Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Public Utility District No. 1 of Skagit County

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

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Office of the Washington State Auditor
Pat McCarthy

September 19, 2024

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs

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

ALN	Program or Cluster Title
66.468	Drinking Water State Revolving Fund Cluster – Drinking Water State Revolving Fund

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

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

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

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, 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 Skagit County, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 12, 2023, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is September 10, 2024.

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.

We noted certain other matters that we have reported to the management of the District in a separate letter dated September 10, 2024.

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.

PURPOSE OF THIS REPORT

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

Pat McCarthy, State Auditor

Olympia, WA

September 12, 2023, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is September 10, 2024

INDEPENDENT AUDITOR'S REPORT

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

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

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

Pat McCarthy, State Auditor

Olympia, WA

September 12, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

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

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Public Utility District No. 1 of Skagit 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 Skagit County, as of December 31, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Required Supplementary Information

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

Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2023, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is September 10, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

September 12, 2023, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is September 10, 2024

FINANCIAL SECTION

Public Utility District No. 1 of Skagit 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 Financial Statements – 2022

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios – 2022
Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 – 2022
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2022

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2022
Notes to the Schedule of Expenditures of Federal Awards – 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Public Utility District No. 1 of Skagit County presents this discussion and analysis as part of the financial statements for the fiscal year ended December 31, 2022. The information presented should be read in conjunction with the financial statements and accompanying notes.

Financial Highlights

- Operating revenue increased by $2.2 million to $30,906,547.
- The District's ending net position increased by $9,797,076 to $202,447,043. This was an increase of 5.09% from 2021.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

The District accounts for its financial activity within a single enterprise fund. The activities of the District are comprised of treating and distributing water, as well as the sale of wholesale telecommunication services through a joint venture with the Port of Skagit County. The District does have voter-approved authority for sewer, although the District does not have sewer operations currently.

The basic financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to statements of a private-sector business. In accordance with requirements set forth by the Governmental Accounting Standards Board, they are prepared using the accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer short-term and long-term financial statement information about District activities. The basic financial statements are comprised of:

The Statement of Net Position: The District presents its statement of net position using the balance sheet format. The statement provides information on all the District's assets, deferred outflows, liabilities, deferred inflows, and net position at year end. The net position section is separated into three categories; net investment in capital assets; restricted net position; and unrestricted net position. Investment in capital assets reflects the District's investment in capital assets (land, plant, and equipment) less any remaining related debt. Restricted assets represent resources that are subject to external restrictions on how the funds may be used. Restrictions placed on these assets relate to constraints derived from grants, loans, or other debt. Unrestricted assets may be used to meet the District's ongoing obligations.

The Statement of Revenues, Expenses, and Changes in Net Position: This statement provides information on the District's current year revenues and expenses. Revenues are classified by major source and expenses are classified by function. Revenues and expenses are classed as operating or non-operating based upon the nature of the transaction.

The Statement of Cash Flows: This statement provides relevant information about the District's cash receipts and cash payments for operations as well as funds provided and used by investing and financing activities during the year.

Notes to the Financial Statements: The notes to the financial statements are presented at the end of the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS

The following analysis provides a two-year comparison of key financial information.

Condensed Comparative Statement of Net Position

	2022	2021	Change
Assets			
Current and other assets	$ 49,743,907	$ 42,565,842	16.86%
Capital assets	219,503,645	200,757,086	9.34%
Total assets	269,247,552	243,322,928	10.65%
Deferred outflow of resources	2,647,791	1,092,119	142.45%
Liabilities			
Current and other liabilities	$ 7,194,959	$ 8,029,263	-10.39%
Long-term liabilities	58,830,298	36,453,831	61.38%
Total liabilities	66,025,257	44,483,094	48.43%
Deferred inflow of resources	3,423,043	7,281,986	-52.99%
Net Position			
Net investment in capital assets	$ 159,012,679	$ 164,698,563	-3.45%
Restricted	2,192,738	1,216,704	80.22%
Unrestricted	41,241,626	26,734,700	54.26%
Total net position	202,447,043	192,649,967	5.09%

Current and Capital Assets

- The increase in assets is the result of a sizable portion of the Judy Water Treatment Plant to Mount Vernon transmission line project being substantially complete and capitalized at year end.

The following is a summary of the other major projects in 2022:

- Sky Ridge Pipe Replacement & Pump Station
- College Way, Urban Avenue to LaVenture Road Pipe Replacement
- Driver Road Pipe Replacement
- Gauges Slough Pipe Replacement
- Curtis Street Pipe Replacement
- Satterlee Gibralter to Mashie Street Pipe Replacement
- Annual plant replacement and upsizing of infrastructure

In addition, there were several projects constructed by others that were transferred to the District upon acceptance. The following is a summary of the major developer projects completed in 2022:

- Skagit County Stabilization Center
- Plat of Garden Meadows
- Lot 72 Hangar Project
- Brickyard Park
- Skagit Self Storage

The District's 2023 capital budget includes plans for investing $35 million in capital improvements. Major capital projects planned for the year include:

- Skagit Country Club Pipeline Replacement
- West Mount Vernon Pipeline Replacement
- Francis Road Pipeline Replacement
- LaVenture, Hoag Road Intersection Improvements
- Several Pipeline Relocations due to Fish Passage Improvements
- Water Treatment Plant Pump Replacement
- Judy Water Treatment Plant to Mount Vernon transmission line
- Construction of a new PUD Administration Building

See Note 3 for more information regarding capital asset activity.

Long-term Debt
At year end, the District's long-term debt obligation included Revenue Bonds of $ 22,701,886, Drinking Water Revolving Fund loans of $18,432,958, Public Works Trust Fund loans of $ 16,672,627, and a Department of Ecology loan of $ 981,087. Overall debt increased $ 21,532,521 from $37,256,037 to $58,788,588 during 2022. Funds for payments of long-term debt are provided from rate revenue cash flow.

See Note 5 for more information regarding long-term debt activity.

Net Position
The restricted portion of total net position represent resources that are subject to external restrictions on how the funds may be utilized. The restricted net position increased $976,034 to $2,192,738 due to an increase in pension assets. The unrestricted portion of net position increased by $14,506,926 to end the year at $ 41,241,626. The District's total net position increased 5.09% to $,202,447,043.

See Note 8 for more information regarding pension plans.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Position.

Condensed Comparative Statement of Revenues, Expenses and Changes to Net Position

	2022	2021	Change
Operating revenue			
Water sales	$ 30,234,999	$ 28,370,058	6.57%
Other	671,548	367,019	82.97%
Total operating revenue	30,906,547	28,737,077	7.55%
Non-operating revenue	732,960	218,213	235.89%
Total revenues	**31,639,507**	**28,955,290**	9.27%
Operating expenses			
Operations and Maintenance	4,739,498	4,441,127	6.72%
Administrative and General	9,276,359	7,038,927	31.79%
Broadband	24,025	36,433	-34.06%
Taxes	1,449,364	1,377,642	5.21%
Depreciation	7,736,185	7,995,344	-3.24%
Total operating expenses	23,225,431	20,889,473	11.18%
Non-operating expenses	987,657	581,503	69.85%
Total expenses	**24,213,088**	**21,470,976**	12.77%
Income before contributions	7,426,419	7,484,314	-0.77%
Capital contributions	2,370,657	3,704,405	-36.00%
Change in net position	**9,797,076**	**11,188,719**	-12.44%
Beginning net position	192,649,967	181,356,770	6.23%
Prior period adjustment	0	104,478	-100.00%
Ending net position	**$ 202,447,043**	**$ 192,649,967**	5.09%

Operating Revenues

Water sales increased $1.9 million for the year based in part upon a 5% rate increase, which took effect January 1, 2022. In addition, dry weather and re-opening of businesses and municipal facilities post COVID increased overall water consumption. The increase in non-operating revenue of $514,747 or 236% was due to an increase in interest income from investments.

