Office of the Washington State Auditor
Pat McCarthy

January 11, 2024

Board of Commissioners
Public Utility District No. 1 of Kittitas County
Ellensburg, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of Public Utility District No. 1 of Kittitas County for the fiscal year ended December 31, 2022. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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PUBLIC UTILITY DISTRICT NO. 1
OF KITTITAS COUNTY, WASHINGTON

Financial Report
December 31, 2022

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December 31, 2022

DECORIA, BLAIR & TEAGUE, PS

Certified Public Accountants
Business Consultants
Micheal A. DeCoria, CPA
Brandon J. Blair, CPA
David W. Teague, CPA

Independent Auditor's Report

Board of Commissioners
Public Utility District No. 1 of Kittitas County, Washington
Ellensburg, Washington

Opinion

We have audited the accompanying financial statements of Public Utility District No. 1 of Kittitas County, Washington (the "District") which are comprised of the statement of net position as of December 31, 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Kittitas County, Washington as of December 31, 2022, and the respective changes in its financial position and its cash flows 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 Public Utility District No. 1 of Kittitas County, Washington 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 the 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 within one year after the date that the financial statements are available to be issued.

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, including omissions, 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.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- 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.

We are required to 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 on pages 4 through 10, the schedules of employer's share of the net pension liability (asset) and employer contributions on pages 41 through 44, and the schedule for the other postemployment benefit plan on page 46, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated June 27, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The sole 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 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.

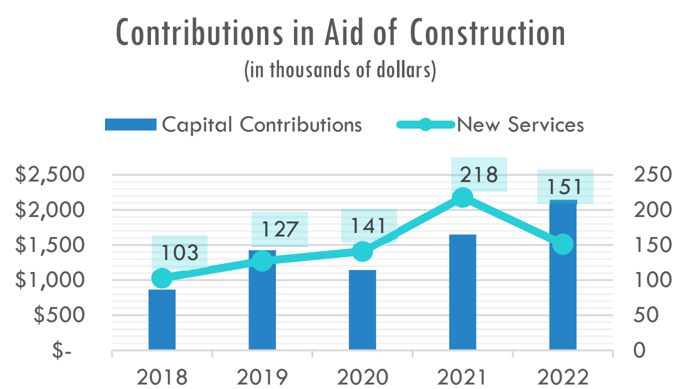
DeCoria, Blair & Teague, PS

DeCoria, Blair & Teague, P.S.
Spokane, Washington

June 27, 2023

The following discussion and analysis provides an overview of the financial activities of Public Utility District No. 1 of Kittitas County, Washington (the District) for the year ended December 31, 2022. This overview is designed to be used in conjunction with the accompanying financial statements, notes, and other supplementary information.

Financial Highlights



- Standard & Poor's has assigned the District a credit rating of A.
- The District did not implement any change to its retail electric rates in 2022.
- The District's low-income assistance program, which was originally implemented in July 2021, was updated in October 2022 to increase facility charge discounts for low-income households to $10 per month. In addition, the program was expanded to offer a payment voucher of up to $200 annually to households of qualifying seniors, people with disabilities, veterans, or active military personnel. The low-income assistance program is managed by HopeSource, a non-profit and community action agency in Kittitas County.
- Capital contributions, also known as contributions in aid of construction, are revenues resulting from customer requests for new or altered electric services. Customers requesting these construction projects are responsible for paying the cost, in accordance with the District's line extension policy, in order to prevent an impact on rates. Historically high capital contributions of $2.15 million were recognized in 2022, exceeding 2021 contributions by 30% despite a decrease of 31% in new service connections to 151 in 2022.
- Debt service coverage (DSC) demonstrates the ability to meet debt obligations even under unusual conditions. Bond covenants require a DSC of at least 1.25. The current DSC for the District is 2.95.
- The District produced a positive change in net position of approximately $4.55 million, an increase of 37% over 2021 and a key indicator of the District's financial strength.
- Capital expenditures of $6.0 million in 2022 were comparable to 2021. The District has substantially increased capital spending in recent years, with a heavy focus on replacement of aging infrastructure to ensure customers have access to reliable electric service for years to come. Capital projects completed or in progress during 2022 include:
    - Beverly Bridge Restoration Project – The crossarms, clamp pins, and hardware on 16 structures attached and adjacent to the historic Beverly Bridge were replaced and upgraded. The construction was completed in cooperation with the State of Washington as part of their Beverly Bridge Repair and Rehabilitation project. The State project included an upgrade to the decking of the bridge to allow recreationalists to traverse the bridge, as well as to provide District service vehicles access to repair and maintain electrical facilities. This power line crossing was rendered unusable due to a fire in 2014, which damaged the bridge and decking. The completion restores 4 megawatts (MW) of contracted power supply capacity to the District from Grant Public Utility District.
    - Bettas Road Substation Project – When complete, this new 20 megavolt-ampere (MVA) substation project will add capacity to meet future load growth and provide feeder

