December 1 through September 30 of the applicable year. The Power FRP was not triggered in FY 2022.

To obtain needed transmission services, the District entered into a contract with BPA for network transmission services effective May 31, 1997, which provides adequate transmission capacity to meet the District's annual system peak load. The transmission contract expires on September 30, 2031.

Based on the amount of financial reserves available for risk attributed to BPA's transmission services at the end of FY 2022, the Transmission RDC was triggered resulting in a Transmission RDC amount of \$63.1 million. The Administrator determined the following:

- 1) \$16.4 million will be used to hold BP-24 transmission rates at the levels adopted in the BP-22 rate proceedings.
- 2) \$12.9 million will reduce transmission rates through a Transmission Dividend Distribution applied to December 2022 through September 2023 billings.
- 3) \$33.8 million will cover Transmission's forecast cost increases in FY 2023.

With the end of the current BPA contract approaching, discussions regarding the next contract (Provider of Choice) have begun. On July 14, 2022, a concept paper was released followed by policy workshops going into 2023. The goal is to have all contracts fully executed by fall of 2025 for the contract period beginning in 2028.

### **Energy Northwest**

Energy Northwest (formerly Washington Public Power Supply System [WPPSS]) is a Washington municipal corporation which has acted as a joint operating agency for various power supply initiatives in the Northwest.

**Nuclear Projects 1, 2, and 3** - The District has entered into "net billing agreements" with Energy Northwest and BPA. Under terms of these agreements, the District has purchased a maximum of 1.157%, 1.769%, and 1.001% of the capability of Energy Northwest's Nuclear Project No. 1, Project No. 2 (Columbia Generating Station) and Energy Northwest's 70% ownership share of its Nuclear Project No. 3, respectively, and has sold this capability to BPA. Project No. 2, Columbia Generating Station, is operating while Projects No. 1 and 3 have been terminated. BPA is unconditionally obligated to pay the District, and the District is unconditionally obligated to pay Energy Northwest, the pro rata share of the total annual costs of each project. This includes the debt service on revenue bonds issued to finance the project whether the projects are completed, operable or operating and notwithstanding the suspension, reduction, or curtailment of the projects' output. The District's respective shares may be increased by not more than 25% upon default of other public agency participants.

**Packwood Lake Hydroelectric Project** - The District started as a 7% participant in Energy Northwest's 27.5 MW Packwood Project, located in the Cascade Mountains south of Mount Rainier. The Packwood Agreement with Energy Northwest obligates participants to pay annual costs and receive actual project output.



# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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In 2011, the District signed agreements with Kittitas, Ferry, Skamania, and Wahkiakum PUD's acquiring their share of the project output and increasing its total share to 10.25%. The District brings its share of output to load. The District's cost for the share of output for participation in Packwood was \$350,783 for 2022.

The project's 50-year license had expired in 2010 and the project was granted a continuance to operate under the existing license on a year-to-year basis until the new license was issued. FERC approved a 40-year operating license effective October 1, 2018. Energy Northwest proposes no capacity or facility additions to the project but will make several operational changes to enhance aquatic habitat.

The District purchases Resource Support Services (RSS) from BPA contracted through the FY 2028 rate period to facilitate the integration of its Packwood Hydro generating resource.

### **Energy Independence Act (Initiative 937)**

As defined by the Energy Independence Act (EIA), the District is a large utility (greater than 25,000 customers) in Washington State and is therefore subject to the requirements of the EIA. The District purchases renewable energy credits (REC) to comply with the Washington State Renewable Portfolio Standard (RPS), part of the Energy Independence Act signed into law in 2006 for implementation starting in 2012. A REC represents the legal rights to the renewable attributes associated with the generation of one MWh of qualified renewable energy.

For 2022, the State RPS mandated the District to purchase qualifying renewable resources or the equivalent RECs based on 15% of the total retail load, resulting in a compliance target of 97,174 MWh. The District has current and future contracts for the distribution of RECs with Bonneville Power Administration and Raft River Energy. The qualifying fuel sources used for compliance are wind, incremental hydro and geothermal. The District recorded a total of \$804,026 for the purchase of RECs to meet the 2022 compliance obligation.

**Bonneville Environmental Foundation (BEF)-** In October 2015, the District entered into a contract with BEF to purchase 11,000 RECs per year starting in 2022 and going through 2024. The contract price per REC is \$6.25. All RECs received in 2022 were from Lime Wind Farm in Baker County, Oregon.

**Raft River Energy-** On December 15, 2010, the District entered into a contract with Raft River Energy 1, LLC to purchase a 50,000 unit contingent share of their binary cycle geothermal power plant located in Cassia County, Idaho. The contingent share is based upon 49% of project output. The contract term started in 2018 and goes through 2034 with monthly deliveries of geothermal RECs at a price of \$17 per REC.