Operating Expenses
Total operating expenses increased from $20,889,473 to $23,225,431 or 11.18%. The increase was due in part to a $3.4 million of actuarial adjustments to net pension assets and liabilities, attributable to the District's share, of the Washington State's PERS pension assets.

Change in Net Position
At the end of 2022, the District's net position increased $9,797,076. Operating income contributed $7,426,419, while capital contributions of $2,370,657 made up the rest of the increase. Donated plant of $584,508 and System Development Fees of $1,038,128 were the two largest components of capital contributions.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Commissioner's approved the 2023 Annual Budget on November 8, 2022. The budget outlines the District's 2023 investments in operations, maintenance, and capital projects to continue to provide high-quality water services to District customers.

In considering the District's budget for 2023, the Board of Commissioners and management incorporated the following:

- Revenue from water sales and charges are expected to increase as the result of a 5% rate increase.
- Capital contributions are estimated to be $2,500,000.
- Operating expenses, excluding depreciation and Other Post-Employment Benefits (OPEB), are expected to increase 6% in 2023. Additional staff to manage projects and maintain infrastructure, investment in computer and software systems, and broad inflationary increases for goods and services.

In February 2021, the Governor of the State of Washington declared a state of emergency in response to the spread of the COVID-19 virus. Precautionary measures to slow the spread of the virus continued throughout 2022. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions. On September 8, 2022, Governor Jay Inslee announced the rescission of all remaining COVID-19 emergency proclamations and state of emergency by October 31, 2022.

REQUESTS FOR INFORMATION

The basic financial statements, notes, and management discussion and analysis are designed to provide a general overview of the District's finances. If you have any questions about the report or need additional financial information, contact the District Treasurer at:

Public Utility District No. 1 of Skagit County
1415 Freeway Drive
Mount Vernon, Washington 98273-1436

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2022

ASSETS

CURRENT ASSETS		2022
Cash and cash equivalents	$	2,988,076
Investments		37,773,500
Customer accounts receivable, net		3,982,607
Accounts receivable leases & other		74,760
Restricted assets		
Receivables - LUDs		99,265
Materials inventory		1,624,826
Prepaid expenses		725,379
Other current assets		1,274
Total current assets		47,269,687
NON-CURRENT ASSETS		
Investment in joint ventures		31,278
Assessment receivable		250,493
Leases receivable		24,629
Net Pension Asset		2,167,820
Capital assets not being depreciated		
Non-operating property		42,794
Land and land rights		2,771,197
Earthen impounding reservoir		66,161
Construction in progress		17,065,036
Capital assets net of accumulated depreciation		
Water Infrastructure		188,863,686
Equipment & Machinery		5,365,267
Fiber		2,447,163
General		2,882,341
Total non-current assets		221,977,865
Total assets		269,247,552
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions		2,292,693
Deferred outflows related to OPEB		342,740
Deferred outflows related to ARO		12,358
Total deferred outflows of resources		2,647,791
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	271,895,343

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2022

LIABILITIES		
CURRENT LIABILITIES		2022
Accounts payable	$	3,625,060
Taxes payable		157,383
Customer deposits		323,854
Accrued interest on debt		452,781
Bonds and loans payable		2,447,583
OPEB liability		38,333
Other current liabilities		188,298
Total current liabilities		7,233,292
NON-CURRENT LIABILITIES		
Compensated absences		774,929
Asset retirement obligations		29,220
Long-term debt, revenue bonds		21,627,444
Long-term debt, loans		34,713,532
Net pension liability		1,286,489
OPEB liability		360,351
Total non-current liabilities		58,791,965
Total liabilities		66,025,257
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions		2,314,727
Deferred inflows related to OPEB		1,059,306
Deferred inflows related to Leases		49,010
Total deferred inflows of resources		3,423,043
NET POSITION		
Net investment in capital assets		159,012,679
Restricted for		
Net pension asset	$	2,192,738.00
Unrestricted		41,241,626
Total net position		202,447,043
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$	271,895,343

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

FOR YEAR ENDED DECEMBER 31, 2022

	2022
OPERATING REVENUES	
Water sales	
Residential and multiple	$ 21,654,044
Commercial, industrial and farms	7,585,274
Resale	181,866
Irrigation	813,815
Other sales	671,548
Total operating revenues	30,906,547
OPERATING EXPENSES	
Supply	775,406
Treatment	2,391,782
Transmission and distribution	1,572,310
Broadband	24,025
Customer accounts	1,879,633
Administrative and general	7,396,726
Utility taxes	1,449,364
Depreciation and amortization	7,736,185
Total operating expenses	23,225,431
Operating income (loss)	7,681,116
NON-OPERATING REVENUES (EXPENSES)	
Interest income	560,260
LUD interest and penalty income	13,762
Interest and related charges	(967,955)
Gain (loss) on capital asset disposition	2,343
Other non-operating revenues	158,938
Other non-operating expenses	(22,045)
Total non-operating revenues (expenses)	(254,697)
Income before capital contributions	7,426,419
CAPITAL CONTRIBUTIONS	
Non-donated plant	291,973
Donated plant	584,508
System development fees	1,038,128
Services	456,048
Total capital contributions	2,370,657
Change in net position	9,797,076
NET POSITION - beginning of year	192,649,967
NET POSITION - end of year	$ 202,447,043

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY
STATEMENT OF CASH FLOWS
FOR YEAR ENDED DECEMBER 31, 2022

	2022
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 30,405,197
Cash payments to suppliers for goods and services	(7,212,785)
Cash payments to employees for services	(10,197,111)
Cash payments for taxes	(1,533,566)
Other cash receipts or (payments)	102,394
Net cash provided (used) by operating activities	11,564,129
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(24,711,961)
Proceeds from sale of capital assets	44,442
Principal paid on capital debt	(2,933,455)
Interest paid on capital debt	(793,688)
Bond issues and loan proceeds	24,465,977
Proceeds from customers for capital purposes	1,876,020
Net cash provided (used) for capital and related financing activities	(2,052,665)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(21,908,859)
Proceeds from sale or maturity of investments	13,600,000
Investment income proceeds	560,260
Net cash provided (used) for investing activities	(7,748,599)
Net increase (decrease) in cash and cash equivalents	1,762,865
CASH AND CASH EQUIVALENTS - beginning of year	1,225,211
CASH AND CASH EQUIVALENTS - end of year	$ 2,988,076

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

STATEMENT OF CASH FLOWS

FOR YEAR ENDED DECEMBER 31, 2022

		2022
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net operating income (loss)	$	7,681,118
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation and amortization		7,736,184
Transfers to construction in progress		(1,180,653)
Other cash receipts or (payments)		102,394
Accounts receivable		(567,664)
Inventory		63,263
Other current assets		(274,740)
Accounts payable		(1,964,772)
Accrued taxes		(31,001)
Net cash provided by operating activities	$	11,564,129

During the year 2022, plant assets of $584,508 were donated to the District.

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to Generally Accepted Accounting Principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The significant accounting policies are described below.