redundancy to the District between the Teanaway Station in the upper county and the Smithson Station in the lower county. Construction and supply chain delays caused postponement of the substation energization, which was previously expected to take place in November 2022.

- Lyons Road Reconductor Project – Just over two miles of three-phase copper distribution line was replaced in 2022. The replacement line is three-phase stranded aluminum lines built to current specifications, including a lowered neutral, fiberglass arms, clamp pins, and raptor/wildlife protection. The project improves power quality and provides additional capacity to the feeder serving District customers north and east of the town of Kittitas.
- Parke Creek Feeder P4 Getaway Project – Crews installed new underground substation getaway conductors, which are feeders that connect the substation to the existing distribution line, and just under one mile of three-phase stranded aluminum lines built to current specifications, including fiberglass arms, clamp pins, and raptor/wildlife protection. Completion of this project allows the District to reduce the load on Parke Feeder P3 by approximately 50% by shifting the load to the new Parke Feeder P4.
- Parke Creek Double Circuit Rebuild – The poles, crossarms, clamp pins, and hardware were replaced on a section of double circuit lines just under a half-mile long. The top circuit is a 35 kilovolt (kV) subtransmission line supporting the Parke Substation. The bottom circuit is the 12.5kV distribution Parke Feeder P3 supporting the town of Kittitas and Clerf Road area. Because a scheduled outage was necessary to safely complete the repairs, multiple crews worked during off-peak times to limit the impact of the outage on the customers receiving power from the Parke Substation.
- Vantage Highway Fire Rebuild Project – Emergency repairs were conducted to 31 poles damaged in a fire east of the town of Kittitas along Vantage Highway. The repairs allowed restoration of power to all customers affected by the outage. An additional one mile of line without customer connections was also damaged, but repairs were deferred until winter.
- Security Fencing and Gate Installation Project – Security fencing and automatic gates were installed at the District headquarters for improved access control and physical security of District vehicles, buildings, equipment, and materials.
- SCADA Implementation Project – Supervisory control and data acquisition (SCADA) infrastructure provides real-time communication to integrated field devices to maintain efficiency and distribute data for smarter decisions and proactive communication of system issues. Procurement, programming, engineering, installation, and testing of the SCADA communication infrastructure to a new master station and the integration of the first substation took place in 2022. Additional substations and field devices will continue to be integrated as budgets allow.
- Overhead Conductor and Pole Replacement Projects – Aging poles and lines were replaced throughout the District system. The upgrades improve the reliability, access, and capacity of the lines. In addition, load balance is improved, reducing line losses. Project areas are as follows:
  - Copper conductor replacements and new conductor installed: 27 miles total*
  - Other single pole locations: 124 new poles installed or old poles replaced*

*Includes Beverly Bridge Restoration, Lyons Road Reconductor, Parke Creek Feeder P4 Getaway, and Parke Creek Double Circuit Rebuild projects described above.