**Energy Efficiency Programs-** The District has an agreement with BPA to participate in the Energy Efficiency Incentive (EEI) program. The EEI is a credit that is available to BPA regional wholesale power customers that take action to further conservation. Customer incentives paid by the District are reimbursed by BPA upon submission of qualifying invoices and documentation. Qualifying measures for BPA's EEI program are determined by the Regional Technical Forum (RTF) and reported on BPA's Interim Solution 2.0 website. The RTF is an advisory committee of the Northwest Power Planning and Conservation Council, established in

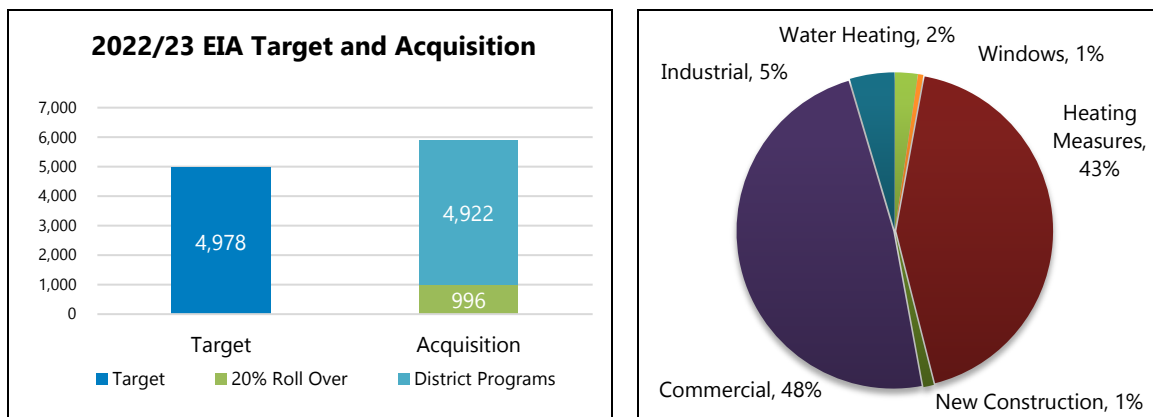
# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

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. EEI funding is provided over two-year rate periods. The determined amount by BPA for the District's EEI budget for FY 2022-2023 (October 1, 2021-September 30, 2023) is \$1,409,263. During 2022, the District received \$1,390,279 through the EEI program, while the District's energy savings program related expenditures totaled \$767,400.

The Energy Independence Act requires qualifying utilities in Washington to conduct a Conservation Potential Assessment (CPA) evaluating all of the technically and economically feasible energy savings potential within the utility's service territory over a ten-year period. The utility then has to establish an energy savings target equal to one-fifth (1/5) of the ten-year potential and achieve energy savings greater than or equal to the target over the following two-year period. If the target is not achieved, the utility would be subject to fines. The savings shortfall rolls over to the following biennium and should be satisfied in addition to the newly established energy savings target. This process is repeated every even numbered year.

In August 2021, the District adopted a conservation target of 4,978 MWh for the 2022/23 biennium. During 2022, the District acquired 4,922 MWh of energy savings through local programs that include, but are not limited to, commercial LED lighting, ducted and ductless heat pumps, as well as window retrofits and heat pump water heaters. In addition to that and according to EIA rules, the District had excess energy saving from the 2018/2019 biennial period in the amount of 2,314 MWh, 996 MWh of which counts towards the 2022/23 energy savings acquisition.

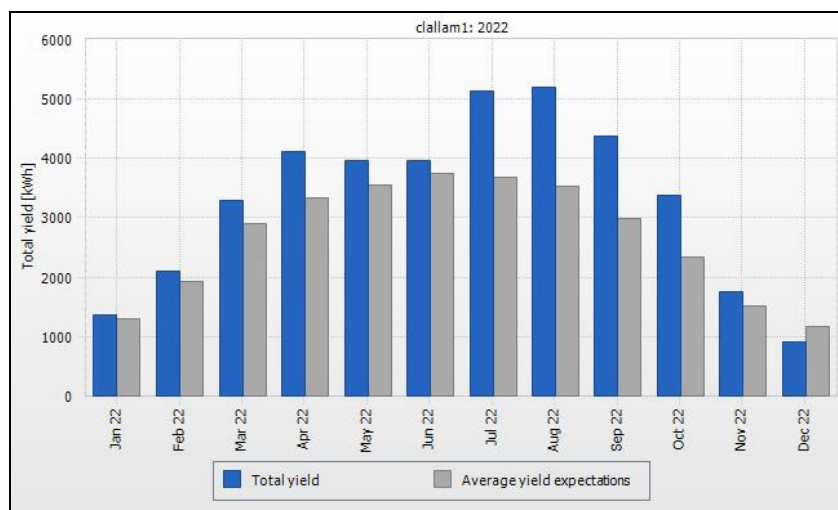


**Community Solar Program-** In 2019, the District installed Clallam County's first community solar energy project. The 30-kilowatt solar array was built at a decommissioned substation site located in downtown Sequim, Washington and consisted of 2,000 "solar units" that were made available to District customers. 82 customers signed up for the program getting access to between 1 and 125 units each. Participants see their investment pay off over time in two ways: 1) a monthly credit on the customer's electric bill for electricity generated by the solar array based on their share of the project and 2) an annual Washington State production incentive based on the kWh that their unit(s) generate. The District is able to recover the costs of these payments through a Washington State Utility Tax Credit authorized by ESSB 5939, signed into law by Governor Inslee on June 30, 2017.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

In 2022, the District paid out \$5,447 in production incentive payments to the community solar program's 81 current participants and recovered that cost through an equal reduction in the District's state public utility tax payments. The project generated 38,905 kWhs in 2022.