Reporting Entity
Public Utility District No. 1 of Skagit County (the District) is a municipal corporation governed by an elected three-person Commission, authorized under Title 54 Revised Code of Washington (RCW). The District is a special purpose government that provides water supply and distribution services. In addition, the District provides wholesale telecommunication services through a joint venture with the Port of Skagit County.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity.

Basis of Accounting and Presentation
Accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and are based on the Uniform System of Accounts for Class A and B Water Utilities as prescribed by the National Association of Regulatory Utility Commissioners.

The District uses the economic resources measurement focus and full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of cash flows. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues are defined as related to the sale of water to customers and to other services that are usually provided under standard rate schedules or by contractual arrangements. Operating expenses are defined as related to the operations and maintenance of treating and distributing water, customer service activities and general administration. Non-operating revenues and expenses are all revenues and expenses not meeting these definitions, such as financing and investing activities.

New Accounting Standards
GASB has issued the following Statements for which the District has implemented during the current year:

- Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement was implemented within the current period.
- Statement No. 91, *Conduit Debt Obligations.* The objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement was implemented within the current period with no required reporting.
- Statement No. 98, *The Annual Comprehensive Financial Report.* The Statement establishes the term *annual comprehensive financial report* and its acronym *ACFR*. This statement was implemented within the current period.

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

Investments
See Note 2 – Deposits and Investments

Receivables
The District maintains receivables for its water services billings and other miscellaneous billings. Unbilled water service receivables are recorded at year end. It is the District's policy to write off accounts as uncollectible after ninety-days, at which time they are turned over to collections. Any subsequently collected accounts reduce bad debt expense.

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

Restricted Assets and Liabilities
Special assessments are recorded when levied. Special assessment receivables consist of current and delinquent assessments and related interest and penalties.

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

Special Assessments - Current	$	40,629
Special Assessments - Delinquent	$	58,636
Total Restricted Assets	$	99,265

Capital Assets
Capital assets are defined by the District as assets with individual costs of more than $5,000 and an estimated useful life in excess of two years. The cost of normal maintenance and repairs is charged to expense as incurred, while the cost of replacements and improvements is capitalized when they increase the effectiveness or efficiency of the asset.

Utility plant and other capital assets are recorded at the original cost where the historical cost is known. Where historical cost is not known, assets are recorded at fair market value, as determined by an engineer's estimate. Donations by developers and customers are recorded at the contract price and donor cost.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Water Pipe (Transmission, distribution, and supply)	40 - 50 years
Structures and improvements	10 - 50 years
Services	40 years
Intakes, wells, reservoirs, standpipes, and hydrants	10 - 50 years
Pumping equipment	20 – 30 years
Meters	15 years
General plant, furniture, tools, lab, and other equipment	7 - 50 years
Transportation and power-operated equipment	3 - 10 years

Depreciation is recorded the year following acquisition or construction. When a capital asset is retired, or otherwise disposed of, the original cost is removed from the capital asset account and from accumulated depreciation.

All current and incomplete project costs are included in construction in progress. At project completion, capital costs are reclassified to capital assets while non-capital costs are charged to operating expense. In the event equipment items are acquired through capital lease agreements they would be reported as general capital assets in the statement of net position.

See Note 3 – Capital Assets

Leases

The district recognizes a lease liability and an intangible right-to-use lease asset in the financial statements. The district recognizes lease liabilities with an initial, individual value of $5,000 or more. At the commencement of a lease, the district initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized using the straight-line basis over its useful life.

Capital outlays and financing source are recognized at the commencement of a new lease. Lease payments are reported as debt service principal and debt service interest expenditures. Key estimates and judgements related to lease include how the district determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

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

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

The district is a lessor for noncancelable leases. The district recognizes a lease receivable and a deferred inflow of resources in the financial statements. At the commencement of a lease, the district initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measure as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term using the straight-line basis.

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

- The district uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease liability are compose of fixed payments from the lessee.

The district monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

See Note 16 – Leases

Compensated Absences

The District maintains a Personal Leave Plan (PL) for vacation, sick, and family leave purposes; accruing based upon an employee's length of service. Personal Leave may be carried forward from year-to-year to a maximum accumulation of 800 hours. Any accumulated Personal Leave balance is paid to the employee at retirement, termination of employment, or death. The exception is for employees retiring from the PERS 1 Retirement System. These employees may be paid a maximum of 240 hours compensated leave at retirement. The District records PL as a component of payroll labor load as earned with a liability representing earned leave balances not yet taken.

The District has implemented the Washington State Paid Sick Leave Law. This law requires employees to earn one hour of sick leave for every forty hours worked, this is tracked separately from the paid leave referred to above.

The District administers a voluntary plan for paid family and medical leave benefits for its employees. Voluntary plans are approved by the Employment Security Department and are available for employers who wish to opt out of the State of Washington's Paid Family & Medical Leave Program for either family leave benefits, medical leave benefits, or both, and instead administer their own internal plan. Employers with voluntary plans are required to offer benefits that are equal to or exceed the benefits offered by the State's program and must report employee hours, wages, and premiums deducted from employee pay, and other information to the Employment Security Department on a quarterly basis. The District paid $40,055 in claims during 2022.

The District also maintains a Supplemental Leave Bank which originated during the conversion of the former sick leave plan to the current Personal Leave Plan. The Supplemental Leave Bank is non-accruing, and no portion is payable at termination of employment. It is used solely to supplement short-term or occupational disability for eligible employees.

Pensions

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

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

Long-Term Debt

See Note 5 – Long-Term Debt

Net Position Classification

The difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Use of Estimates

The preparation of the financial statements, in conformity with Generally Accepted Accounting Principles (GAAP), requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates may be included in the disclosure of contingent assets and liabilities at the date of the financial statements, and in the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Financial Statement Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

The District's deposits are entirely covered by Federal Depository Insurance (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection

Commission (PDPC). Deposit accounts are reconciled to the District's accounting records at year end, and the book balance of these accounts does not materially differ from the bank balance.

B. Investments

Investments are subject to the following risks:

Interest Rate Risk – Interest rate risk is the risk the District may face should interest rate variances affect the fair value of investments. The District's investment policy is to hold investments to maturity whenever possible and therefore maintain maturity dates equal to or less than cash flow requirements. The District's plan is to invest for a two-year maximum maturity although exceptions are possible.

		Investment Maturities (in Years)		
Investment Type	Fair Value	Less than 1	1 to 5	More than 5
Local Government Investment Pool	$ 37,773,500	37,773,500	-	-

Credit Risk – Credit risk is 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 obligations of the U.S. Government and its agencies, deposits with the Washington State Treasurer's Local Government Investment Pool (LGIP), or deposits with Washington State financial institutions.

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction, the District may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Current investments are held by the District's brokerage firm, which is also the counterparty in those particular securities.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single user. The District's investment policy requires diversification of investments by security type and institution, with the exception of U.S. Treasuries and the Local Government Investment Pool (LGIP).

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The District's investment policy limits investments to U.S. investments.

Investments in Local Government Investment Pool (LGIP) – The District is a voluntary participant in the Local Government Investment Pool (LGIP), which was authorized by Chapter 294, Laws of 1986, and is managed by the Washington State Treasurer in accordance with RCW 43.250. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximated fair value. The LGIP is not rated and not registered with the SEC. LGIP investments are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose any restrictions on participant withdrawals.