Overview of the Financial Statements

The financial statements of the District are designed to provide a broad overview of finances and report the activities of the District. The sale of electrical energy and construction of the infrastructure for delivery of energy are the major functions. The District reports finances similar to private sector business enterprises using the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America. Under this basis of accounting, revenues are recognized in the period they are earned, and expenses are recognized in the period they are incurred, regardless of the timing of related cash flows.

The Statement of Net Position presents the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. It provides information about the nature and amounts of investments in resources and the obligations to creditors of the District.

The Statement of Revenues, Expenses and Changes in Net Position provides operating results, non-operating revenues and expenses, and capital contributions.

The Statement of Cash Flows provides information about the District's cash receipts and cash payments during the year. This statement reports net changes in cash resulting from operations, investing, financing, and noncapital financing activities, if any.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the information provided in the statements described above.

Financial Analysis of the District as a Whole

The financial health of the District can be measured by changes in net position. The District's net position is the difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources. Increases or decreases in net position are one indicator of financial health. Other factors should also be considered.

Condensed Comparative Financial Information

Statements of Net Position **December 31**	**2022**	**2021**
Current Assets - Unrestricted	$ 5,110,746	$ 4,076,387
Current Assets - Restricted	3,050,555	2,703,902
Net Utility Plant	42,222,019	37,944,957
Other Noncurrent Assets	5,211,235	5,551,950
Deferred Outflows of Resources	441,516	157,168
Total Assets and Deferred Outflows of Resources	56,036,071	50,434,364
Current Liabilities	5,017,328	4,618,771
Noncurrent Liabilities	12,322,888	11,042,223
Deferred Inflows of Resources	513,289	1,142,367
Total Liabilities and Deferred Inflows of Resources	17,853,505	16,803,361
Net Investment in Capital Assets	29,517,544	26,496,484
Restricted Net Position	1,498,385	1,498,385
Unrestricted Net Position	7,166,637	5,636,134
Total Net Position	$ 38,182,566	$ 33,631,003

Statements of Revenues, Expenses and Changes in Net Position **Year Ended December 31**	**2022**	**2021**
Sales of Electricity	$ 13,073,817	$ 11,700,298
Other Operating Revenues	279,606	425,507
Total Operating Revenues	13,353,423	12,125,805
Cost of Power	4,943,818	4,605,370
Other Operating Expenses	6,051,018	5,749,421
Total Operating Expenses	10,994,836	10,354,791
Operating Income	2,358,587	1,771,014
Other Income and Expense	42,257	(99,983)
Capital Contributions	2,150,719	1,648,694
Changes in Net Position	4,551,563	3,319,725
Net Position, Beginning of Year	33,631,003	30,311,278
Net Position, End of Year	$ 38,182,566	$ 33,631,003

Certain amounts on the 2021 financials have been reclassified to conform with the 2022 presentation

Assets

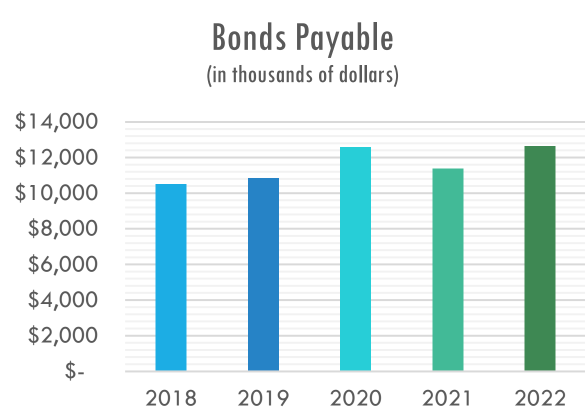
Total current assets increased 20% from 2021. Progress on construction projects during the year resulted in a substantial increase in retainage payable to vendors and consumer deposits for transformers, which is reflected in a $347 thousand increase in restricted investments. Cold temperatures in December 2022 drove higher customer electrical usage, resulting in an electric accounts receivable balance that was $275 thousand higher than at the end of the previous year. Additionally, miscellaneous receivables in the amount of $253 thousand outstanding at the end of the year included the surplus sale of a District service truck for $100 thousand, $70 thousand of capital contributions, proceeds from a Department of Commerce Community Economic Revitalization Board (CERB) grant for a broadband study in the amount of $47 thousand, and $25 thousand in insurance recoveries. Finally, materials and supplies inventory prices have gone up and the District has kept higher quantities on hand, resulting in a 47% increase in the balance at year-end.