With 481 home and commercial solar power systems installed throughout Clallam County through 2022, the District's customers have shown a great deal of interest in renewable energy. The District's community solar program helps customers who, for a number of reasons, cannot take advantage of solar energy at their homes.

### City of Port Angeles Water Contract

The District is a party to a Wholesale Water Contract with the City of Port Angeles (City) through August 16, 2036. The rates are tied to the City's Residential Rate Structure. Gales Addition Reservoir is 89% of the cost per 100 cubic feet under the City's residential rate and the Baker Street Intertie is 85% of the cost per 100 cubic feet under the City's residential rate. Water rates for 2022 were as follows:

Gales Addition Reservoir-Roundtree Intertie (High Zone)

Jan 2022 – Dec 2022 billing cycle

\$1.7586/100 cubic feet/month

Baker Street Intertie (Low Zone)

Jan 2022 – Dec 2022 billing cycle

\$1.6796/100 cubic feet/month

The District's purchased water expense under this contract was \$230,487 in 2022. The City and the District are currently in the process of renegotiating the terms of this contract.

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **NOTE 11 – PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. (NoaNet)**

The District, along with other Washington State public entities, is a member of Northwest Open Access Network, Inc. (DBA NoaNet), a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout Washington. The network began commercial operation in January 2001. The District's membership interest in NoaNet is 10.57%.

NoaNet recorded a decrease in net position (unaudited) of \$1,639,075 in 2022. In accordance with Generally Accepted Accounting Principles, a proportionate share of these losses has not been recorded by the District. The District also reports no investment or liability balances related to its NoaNet membership. NoaNet reserves the right to assess members to cover deficits from operations according to their percentage interest in NoaNet. There were no assessments in 2022.

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 became due beginning December 2021 through December 2030 with interest due semi-annually at rates ranging from 0.0591 percent to 2.120 percent.

The 2020 Bonds were issued and guaranteed by its members pursuant to RCW 54.16. 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 is 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 10% 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 the 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. As of December 31, 2022, the District's outstanding guarantee on the 2020 Bonds is \$2,013,500.

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

### **NOTE 12 – TELECOMMUNICATION SERVICES**

The District has installed a fiber optic system in its service area for use by the electric utility. The District has connected its fiber optic system with NoaNet's fiber optic communications network and makes excess capacity available to retail internet service providers. The District recorded broadband revenues of \$435,199 for the year ended December 31, 2022. The District recorded operations and maintenance expenses for broadband in the amount of \$368,460 in 2022. The District has a total capital investment of \$5,895,599 as of December 31, 2022, including an overall increase of \$9,763 during 2022.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

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Broadband operations and capital activity for 2022 were as follows:

For Year Ending December 31, 2022	
<b>Operating Revenue</b>	
Wholesale fiber services to Governments	176,196
Wholesale fiber services to ISP's	1,900
Retail fiber services	254,257
Installation charges	2,846
<b>Total Operating Revenues</b>	<b>\$ 435,199</b>
<b>Operating Expenses</b>	
Administrative and general	208,127
Repairs & Maintenance	30,239
Tower Lease	4,125
Interconnection Access	66,932
Other Operating expenses	59,036
<b>Total Operating Expenses</b>	<b>\$ 368,460</b>
<b>Non-Operating Revenue</b>	
Customer Contributions	33,815
<b>Capital Investment</b>	
Current year change in plant	\$ 9,763
Cumulative plant	\$ 5,895,599

Activity for Telecommunications for 2022 was focused on operations and maintenance of the current infrastructure. There were 8 new customers and 7 disconnects on existing infrastructure with only 6 new buildouts associated with new customers. Future upgrades to existing infrastructure are planned for 2023 and 2024. These upgrades include replacing the microwave system to Forks, upgrading core infrastructure to current cyber security configurations, and moving and replacing damaged infrastructure down Airport Road in Port Angeles and along Calawah Way in Forks.

The District has been working to extend the fiber footprint for wireless internet service providers in the District's service area where applicable. With its priority to extend its services, the District has been looking for opportunities to get funding through grants. In 2022, the District applied for two matching grants: the Middle Mile grant with the National Telecommunications and Information Administration and a broadband infrastructure grant with the Washington State Broadband Office. As of April 1, 2023, there has been no decision on these applications.