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

Investments Measured at Fair Value – The District measures and reports investments at fair value using the valuation input hierarchy established by GAAP, as follows:

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

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

		Fair Value Measurement Using		
Other Securities not Measured at Fair Value	12/31/2022	Level 1	Level 2	Level 3
Local Government Investment Pool	37,773,500	37,773,500		
Total	$ 37,773,500	$ 37,773,500		
Total Investments in Statement of Net Position	$ 37,773,500	$ 37,773,500		

C. Summary of Deposit and Investment Balances

Reconciliation of the District's deposits and investment balances as of December 31, 2022, is as follows:

	Water Fund
Cash on Hand	$ 1,200
Amount of Deposits with Financial Institutions	2,986,876
Non-Pooled Investments	-
Deposits in State LGIP	37,773,500
Total Deposits & Investments	**$ 40,761,576**
Deposits	
Current:	
Cash & Cash Equivalents	$ 2,988,076
Total Deposits	**2,988,076**
Investments	
Current:	
Short-Term Investments	37,773,500
Total Investments	**37,773,500**
Total Deposits & Investments	**$ 40,761,576**

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Non-operating property	$ 42,794	$ -	$ -	$ 42,794
Land and land rights	2,771,197	-	-	2,771,197
Earthen impounding reservoir	66,161	-	-	66,161
Construction in progress	27,705,641	26,393,713	(37,027,784)	17,071,570
Total capital assets not being depreciated	30,585,793	26,393,713	(37,027,784)	19,951,722
Capital assets being depreciated:				
Water Infrastructure	242,851,233	36,876,730	(457,310)	279,270,653
Equipment	14,649,051	211,874	-	14,860,925
Fiber	3,089,349	-	-	3,089,349
General	9,007,123	29,123	-	9,036,246
Total capital assets being depreciated	269,596,756	37,117,727	(457,310)	306,257,173
Accumulated depreciation for:				
Water Infrastructure	(84,668,980)	(6,195,298)	457,310	(90,406,968)
Equipment	(8,688,857)	(806,800)	-	(9,495,657)
Fiber	(539,209)	(102,977)	-	(642,186)
General	(5,528,415)	(625,489)	-	(6,153,904)
Total accumulated depreciation	(99,425,461)	(7,730,564)	457,310	(106,698,715)
Total utility plant being depreciated, net	170,171,295	29,387,163	-	199,558,458
TOTAL CAPITAL ASSETS, NET	$ 200,757,088	$ 55,780,876	$ (37,027,784)	$ 219,510,180

The Judy System is the District's primary water system. The water supply sources for the Judy System are located on the Skagit River and four Cultus Mountain tributary streams. The District's water rights have been aggregated over time from pre-1917 through 1997. These transactions usually include: all related property consisting of and associated with the water system, wells, pump houses, storage tanks, water rights, water mains, pipes, valves, pumps, reservoirs, boosters, water treatment facilities, service meters and other facilities.

The District has reviewed the applicability of GASB 51, which addresses the reporting of intangible assets. Included under the definition of intangible assets are water rights if they are identifiable. GASB 51, leaves the reporting of intangible assets acquired prior to the effective date June 15, 2009, with an indefinite life as an option to the reporting entity. For these reasons, the District has determined that any water rights value is included in the fixed assets as reported. Future District intangible assets will be reported on the District's financial statements under GASB 51.

NOTE 4 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The District has active construction projects as of December 31, 2022, in the amount of $ $17,065,036; these are included in Construction in progress on the Statement of Net Position.

As of December 31, 2022, the District's significant commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment	Total Contract
Judy Reservoir to Mount Vernon Transmission Line-Phase II	$ 28,447,456	$ 7,960,386	$ 36,407,842
Core & Main	0	366,000	366,000
Water Treatment Plant Backwash Pump & Generator Replacement	147,831	352,169	500,000
ICONIX Waterworks	0	245,690	245,690
Panorama Storage Tank	20,342	240,936	261,278
Badger Meter	129,565	229,710	359,275
PUD Campus Replacement	1,362,275	150,897	1,513,172
Security Solutions	0	138,047	138,047
HD Fowler	0	128,927	128,927
Little Mountain Road, East Blackburn Road to Amick Road	1,141,667	117,299	1,258,966
Water Treatment Plant SCADA	0	100,980	100,980
Timmons Group	19,103	67,222	86,325
Water Treatment Plant Scrubber	1,279,505	46,757	1,326,262
Gilligan Creek Road Slide	424,907	34,701	459,608
Driver Road Satterlee Pipeline Project	346,831	32,423	379,254
WSDOT SR534 Pipeline Relocation	38,636	30,630	69,266
	$ 33,358,118	**$ 10,242,774**	**$ 43,600,892**

The $10,242,774 of committed balance will utilize the District's existing Public Works Trust Fund and Drinking Water loans along with the water rate revenue to fund these capital projects and additional 2023 Capital Improvements.

NOTE 5 – LONG-TERM DEBT

Long-Term Debt

The District issues revenue bonds and has loans obtained through State and Federal programs to finance the acquisition of property, equipment or construction of improvements or replacements of the existing water infrastructure per the capital improvement schedule. All District long-term debt is repaid using the water rate revenue and receipts from special assessments.

In 2020, the District issued a $25,000,000 Direct Placement Water Revenue Improvement and Refunding Bond. The twenty-year bond was issued at par and bears interest at 2.65 percent. In 2020, the $12,185,952 of proceeds was primarily used to refund the outstanding principal balance of Water Revenue Bonds issued in 2009, 2016, and 2017. The remaining $12,814,048 was drawn down during 2021 to fund the District's capital improvement plan. The remaining $4,648,333 of restricted bond funds was applied to capital projects during 2022.

See Note 1 – Summary of Significant Accounting Policies

Long-term debt currently outstanding are as follows:

	Maturity Range	Stated Interest Rate	Original Amount	Amount of Installment
Direct Placement, 2020 (Water Revenue Bond)	2020 - 2040	2.65%	25,000,000	1,074,440
Drinking Water State Revolving Fund Loan #DM13-952-134	2018 - 2037	1.50%	10,004,050	500,202
Drinking Water State Revolving Fund Loan #DWL23457	2019 - 2039	1.50%	872,077	48,084
Drinking Water State Revolving Fund Loan #DWL26061	2022 - 2041	1.75%	5,050,000	239,477
Drinking Water State Revolving Fund Loan #DWL26061	2022 - 2041	1.75%	13,000,000	*
Public Works Board Loan# PC12-951-059	2013 - 2031	0.25%	3,342,154	176,282
Public Works Board Loan# PC20-96103-058	2020 - 2039	1.08%	6,495,000	356,538
Department of Ecology Loan# EL170140	2019-2038	2.00%	1,156,612	52,560
Public Works Board Loan#	2023-2042	0.94%	9,500,000	475,000
Totals			74,419,893	2,922,583

*Amortization Schedule Finalized at Completion of Project

The annual debt service requirements to maturity for debt from direct placements are as follows:

Year Ending Dec 31st	Direct Placement Bonds Debt Service Principal	Interest	Total
2023	1,074,440	609,955	1,684,395
2024	1,102,912	582,679	1,685,591
2025	1,132,140	551,454	1,683,594
2026	1,162,142	521,036	1,683,178
2027	1,192,938	489,811	1,682,749
2028 - 2032	6,455,974	1,953,082	8,409,056
2033 - 2037	7,357,947	1,036,913	8,394,860
2038 - 2041	3,223,391	130,476	3,353,867
Totals	$ 22,701,884	$ 5,875,406	$ 28,577,290

The annual debt service requirements to maturity for debt from State Loans are as follows:

Year Ending Dec 31st	State Loans Payable Debt Service Principal	Interest	Total
2023	1,848,143	369,640	2,217,783
2024	1,830,843	351,740	2,182,583
2025	1,831,925	334,084	2,166,009
2026	1,833,029	316,272	2,149,301
2027	1,834,155	298,439	2,132,594
2028 - 2032	9,012,204	1,223,893	10,236,097
2033 - 2037	8,338,848	780,825	9,119,673
2038 - 2043	4,769,298	533,777	5,303,075
Totals	$ 31,298,445	$ 4,208,670	$ 35,507,115

As of December 31, 2022, the District has $ $2,171,313 available in debt service funds to service the direct placement water revenue bonds and state loans.

The District is in compliance with all significant limitations and restrictions associated with their bonds including with federal arbitrage requirements. The District spends bond proceeds within the allowable period of time to avoid a negative arbitrage position.

Changes in Long-term Liabilities

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

Description	**Beginning Balance 1/1/2022**	**Additions**	**Reductions**	**Ending Balance 12/31/2022**	**Due within one Year**
Debt from Direct Placements					
Direct Placement	23,584,986	0	883,100	22,701,886	1,074,440
Total Direct Placement Payable	23,584,986	0	883,100	22,701,886	1,074,440
Long-term Debt Payable					
Drinking Water Revolving Fund Loans	8,936,372	10,400,055	903,466	18,432,961	787,763
Department of Ecology Loan	1,032,607	0	51,520	981,087	52,560
Public Works Trust Fund Loans	3,702,072	14,065,923	1,095,368	16,672,627	1,007,820
Total Long-term Debt Payable	13,671,051	24,465,978	2,050,354	36,086,675	1,848,143
Other Long-term Liabilities					
Compensated Absences	1,240,537	949,337	861,159	1,328,715	N/A
Pension Liability	565,114	686,320		1,251,434	N/A
Total OPEB Liability	276,103	122,581		398,684	N/A
Total Other Long-term Liabilities	2,081,754	1,758,238	861,159	2,978,833	0
Total Long-term Liabilities	$ 39,337,791	$ 26,224,216	$ 3,794,613	$ 61,767,394	$ 2,922,583

NOTE 6 – SPECIAL ASSESSMENTS

The District receives annual installments on outstanding special assessments, which have remaining terms ranging from 1 to 13 years. Outstanding assessment receivables consist of current and delinquent assessments and related interest and penalties. As of December 31, 2022, $58,636 of the special assessments and penalties was delinquent. There are liens filed for each assessed parcel, which improves our ability of collecting these receivables even though they are delinquent.

NOTE 7 – TELECOMMUNICATION SERVICES

In 2009, the District started providing wholesale telecommunications services to Internet Service Providers. At the end of 2020, the District transferred the wholesale telecommunications services to Skagit Net.

See Note 12 – Joint Ventures

NOTE 8 – PENSION PLANS

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

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	(1,286,489)
Pension assets	$	2,167,820
Deferred outflows of resources	$	2,292,693
Deferred inflows of resources	$	(2,314,727)
Pension expense	$	(156,357)

State Sponsored Pension Plans

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

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

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

Or the DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

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

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

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:

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

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's sixty 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 twelve months of that service are earned after age 44.

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

Contributions
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 payrolls) for 2022 were as follows:

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

The District's actual PERS plan contributions were $4,731 to PERS Plan 1 and $481,481 to PERS Plan 2/3 for the year ended December 31, 2022.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 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:** 7.0%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OAS 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 his or her lifetime.

Change in Assumptions and Methods: Actuarial results that OSA provided within this publication reflect the following changes in assumptions and methods:

Assumption Changes:

- Updated the Joint-and-Survivor Factors and Early Retirement Factors in our model. These 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 recently provided to DRS for future implementation that reflect current demographic and economic assumptions.

- Updated the economic assumptions based on the 2021 action of the PFC Retirement Board. The investment return assumption was reduced from 7.50 to 7.00 percent, and the salary growth assumption was lowered from 3.5 to 3.25 percent. This action is a result of recommendations from our biennial economic experience study; please see the full report for additional details.

Method Changes:

- Methods did not change from the prior contribution rate setting June 30, 2019, Actuarial Valuation Report (AVR). We introduced a temporary method change to produce asset and liability measures for the June 30, 2020, AVR; please see the Actuarial Assumptions and Methods section of the 2020 AVR for more information.

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

Long-Term Expected Rate of Return
OSA selected a 7.0percent long-term expected rate of return on pension plan investments using a building block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns the WSIB provided.

The CMAs contain three pieces of information for each class of assets WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times.

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

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
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%
Total	100%	

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

	1% Decrease (6.0%)		Current Discount Rate (7.0%)		1% Increase (8.0%)	
PERS Plan 1	$	1,718,732	$	1,286,489	$	909,243
PERS Plan 2/3	$	2,552,891	$	(2,167,820)	$	(6,046,182)

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

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

Pension Liability (or Asset)		
PERS Plan 1	$	1,286,489
PERS Plan 2/3	$	(2,167,820)

On June 30, 2022, 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 Plan 1	0.046274%	0.046204%	-0.000070%
PERS Plan 2/3	0.057912%	0.058451%	0.000539%

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* for all plans except LEOFF 1.

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

Pension Expense		
PERS Plan 1	$	590,664
PERS Plan 2/3	$	(747,021)

Deferred Outflows of Resources and Deferred Inflows of Resources
On December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(213,209)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	166,257	
TOTAL	**$ 166,257**	**$ (213,209)**

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 537,135	$ (49,074)
Net difference between projected and actual investment earnings on pension plan investments	-	(1,602,685)
Changes of assumptions	1,208,260	(316,366)
Changes in proportion and differences between contributions and proportionate share of contributions	104,271	(133,393)
Contributions subsequent to the measurement date	276,770	
TOTAL	**$ 2,126,436**	**$ (2,101,518)**

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, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2023	$ (90,226)	$ (528,037)
2024	(81,948)	(448,515)
2025	(102,802)	(515,779)
2026	61,766	735,727
2027	-	252,046
Thereafter	-	252,711
Total	**$ (213,209)**	**$ (251,847)**

Deferred Compensation Plans
The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan provides employees an opportunity to voluntarily defer contributions through a pre-tax payroll deduction up to the amount established annually by the Internal

Revenue Service (IRS). Deferred compensation is available to employees' following separation of employment, retirement, death, or an unforeseeable emergency without penalty as defined in the IRS Code. The plan assets are held in trust for the exclusive benefit of participants and their beneficiaries and are not included in the District's financial statements.

There are two plans available to all District employees. One is administered through the Washington State Department of Retirement Systems (DRS) and the other through Empower Retirement. All contributions are made by the employee.

Western Conference of Teamsters Pension Plan
All represented full-time and qualifying part-time employees participate in the Western Conference of Teamsters Pension Plan (the Plan) administered by the Western Conference of Teamsters Pension Trust Fund Board of Trustees, under a cost-sharing, multiple-employer defined benefit pension plan. The Board of Trustees has the power to amend or terminate the Plan. Additional information can be obtained by writing to Western Conference of Teamster Pension Trust Plan, 2323 Eastlake Avenue East, Seattle, WA 98102.