### **NOTE 13 - 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.

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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**Clean Energy Transformation Act** – The Clean Energy Transformation Act (CETA) was signed into law by Washington State Governor Jay Inslee on May 7, 2019. CETA imposes three major mandates on Washington utilities, including public utility districts. First, the legislation mandates that all coal-fired resources must be eliminated from the portfolio of generation resources used to serve Washington consumers by December 31, 2025. Second, all electricity sold at retail in Washington must be greenhouse gas neutral by January 1, 2030. Third, all electricity sold in Washington after January 1, 2045 must be produced either from renewable resources or non-emitting generators. Washington's abundant hydroelectric resources, which already provide much of the electricity consumed in the state, will provide the majority of the non-emitting resources to meet CETA's obligations.

CETA is a complex law requiring transformation of the essential service of providing electricity. The District met the first milestone by preparing and publishing a 2022-2025 clean energy implementation plan documenting the District's long-term path with its own targets for energy efficiency and renewable energy to comply with CETA. This plan was adopted by the District's Board of Commissioners in October 2021. Along with this plan, the District is currently preparing for the financial impacts of CETA. In 2020, the District set aside monies in a "CETA Decarbonization Fund" to begin addressing the mandates of the legislation. The initial balance in that fund was \$5,750,000 and the goal is to set aside an additional \$575,000 each subsequent year to complete a project for a utility scale distribution battery that will help shape the District's electric procurement from the Bonneville Power Administration. The District deposited \$575,000 into the fund in 2021 and 2022, and along with interest earned, the balance at the end of 2022 was \$7,032,868. The projected timeline for the battery project is 2025/2026 and once complete, the utility scale battery will help mitigate demand charges improving the District's power factor. The current estimated cost of the project is in excess of \$11,200,000.

CETA has limited safeguards in place for consumers, which consist solely of a 2% cap on year over year increases in rates to comply with the mandates of the legislation. This cap is exclusive to the clean energy mandates of the legislation and not applicable to the low income component of the legislation. For low income and vulnerable customers, all Washington electric utilities were required to make programs and funding available for energy assistance to low income households by July 31, 2021. Priority must be given to low income households with a higher energy burden defined as the percentage of household income that goes toward household energy costs. Programs can include direct monetary assistance or conservation measures to reduce energy burden. The District revamped its existing low income assistance program to meet the requirements of the legislation. Effective August 1, 2021, the District phased out its existing program and contracted with a local Community Action Partnership (CAP) agency to accurately assess income levels of customers and ascertain energy burden and assistance need. In the contract, the District agreed to provide \$500,000 for the period from August 1, 2021 through December 31, 2022, \$412,000 of which was transferred to the CAP agency in 2021. In 2022, the District transferred the remaining \$88,000 along with the funding for the 2022-2023 program in the amount of \$309,286 for a total payment of \$397,286. Subsequent funding will be determined each budget period.

In order to mitigate rate impacts, the District initiated a CETA low income charge on bills to non-low income and non-tribal customers beginning in July, 2021. Total billed in 2022 was \$388,120. The District will continue to evaluate the financial impacts of this low income assistance compliance and adjust this charge as needed.

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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**Climate Commitment Act (CCA)** – Washington State passed the Climate Commitment Act into law in 2021. The CCA is an economy-wide cap-and-invest program sometimes referred to as cap-and-trade. The program places a cap on total greenhouse gas (GHG) emissions for the state which reduces over time to reach Washington State's GHG emissions reduction goals. The program includes emissions associated with in-state electricity generation and electricity imports and goes into effect January 1, 2023. Entities that fall under this act must report GHG emissions and surrender an allowance or use offset credits for every metric ton of carbon dioxide emissions. The final program rules were published in October 2022.

Reports for GHG emissions are due each year by June 1<sup>st</sup>. Each electric utility producing at least 10,000 Metric Tons (MT) of emissions must report to Washington State's Department of Ecology. An entity only has a compliance obligation if their total GHG emissions are over a 25,000 MT threshold. The District's most current GHG calculation in 2021 resulted in 15,608 MT which puts the District well below the compliance obligation threshold.

**FEMA Storm Events** – The District has experienced storm events over the last several years that have been declared as disasters by the federal government. The District is working with the Federal Emergency Management Agency (FEMA) to apply for and receive public assistance to partially reimburse the cost of labor, material, contract labor and other expenses incurred to restore services and assets lost.

- The District experienced a large storm event in 2018. The District received the first payment from FEMA for reimbursement of qualified expenditures in 2019. In 2021, FEMA completed their final review in advance of issuing the final retention payment and determined that the original approved cost was too high. They de-obligated the claim in the amount of \$60,756 of which the Federal share was \$45,567. The District received the final retention payment on this storm in the amount of \$56,687 in December, 2021. The Administrative Claim for this storm is submitted and under review.
- In 2019, the District was approved and obligated for a Permanent Work Alternate Project related to a storm event in 2015. The approved project was for the purchase of a 55' bucket truck. The project had been delayed due to the lengthy manufacturing process, but the truck was finally received in 2021. The District received initial funds in 2021 in the amount of \$238,213 and received the retainage payment in 2022 in the amount of \$26,718. The Administrative Claim for this project is submitted and under review.
- The District experienced a winter storm from December 2020-January 2021. This storm affected both the Electric and Water Divisions. Claims for two projects in the amount of \$209,423 were approved with \$198,952 obligated in 2022 for the Federal and matching State shares. \$4,839 was received in September 2022 with the balance received in March 2023.
- The District experienced a winter storm in November-December 2021 that was declared for Public Assistance on January 27, 2022. A claim for damage to electric facilities was approved in the amount of \$154,476 in 2023. The Water Division's damages related to this storm were much more significant. During the storm, a landslide occurred on Highway 112 causing a main break that essentially cut off the water supply to the Clallam Bay/Seki area. Over 3,000 feet of pipe was laid on top of the slide debris to restore water service until the slide site became more stable. These measures were temporary while an evaluation of a permanent repair solution for recovery has been ongoing throughout 2022. A claim for the temporary repair has been submitted and is