The District began participation in the Plan per the collective-bargaining agreement effective January 1, 2013. The District's contributions are defined as $0.50 per paid hour by the District for represented employees. Effective January 1, 2018, the represented employees agreed to the contribution rate of $3.25 per paid hour by the District and are able to increase the rate at the beginning of the year. The current collective-bargaining agreement expires December 31, 2024.

The Plan provides retirement, disability, and death benefits. Retirement benefits are determined by applying the benefit percentage to the total annual contributions for each year and adding all the results for all years together for the monthly contributory service benefit. The benefit percentage differs year to year. Participants are eligible for retirement with at least five years of vesting service at age 55, or two years of vesting service at age 65. Members retiring prior to age 65 may receive reduced benefits.

Additional details of the Plan are as follows:

For the year ended December 31, 2022	
Number of employees covered	37
Amount of contributions	$36,955
Employer contribution rate	$ 0.50 per hour paid
Employee contribution rate	$ 3.25 per hour paid

The District contributed 100 percent of its required amount for year ending December 31, 2022. If, the District chooses to stop participating in the plan, the District may be required to pay the plan an amount based on the underfunded status of the plan. However, cessation of participation is subject to the collective bargaining process, thus there is no unfunded liability on the District's part.

NOTE 9 – CONTINGENCIES AND LITIGATIONS

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

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

NOTE 10 – RISK MANAGEMENT

Liability and Property - Enduris

The District is a member of Enduris Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to individually or jointly self-insured risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987, pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of February 27, 2022, there were 527 members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention. The self-insured retention is:

- $1,000,000 self-insured retention on liability loss - the member is responsible for the first $1,000 of the amount of each claim, while Enduris is responsible for the remaining $999,000 on a liability loss.
- $250,000 self-insured retention on property loss - the member is responsible for the first $1,000 of the amount of each claim, while Enduris is responsible for the remaining $249,000 on a property loss.
- Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values.

The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $800 million per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a minimum of one year and must give notice sixty days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven board members governs Enduris. Its members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Enduris did not have any claim settlements that exceeded limits in the last three years.

Liability and Property - PURMS
The District was formerly a member of the Public Utility Risk Management Services Self-Insurance fund (PURMS) for liability and property. After termination of membership, the District is still responsible for contributions for its share of any unresolved, unreported and in-process claims for the period of membership. During 2022, the District paid $936 for liability general assessments to PURMS.

As of December 31, 2022, there were 95 known incidents or unresolved liability claims pending against one or more members or former members of the liability pool ("pending liability claims"). The total dollar amount of the risk posed by these pending liability claims to such members and the liability pool itself is not precisely determinable and can only be estimated by the Administrator. However, the case reserves set by the Administrator for these claims is $237,971.

Because the total dollar amount of the risk posed by the liability pool's "unpaid claims" liability is based on case reserves estimated by the Administrator and because the amount of “incurred but not reported” claims is based on an actuarial report prepared by PURMS’ Actuary, the letter provides no opinion and makes no representation as to the risk total "unpaid claims" liability at any confidence level poses to the solvency of the pool. However, as a contractual matter, the inter-local agreement requires participating members to pay their assessments within thirty days of the date they are issued.

Health & Welfare Risk Pool
PURMS provides health and welfare insurance coverage for the employees of each of its Members participating in the Health & Welfare Risk 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 was established as one of PURMS’ risk pools effective March 31, 2000.

Under the terms of the Interlocal Agreement and the H&W General Assessment Formula, the H&W Pool is funded with cash reserves (H&W Pool Reserves) in an amount approximately equal to the sum of three times the amount of each Member’s historical average monthly H&W Claims Experience (Pool Claims Experience Reserves) for its respective Employees and their Dependents. Unless required otherwise by the H&W Pool Funding Methodology, the Pool Claims Experience Reserves is deemed to be its designated H&W Pool Reserves. The H&W Pool Members’ H&W Claims Experience was reevaluated and recalculated in July 2020, establishing the Designated H&W Pool Reserves at $4,028,344. Specifically, under the H&W Assessment Formula, each month, each member 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; 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.

PURMS and each of PURMS risk pools are audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides audited financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools. On an annual basis, PURMS engages the services of the accounting firm Moss Adams to perform a claims audit for each of the Risk Pools.

Unemployment Compensation - Reimbursable

Unemployment benefits are provided by the District as a "reimbursable employer" with the Washington State Employment Security Department (ESD). The reimbursable status is considered self-insurance and entities must be approved for this status by ESD. Unemployment claims are managed, approved, and paid by the ESD, which is then reimbursed by the District for all claims paid on our behalf. As a result, the District will experience periods of fluctuating costs, depending on the number and size of eligible claims each year. These costs are immaterial to the District's financial statements.

Historical Unemployment Compensation Utilization:

Year	# of Claims	Amount
2022	0	$ -
2021	1	$ 6,083
2020	1	$ 6,054

Worker's Compensation - Taxable

The District has been assigned a rate by the Department of Labor and Industries that is applied to applicable wages. The District makes quarterly payments to the Department of Labor and Industries, which reassesses the rate annually. The taxable basis is not considered self-insurance.

Washington Paid Family & Medical Leave – Voluntary Plan

The District applied for and received approval from the Washington State Employment Security Department to administer a Paid Family & Medical Leave (PFML) voluntary plan. The plan is administered internally by the District and is considered self-insurance. The District will experience periods of fluctuating costs, depending on the number and size of eligible claims each year. These costs are immaterial to the District's financial statements.

Historical Washington Paid Family & Medical Leave Utilization:

Year	# of Claims	Amount
2022	5	$40,055
2021	8	$28,920
2020	9	$40,131

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

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

Aggregate OPEB Amounts - All Plans	
OPEB Liabilities	($398,684)
OPEB Assets	$0
Deferred outflows of resources	$342,740
Deferred inflows of resources	($1,059,306)
OPEB expenses	($84,003)

Plan Description

In addition to the pension benefits described in Note 8, the District provides a single-employer health and welfare benefit plan in accordance with RCW 41.04.208. The Skagit County PUD Postretirement Health Plan was established and may be amended by action of the Skagit PUD Board of Commissioners and is provided through the Public Utility Risk Management Services (PURMS).

All employees that meet PERS retirement requirements are eligible to participate in the District's postretirement health plan. In addition, Commissioners who serve at least one six-year term and have been re-elected for a second term of office shall be eligible for coverage under this policy. Employees and commissioners must opt into the postretirement health plan at the time of separation. The surviving spouse of a retiree who is covered at the time of the retiree's death may continue his/her coverage until the time of the surviving spouse's death. A new spouse to a surviving spouse is not eligible for this coverage. In the event of a divorce after retirement, the divorced spouse of the retired employee will not be eligible to remain on the District's plan. COBRA benefits will be offered to the divorced spouse according to statutory regulations.

Funding Policy

The District establishes contribution requirements on an annual basis. Plan contributions for retirees are reduced upon eligibility for Medicare, regardless if Medicare enrollment occurs. The premium charged to the retirees is based on the District's experience for all members of its health and welfare plan, as determined by the PURMS Self-Insurance Fund. Costs in excess of the retirees' contributions are covered by the District on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. The District's OPEB plan contributions were $ 84,003 for the year ended December 31, 2022.

Employees Covered by Benefit Terms

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

Health Benefits	
Retirees receiving benefits	21
Spouses of current retirees	10
Surviving spouses receiving benefits	2
Active employees	84
Total	117

Actuarial Cost Method and Assumptions

The District's Total OPEB Liability is calculated using the Entry Age Actuarial Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each active employee included in the valuation is allocated as a level percentage of pay for each year of employment between entry age (age at hire) and assumed exit age (until maximum retirement age). The portion of this actuarial present value allocated to a valuation year is called the service cost for each active employee. The sum of these individual service costs is the Plan's Service Cost for the valuation year. The present value of benefits for current retirees plus the accumulated value of all prior Service Costs is the Total OPEB Liability. These actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Assumptions regarding retirement, disability, turnover, mortality, and spousal age are based upon the Washington State Public Employee's Retirement System (PERS) Plan 2 as shown in the *2007-2012 Experience Study* by the office of the State Actuary for the Washington State Public Retirement System. Most active members at the District are covered under PERS 2. The discount rate is based upon 20 Year Tax-Exempt Municipal Bond Yield.

Assumptions	
Discount Rate	2.06%
Inflation Rate	2.30%
Wage Scale	3.05%
Health Care Trend Rate	5.20%

Sensitivity Analysis

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

	1% Decrease (1.06%)	Current Discount Rate (2.06%)	1% Increase (3.06%)
Total December 31, 2022 OPEB liability	$361,133	$398,684	$439,389

The following presents the total OPEB liability of the District, calculated using the current healthcare cost trend rate of 5.2 percent, as well as what the District's OPEB liability would be if it were calculated using trend rate that is one percentage point lower (4.2 percent) or one percentage point higher (6.2 percent) than the current trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total December 31, 2022 OPEB liability	$407,121	$398,684	$384,378

Changes in Total OPEB Liability

Changes in Total OPEB Liability		Increase (Decrease) Total OPEB Liability
Balance as of December 31, 2021	$	276,103
Changes for the year:		
Service cost		29,043
Interest on total OPEB liability		6,267
Effect of plan changes		0
Effect of economic/demographic gains or losses		172,045
Effect of assumptions changes or inputs		(65,625)
Expected benefit payments		(19,149)
Balance as of December 31, 2022	$	398,684

The Total OPEB Liability was determined using the most recent census date of December 31, 2021, with an actuarial valuation date of January 1, 2022. This is the date as of which the census data is gathered, and the actuarial valuation is performed. The Total OPEB Liability was calculated as of the valuation date with a measurement date of December 31, 2021.

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

- The medical trend rates were updated to better anticipate future increases
- The discount rate was decreased from 2.12% to 2.06%, based on the 20 Year Tax-Exempt Municipal Bond Yield
- The inflation rate remained the same at 2.3%
- Retiree claims costs were updated to reflect the most recent experience as well as current demographic data

The benefit terms did not change since the last valuation.

For the year ended December 31, 2022, the District recognized ($84,003) of OPEB expense.

Deferred Outflows of Resources and Deferred Inflows of Resources
On December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience		$305,932
Changes of assumptions	($1,059,306)	$23,431
Payments subsequent to the measurement date	N/A	$13,377
Total	($1,059,306)	$342,740

Deferred outflows of resources include $13,377 resulting from payments subsequent to the measurement date to be recognized as a reduction of the total OPEB liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2022	($119,313)
2023	($119,313)
2024	($119,313)
2025	($119,313)
2026	($124,107)
Thereafter	($128,584)

NOTE 12 – JOINT VENTURES

In May of 2018, the District, along with the Port of Skagit County, entered into an operating agreement creating SkagitNet LLC. The purpose of the newly formed entity is a partnership between the District and the Port to jointly own and operate a network of open access wholesale telecommunication services to the residents, businesses, and public agencies in Skagit County.
SkagitNet LLC is jointly governed by the District's Board of Commissioners and Port Commission.

Net profit or net loss for any fiscal year of SkagitNet, LLC shall be allocated among the members in accordance with their respective percentage interests, using formulas as set forth in the Joint Network Interlocal Operating Agreement of SkagitNet, LLC, dated and effective as of May 16, 2018. The investment in SkagitNet LLC consists of the District's fifty percent share of equity of $31,278. Summarized financial information of the joint venture for December 31, 2022, is as follows:

	2022	50% Share
Current Assets	$ 63,461	$ 31,731
Total Assets	$ 63,461	$ 31,731
Current Liabilities	$ 906	$ 453
Tota Liabilities	906	453
Member Equity - Port of Skagit	11,395	
Member Equity - PUD #1	11,395	
Retained Earnings	94,250	47,125
Net Income	(54,485)	(27,243)
Total Equity	62,555	31,278
Total	$ 63,461	$ 31,731

Financial Statements are prepared and submitted to the Washington State Auditor each year.

NOTE 13 – ASSET RETIREMENT OBLIGATIONS (ARO)

The District has evaluated potential asset retirement obligations associated with the retirement of tangible capital assets and has identified the following:

- Decommissioning of the wells servicing satellite systems
- Decommissioning of the earthen impounded reservoir at the Water Treatment Plant

The Department of Ecology requires specific steps to be taken when decommissioning a well. Based upon these requirements, an ARO has been determined for the wells servicing satellite systems. Based upon the cost for a well the District recently decommissioned, a cost per foot in depth was calculated and applied to the depth of each current well. A total estimate of $29,220 was calculated for the wells. This has been amortized over the remaining lives of each well, which ranges from 3 years to 18 years. In 2022 $5,621 was amortized.

As the District has no plans to retire the earthen impounded reservoir at the Water Treatment Plant, the timing and extent of any liabilities associated with operations is not determinable at this time. An ARO will be recorded if future events warrant a change.

NOTE 14 – SUBSEQUENT EVENTS

The district and the City of Mount Vernon entered into an in-kind lease agreement for two parcels of land in 2001. The agreement allowed the city to use district property as playfields and in exchange the city provided a land easement for the Skyridge Reservoir. The original lease expired in 2021, but due to communication issues during the COVID pandemic was not clearly defined by both parties. A new agreement with the city of Mount Vernon was signed in April 2023. In exchange for $200,000, and a new water meter service the city will relinquish their use of district land for playfields and will extend the land easement for the Skyridge Reservoir for fifteen more years.

NOTE 15 – COVID-19 PANDEMIC

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

The District proactively implemented safety measures, and operations have continued with many District employees working remotely, and new procedures have been put into place. The District continues to monitor the situation for any operational or financial effects and is ready to respond appropriately as needed.

On September 8, 2022, Governor Jay Inslee announced the rescission of all remaining COVID-19 emergency proclamations and state of emergency by October 31, 2022.

NOTE 16 – LEASES

Per GASB 87, Leases, The District completed a comprehensive review of all contracts to determine which, if any, conveyed the right to use another entity's nonfinancial asset in an exchange or exchange-like transaction.

The district currently is not the lessee of any qualifying noncancelable leases.

The district is the lessor of one qualifying non-cancelable lease. The district owns a water reservoir and leases space to tele-com company for their cell tower and equipment. The lease was entered into in 1999 and is in the final renewal period with an end date of 2024. This is not a material part of the district's operations and is provided as supplemental information.