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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under review. Another claim for damage to the Hoko Pump station was submitted to insurance and funds in the amount of \$28,521 were received in 2023. The engineer's estimated cost for the permanent repair of the water main damaged in the slide is \$3,796,976. Work to permanently repair the main will begin in 2023.

- The District experienced a winter storm in January 2022 that was declared eligible for FEMA funds. The damage was to the electric infrastructure and a claim in the amount of \$153,171 was approved in March 2023.
- The District experienced a major winter storm in November 2022 damaging electric infrastructure throughout the District's territory. This storm was declared eligible for FEMA funds, and the preliminary estimate for the damages is \$768,000. The process will begin in 2023 to gather data to submit a claim for funding.

### **NOTE 14 – COVID-19 PANDEMIC**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. With its COVID Safety Plan implemented in April 2020, the District took several measures to ensure the safety of its employees and customers. This included closing District offices to the public and discontinuing in-person meetings. As restrictions eased, the District's COVID Safety Plan was modified and offices once again opened to the public in August 2022.

While operations resumed a more normal course as restrictions eased, the District continued to feel the impact of COVID-19 in some significant ways. In 2022, the District continued to see delayed lead-times with one of the biggest strains being the procurement of padmount transformers. At one point, all new construction came to a halt to ensure adequate stock levels were held for emergency situations. As 2022 progressed, orders exceeding a year past due were received and operations resumed for new construction. Increased lead-times were seen on nearly all items including steel, fiberglass, plastics, wood and even paint. This brought new challenges and awareness for future orders to ensure operations could continue without delay. To manage significant lead-times on critical items such as transformers, inventory, and vehicles, the District had committed orders at December 31, 2022 of the following:

- |   |               |
|---|---------------|
| • Special Equipment (transformers and meters)           | \$4.3 million |
| • Inventory (poles, cable, conduit and other)           | \$1.4 million |
| • Vehicles  | \$3.0 million |
| • Miscellaneous items (computers, regulators and other) | \$1.2 million |

While vendors have become more accurate with their estimations on lead-times on orders, there has been no notable reduction seen in those time estimates.

From a financial standpoint, the District largely mitigated the effects of COVID. Washington State implemented a utility disconnect moratorium early in the pandemic which remained in place until September 30, 2021. The impacts of the moratorium caused a rise in utility delinquencies in 2021 that



# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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was significantly higher than normal operations. By the end of 2021, and throughout 2022, arrearages returned to normal levels.

**ARPA Funding** - In 2021, Clallam County, a Washington State political subdivision (County) was allocated by the U.S. Department of the Treasury approximately \$15 million of federal stimulus funding from the American Rescue Plan Act (ARPA). In July, 2021, the District entered into a sub recipient agreement with the County whereby the County agreed to provide the District a total sum not to exceed \$350,000 to be used for the provision of residential and commercial utility assistance. The District coordinated an application and certification process to comply with funding requirements and assist ratepayers in applying for grant assistance. In 2022, the District received \$63,895 in ARPA assistance directly on behalf of qualifying ratepayers to apply towards past due account balances. The remainder of the ARPA funding available to the District's customers was depleted in March, 2023. The amount received is presented as COVID-19 Non-Grant Revenue in the Non-operating section of the District's Statement of Revenues, Expenses, and Changes in Net Position, and the amount applied toward past due account balances is shown as COVID-19 Non-Grant Expense.

**Department of Commerce Funding** – In 2022, the U.S. Department of the Treasury awarded a grant for the purpose of providing funding for public and private water, sewer, garbage, electric and natural gas utilities to address low-income customer arrearages compounded by the COVID-19 pandemic and the related economic downturn that were accrued between March 1, 2020 and December 31, 2021. The District participated in this grant by receiving a one-time payment through the Washington State Department of Commerce who administered the grant funds in the amount of \$10,930. As with the ARPA funds, these funds were received directly on behalf of qualifying ratepayers and applied toward past due account balances. They were also presented as COVID-19 Non-Grant Revenue in the Non-operating section of the District's Statement of Revenues, Expenses, and Changes in Net Position, and the amount applied toward past due account balances is shown as COVID-19 Non-Grant Expense.