As of December 31, 2022, future lease receivables are as follows:

Year ended December 31	Total Receivables	Principal	Interest	Lease Balance
				$49,509
Year 1	$24,883	$23,555	$1,327	$24,626
Year 2	$24,626	$24,177	$449	$0
Total	$49,509	$47,732	$1,776	

REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2022

Schedule of Changes in Total OPEB Liability and Related Ratios

	Fiscal Year Ending				
	2022	**2021**	**2020**	**2019**	**2018**
Total OPEB Liability - beginning	$276,103	$288,990	$ 1,406,449	$ 1,460,733	$ 1,363,177
Service Cost	29,043	26,153	59,834	68,847	61,878
Interest on total OPEB liability	6,267	8,104	58,545	51,373	52,583
Effects of plan changes	0	0	0	0	0
Effect of assumption changes or inputs	(65,625)	(8,088)	(1,383,636)	(101,560)	51,656
Expected benefit payments	(19,149)	(39,056)	(77,453)	(72,944)	(68,561)
Effect of economic/demographic gains or (losses)	172,045	0	225,251	0	0
Total OPEB Liability - ending	$398,684	$276,103	$288,990	$1,406,449	$1,460,733
Covered employee payroll	$ 7,256,659	$ 7,087,891	$ 6,784,587	$ 6,460,072	$ 5,976,287
Total OPEB liability as a % of covered payroll	5.49%	3.90%	4.26%	21.77%	24.44%

Notes to Schedules:
Until a full 10-year trend is compiled, only information for those years available is presented.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

The medical trend rate assumes that over time, deductibles, and out-of-pocket maximums will be periodically adjusted as medical trends change.

The discount rate used is 2.06 percent based upon a 20 Year Tax-Exempt Municipal Bond Yield.

See accompanying Note 11 to the Financial Statements

Pension Plans – State Sponsored

Public Utility District No 1 of Skagit County
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2022

Last 10 Fiscal Years*

PERS 1

	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.044945%	0.046274%	0.049215%	0.047425%	0.043669%	0.046518%	0.053832%	0.050722%
Employer's proportionate share of the net pension liability	$ 1,251,434	$ 565,114	$ 1,737,555	$ 1,823,660	$ 1,950,272	$ 2,207,315	$ 2,891,032	$ 2,653,232
Covered payroll	$ 7,307,690	$ 6,999,248	$ 7,215,225	$ 6,482,434	$ 5,659,252	$ 5,711,522	$ 6,202,730	$ 5,522,457
Employer's proportionate share of the net pension liability as a percentage of covered payroll	17.12%	8.07%	24.08%	28.13%	34.46%	38.65%	46.61%	48.04%
Plan fiduciary net position as a percentage of the total pension liability	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

Public Utility District No 1 of Skagit County
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2022

Last 10 Fiscal Years*

PERS 2/3

	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.058451%	0.057912%	0.060568%	0.058473%	0.053541%	0.057049%	0.063301%	0.059616%
Employer's proportionate share of the net pension liability (asset)	$ (2,167,820)	$ (5,768,967)	$ 774,630	$ 567,972	$ 914,165	$ 1,982,180	$ 3,187,155	$ 2,130,114
Covered payroll	$ 7,232,821	$ 6,926,576	$ 7,083,888	$ 6,357,905	$ 5,553,895	$ 5,593,115	$ 5,974,189	$ 5,289,649
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	-29.97%	-83.29%	10.94%	8.93%	16.46%	35.44%	53.35%	40.27%
Plan fiduciary net position as a percentage of the total pension liability (asset)	106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

Public Utility District No 1 of Skagit County
Schedule of Employer Contributions
For the year ended December 31, 2022

Last 10 Fiscal Years*

PERS 1

		2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$	288,925	308,676	342,285	345,052	330,551	300,775	290,163	263,235
Contributions in relation to the statutorily or contractually required contributions	$	(288,925)	(308,676)	(342,285)	(345,052)	(330,551)	(300,775)	(290,163)	(263,235)
Contribution deficiency (excess)	$	0	0	0	0	0	0	0	0
Covered payroll	$	7,617,406	7,048,626	6,978,950	6,784,587	6,352,604	5,976,287	5,882,031	5,723,298
Contributions as a percentage of covered payroll	%	3.79%	4.38%	4.90%	5.09%	5.20%	5.03%	4.93%	4.60%

Public Utility District No 1 of Skagit County
Schedule of Employer Contributions
For the year ended December 31, 2022

Last 10 Fiscal Years*

PERS 2/3

		2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$	481,481	499,360	545,123	514,237	467,519	402,575	356,862	316,951
Contributions in relation to the statutorily or contractually required contributions	$	(481,481)	(499,360)	(545,123)	(514,237)	(467,519)	(402,575)	(356,862)	(316,951)
Contribution deficiency (excess)	$	0	0	0	0	0	0	0	0
Covered payroll	$	7,570,425	6,974,898	6,882,850	6,657,465	6,233,660	5,861,451	5,728,101	5,484,244
Contributions as a percentage of covered payroll	%	6.36%	7.16%	7.92%	7.72%	7.50%	6.87%	6.23%	5.78%

*Until a full 10-year trend is compiled, only information for those years available is presented.

Notes to Schedules:
The following are assumptions and methods as of June 30, 2022, are:

- The total pension liability (TPL) was determined by an actuarial valuation as of June 30, 2021, with the results rolled forward to June 30, 2022. The actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' *Annual Comprehensive Financial Report* located on the DRS employer-resource GASB webpage. These assumptions reflect the results of OSA's *2013-2018 Demographic Experience Study Report* and the *2021 Economic Experience Study*.

- Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. 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: 2.20% total economic inflation; 3.25% salary inflation
- Salary Increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.00%
- Mortality rates were developed using the Society of Actuaries Pub. H-2010 mortality rates as a base table. OSA applied age offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using MP-2017 generational improvement scale.

Assumption Changes:

- Updated the Joint-and-Survivor Factors and Early Retirement Factors in the model.
- Reduced the economic assumptions for investment returns 7.00 percent, and the salary growth assumption was lowered to 3.25 percent.

Method Changes:
Methods did not change from the prior contribution rate setting June 30, 2019, Actuarial Valuation Report (AVR).

See accompanying Note 8 to the Financial Statements

Western Conference of Teamsters Pension Plan

Year ended December 31*	District Contributions	Covered Employees
2022	$36,955	37
2021	$35,202	34
2020	$36,832	34
2019	$36,570	36
2018	$37,880	38
2017	$37,919	37
2016	$34,863	35
2015	$36,458	35
2014	$35,332	36
2013	$34,090	33

Notes to Schedule:
As of the date of this schedule, there have not been any changes to the benefit terms. The employer rate of 50¢ per hour paid has not changed during the current year.

See accompanying Note 8 to the Financial Statements

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

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
Drinking Water State Revolving Fund Cluster								
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via Department of Health)	Drinking Water State Revolving Fund	66.468	DWL27113	1,340,103	-	1,340,103	-	1,2,3
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via Department of Health)	Drinking Water State Revolving Fund	66.468	DWL27113	4,500,000	-	4,500,000	-	1,2,3
Total Drinking Water State Revolving Fund Cluster:				**5,840,103**	**-**	**5,840,103**	-	
Total Federal Awards Expended:				**5,840,103**	**-**	**5,840,103**	**-**	

The accompanying notes are an integral part of this schedule.

Public Utility District No. 1 of Skagit County

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2022

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the District's financial statements. The District uses the economic resources measurement focus and full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of cash flows.

Note 2 – Federal De Minimis Indirect Cost Rate

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

Note 3 – Federal Loans

The District was approved by the Environmental Protection Agency and the Public Works Board to receive loans totaling $18,000,000 to improve its drinking water system. The amount listed for these loans includes the beginning of the period loan balance plus proceeds used during the year. The balance owing at the end of the period is $18,432,961.

ABOUT THE STATE AUDITOR'S OFFICE

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