**FEMA Funding** - Along with the arrearage funding, the District has submitted two claims with the COVID-19 Public Assistance Program through FEMA for certain operating expenses incurred to facilitate compliance with COVID-19 related public health measures. This claims were approved and obligated in 2022 with the District receiving a total of \$213,379 in January 2023.

### **NOTE 15 – SUBSEQUENT EVENTS**

**NoaNet Loan** - In 2022, NoaNet approached its members regarding a loan in the amount of approximately \$10,400,000 to pay a pension liability as NoaNet moves employees to the PERS retirement system operated by the Washington State Department of Retirement Systems. The pension liability will be paid as directed by employees and former employees or to other retirement accounts. The 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 NoaNet members under its formative Interlocal Cooperative Agreement.

# **PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY**

## **NOTES TO THE FINANCIAL STATEMENTS**

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In March 2023, the District's Board of Commissioners passed a resolution authorizing the General Manager to enter into a financing agreement with NoaNet, and that the financing provided would be limited to the District's membership share, currently at 10.57%. As of April, 2023, the terms of the loan are still in negotiations and an agreement has not been signed. The current estimated obligation for the District is \$1.5 million with interest to be set at a rate equal to the twelve month average of the 30-day yield published by the Local Government Investment Pool (LGIP).

**Commissioner Resignation** – Effective March 2, 2023, Commissioner Rick Paschall resigned his position on the Board of Commissioners. The District has 90 days to appoint a new commissioner and is currently in the process of interviewing candidates.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 16 – DIVISION INFORMATION

The following condensed financial information is provided by Electric, Water, and Sewer operating divisions for the year ended December 31, 2022:

Condensed Statement of Net Position by Division					
	Electric System	Water System	Sewer System	Intercompany Eliminations	Total
<b>Assets</b>					
Current Assets	\$ 61,321,199	\$ 4,441,449	\$245,087	\$ (20,371)	\$ 65,987,364
Utility Plant, net	152,667,473	30,220,945	409,892		183,298,310
Other Assets	10,741,287	529,369	-	(88,730)	11,181,926
<b>Total Assets</b>	<b>224,729,959</b>	<b>35,191,763</b>	<b>654,979</b>	<b>(109,101)</b>	<b>260,467,600</b>
<b>Deferred Outflows of Resources</b>					
	4,149,275	428,087	-	-	4,577,362
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 228,879,234</b>	<b>\$ 35,619,850</b>	<b>\$ 654,979</b>	<b>\$ (109,101)</b>	<b>\$ 265,044,962</b>
<b>Liabilities</b>					
Current Liabilities	\$ 15,292,222	\$ 1,021,178	\$ 9,237	\$ (36,909)	\$ 16,285,728
Noncurrent Liabilities	30,855,128	5,383,639	47,943	(72,192)	36,214,518
<b>Total Liabilities</b>	<b>46,147,350</b>	<b>6,404,817</b>	<b>57,180</b>	<b>(109,101)</b>	<b>52,500,246</b>
<b>Deferred Inflows of Resources</b>					
	5,060,853	475,362	-	-	5,536,215
<b>Net Position</b>					
Net Investment in Capital Assets	122,913,836	24,013,008	357,536	88,730	147,373,110
Restricted for:					
Debt Service	3,675,644	2,833	-	-	3,678,477
Rural Stabilization Fund	4,145,145	-	-	-	4,145,145
Net Pension Asset	3,570,811	419,298	-	-	3,990,109
Unrestricted	43,365,595	4,304,532	240,263	(88,730)	47,821,660
<b>Total Net Position</b>	<b>177,671,031</b>	<b>28,739,671</b>	<b>597,799</b>	<b>-</b>	<b>207,008,501</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 228,879,234</b>	<b>\$ 35,619,850</b>	<b>\$ 654,979</b>	<b>\$ (109,101)</b>	<b>\$ 265,044,962</b>

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

Condensed Statement of Revenue, Expenses and Changes in Net Position by Division					
	Electric System	Water System	Sewer System	Intercompany Eliminations	Total
Operating revenues	\$ 76,573,713	\$ 4,820,415	\$ 81,877	\$ (191,243)	\$ 81,284,762
Operating expenses					
Purchased resources	29,144,017	230,487	-	-	29,374,504
Operating, maintenance, and admin & general	21,000,130	2,689,636	59,765	(191,243)	23,558,288
Taxes	4,133,361	247,808	457	-	4,381,626
Depreciation	10,087,924	1,036,644	28,521	-	11,153,089
Operating expenses	64,365,432	4,204,575	88,743	(191,243)	68,467,507
<b>Net Operating Income</b>	<b>12,208,281</b>	<b>615,840</b>	<b>(6,866)</b>	<b>-</b>	<b>12,817,255</b>
<b>Non-operating Revenues and Expenses</b>					
Other non-operating income (expense)	1,052,976	145,457	3,806	(3,463)	1,198,776
Interest expense	(828,376)	(79,792)	(1,690)	3,463	(906,395)
<b>Total Non-operating Income (Expense)</b>	<b>224,600</b>	<b>65,665</b>	<b>2,116</b>	<b>-</b>	<b>292,381</b>
<b>Capital Contributions</b>	<b>1,904,198</b>	<b>690,516</b>	<b>7,745</b>	<b>-</b>	<b>2,602,459</b>
<b>Change in Net Position</b>	<b>14,337,079</b>	<b>1,372,021</b>	<b>2,995</b>		<b>15,712,095</b>
Net Position, Beginning	163,333,952	27,367,650	594,804	-	191,296,406
<b>NET POSITION, ENDING</b>	<b>\$ 177,671,031</b>	<b>\$ 28,739,671</b>	<b>\$ 597,799</b>	<b>\$ -</b>	<b>\$ 207,008,501</b>

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

Condensed Statement of Cash Flows by Division					
	Electric System	Water System	Sewer System	Intercompany Eliminations	Total
<b>Cash Flows from Operating Activities</b>	\$ 18,064,234	\$ 1,525,358	\$ 23,226	\$ -	\$ 19,612,818
<b>Cash Flows from Noncapital Financing Activities</b>	1,604	29,216			30,820
<b>Cash Flows from Capital and Related Financing Activities</b>	(14,751,892)	(3,738,737)	989	-	(18,489,640)
<b>Cash Flows from Investing Activities</b>	(4,540,201)	87,685	3,806	-	(4,448,710)
<b>Net Increase (Decrease) in Cash</b>	(1,226,255)	(2,096,478)	28,021	-	(3,294,712)
<b>Cash and Cash Equivalents, Beginning of the Year</b>	36,161,180	5,781,364	211,434		42,153,978
<b>Less Restricted Cash</b>	(8,113,077)	(3,926)	-		(8,117,003)
<b>Cash and Cash Equivalents, End of the Year</b>	<u>\$ 26,821,848</u>	<u>\$ 3,680,960</u>	<u>\$ 239,455</u>		<u>\$ 30,742,263</u>
<b>Supplemental Disclosure of Noncash Activities</b>					
<b>Customer Installed Capital Contributions</b>	\$ 149,898	\$ 237,733			\$ 387,631
<b>Capital Asset Acquisition Related to Lease Liability</b>	439,494				439,494
<b>Deferred Outflow-Pension</b>	3,698,041	405,232			4,103,273
<b>Deferred Inflow-Pension</b>	4,007,412	369,561			4,376,973
<b>Deferred Outflow-Other Post-Employment Benefits</b>	295,315	22,855			318,170
<b>Deferred Inflow-Other Post-Employment Benefits</b>	1,053,441	105,801			1,159,242

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability (Asset)					
PERS 1					
As of June 30th (Last 10 Fiscal Years)					
	2022	2021	2020	2019	2018
Employer's proportion of the net pension liability:	0.085718%	0.086150%	0.087497%	0.092575%	0.093531%
Employer's proportionate share of the net pension liability:	\$ 2,386,704	\$ 1,052,093	\$ 3,089,117	\$ 3,559,837	\$ 4,177,126
Covered payroll:	\$ 13,992,944	\$ 13,292,368	\$ 13,059,363	\$ 12,853,403	\$ 12,223,134
Employer's proportionate share of the net pension liability as a percentage of covered payroll:	17.06%	7.92%	23.65%	27.70%	34.17%
Plan fiduciary net position as a percentage of the total pension liability:	76.56%	88.74%	68.64%	67.12%	63.22%

PERS 2/3					
As of June 30th (Last 10 Fiscal Years)					
	2022	2021	2020	2019	2018
Employer's proportion of the net pension liability (asset):	0.111786%	0.110678%	0.110817%	0.116566%	0.115295%
Employer's proportionate share of the net pension liability (asset):	\$ (4,145,898)	\$ (11,025,310)	\$ 1,417,286	\$ 1,132,252	\$ 1,968,560
Covered payroll:	\$ 13,992,944	\$ 13,292,368	\$ 12,926,986	\$ 12,700,035	\$ 11,958,974
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll:	-29.63%	-82.94%	10.96%	8.92%	16.46%
Plan fiduciary net position as a percentage of the total pension liability (asset):	106.73%	120.29%	97.22%	97.77%	95.77%

### Notes to Schedule:

Until a full 10-year trend is compiled, governments are only required to present information for those years that information is available.

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability (Asset) (continued)				
PERS 1				
As of June 30th (Last 10 Fiscal Years)				
	2017	2016	2015	2014
Employer's proportion of the net pension liability:	0.101966%	0.103275%	0.102581%	0.104573%
Employer's proportionate share of the net pension liability:	\$ 4,838,366	\$ 5,546,354	\$ 5,365,940	\$ 5,267,914
Covered payroll:	\$ 12,537,175	\$ 11,996,769	\$ 11,325,360	\$ 11,153,818
Employer's proportionate share of the net pension liability as a percentage of covered payroll:	38.59%	46.23%	47.38%	47.23%
Plan fiduciary net position as a percentage of the total pension liability:	61.24%	57.03%	59.10%	61.19%
PERS 2/3				
As of June 30th (Last 10 Fiscal Years)				
	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset):	0.124233%	0.123539%	0.122737%	0.122887%
Employer's proportionate share of the net pension liability (asset):	\$ 4,316,503	\$ 6,220,091	\$ 4,385,463	\$ 2,483,990
Covered payroll:	\$ 12,170,290	\$ 11,573,312	\$ 10,863,483	\$ 10,632,142
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll:	35.47%	53.75%	40.37%	23.36%
Plan fiduciary net position as a percentage of the total pension liability (asset):	90.97%	85.82%	89.20%	93.29%

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions					
PERS 1					
For Year Ended December 31st (Last 10 Fiscal Years)					
	2022	2021	2020	2019	2018
Statutorily or contractually required contributions	\$ 535,789	\$ 589,420	\$ 632,914	\$ 645,347	\$ 643,990
Contributions in relation to the statutorily or contractually required contributions	535,789	589,420	632,914	645,347	643,990
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	\$ 13,778,767	\$ 13,778,767	\$ 13,079,402	\$ 12,861,952	\$ 12,595,366
Contributions as a percentage of covered payroll	3.89%	4.28%	4.84%	5.02%	5.11%

PERS 2/3					
For Year Ended December 31st (Last 10 Fiscal Years)					
	2022	2021	2020	2019	2018
Statutorily or contractually required contributions	\$ 906,520	\$ 981,534	\$ 1,030,384	\$ 983,649	\$ 931,320
Contributions in relation to the statutorily or contractually required contributions	906,520	981,534	1,030,384	983,649	931,320
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	\$ 14,253,190	\$ 13,778,767	\$ 13,009,921	\$ 12,736,509	\$ 12,416,720
Contributions as a percentage of covered payroll	6.36%	7.12%	7.92%	7.72%	7.50%

### Notes to Schedule:

Until a full 10-year trend is compiled, governments are only required to present information for those years that information is available.



# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions (continued)				
PERS 1				
For Year Ended December 31st (Last 10 Fiscal Years)				
	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 621,174	\$ 599,504	\$ 537,101	\$ 506,167
Contributions in relation to the statutorily or contractually required contributions	621,174	599,504	537,101	506,167
Contribution deficiency (excess)	-	-	-	-
Covered payroll	\$ 12,347,732	\$ 12,247,603	\$ 11,737,932	\$ 10,996,146
Contributions as a percentage of covered payroll	5.03%	4.89%	4.58%	4.60%
PERS 2/3				
For Year Ended December 31st (Last 10 Fiscal Years)				
	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 822,057	\$ 763,048	\$ 656,190	\$ 514,521
Contributions in relation to the statutorily or contractually required contributions	822,057	763,048	656,190	514,521
Contribution deficiency (excess)	-	-	-	-
Covered payroll	\$ 11,987,494	\$ 11,904,039	\$ 11,257,908	\$ 10,652,582
Contributions as a percentage of covered payroll	6.86%	6.41%	5.83%	4.83%

# PUBLIC UTILITY DISTRICT #1 OF CLALLAM COUNTY

## REQUIRED SUPPLEMENTARY INFORMATION

<b>OPEB Retiree Medical Benefits</b> <b>Schedule of Changes in Total OPEB Liability and Related Ratios</b> <b>For Measurement Period Ending December 31st (Last 10 Fiscal Years*)</b>					
	2021	2020	2019	2018	2017
<b>Total OPEB Liability</b>					
<b>Total OPEB liability-beginning</b>	\$ 1,187,252	\$ 2,104,120	\$ 2,414,603	\$ 1,911,804	\$ 1,664,292
Service Cost	\$ 65,174	\$ 110,286	\$ 133,059	\$ 100,159	\$ 87,675
Interest on total OPEB liability	26,102	59,901	103,220	68,684	65,787
Changes of benefit terms	-	-	-	-	-
Effect of economic/demographic gains or (losses)	-	(814,494)	-	32,896	-
Effect of assumption changes or inputs	11,137	(215,668)	(485,955)	331,940	117,382
Expected benefit payments	(42,631)	(56,892)	(60,807)	(30,880)	(23,332)
Net change in total OPEB liability	\$ 59,781	\$ (916,868)	\$ (310,483)	\$ 502,799	\$ 247,512
<b>Total OPEB liability-ending</b>	<b>\$ 1,247,033</b>	<b>\$ 1,187,252</b>	<b>\$ 2,104,120</b>	<b>\$ 2,414,603</b>	<b>\$ 1,911,804</b>
<b>Covered employee payroll</b>	\$ 13,778,767	\$ 13,079,402	\$ 12,861,952	\$ 12,595,366	\$ 12,347,732
<b>Total OPEB liability as a % of covered employee payroll</b>	9.05%	9.08%	16.36%	19.17%	15.48%

Notes to schedule:

- \* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District is showing the years for which information is available.
- \* No assets are accumulated in a trust compliant with GASB codification P52.101 to pay related benefits.
- \* Changes of benefit terms: There are no changes in benefit terms.
- \* Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period.

## 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.

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