Noncurrent assets increased by a total of 9% over 2021's year-end balances. Construction in progress increased by 157% compared to 2021 due to a large number of open customer projects, including several unusually large projects. Additionally, the District had substantial amounts recorded for several of its own open construction projects, including the Bettas Substation, Lyons Road, and SCADA master station implementation described earlier in this report.

During 2021, the District paid $1.6 million to Bonneville Power Administration (BPA) for upgrades associated with the construction of the Bettas Substation. The District will recover this payment, plus interest, over a period of up to 20 years in the form of credits on its BPA transmission invoices. The amount paid to BPA has been recorded as a regulatory asset.

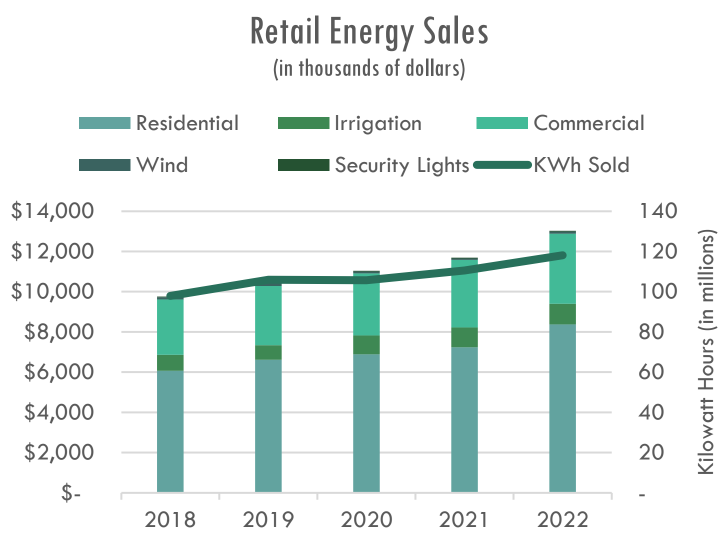
Also included in regulatory assets is the unamortized portion of a $825 thousand District contribution paid to Public Utility District No. 2 of Grant County in 2020 for increased capacity at a point of delivery. During 2022, the District recorded $27.5 thousand of amortization, resulting in an unamortized balance of $757 thousand at December 31, 2022.

Net pension asset, which represents the District's proportionate share of the collective net pension asset for the Washington State Public Employees' Retirement System (PERS) Plan 2, decreased 59% from the prior year's balance to $421 thousand. This resulted from changes in the 2022 actuarial valuation.



Liabilities

The balance in total current liabilities increased by 9% in 2022 compared to 2021. Amounts payable from restricted assets accounted for most of this increase. The District implemented a new component to line extension fees and charges in the form of a transformer deposit in 2021, which appeared for the first time on the financial statements in the amount of $248 thousand in 2022. This type of deposit is collected from customers requesting line extensions to housing developments as defined in the line extension policy, and is released based on the percentage of energized service connections, as defined in the customer's construction agreement.



Retainage payable to vendors is also included in the amounts payable from restricted assets. The District is statutorily required to withhold retainage of 5% from public improvement contracts until the project is completed and accepted. The total amount of retainage held by the District increased by 110% to $316 thousand by year-end 2022 due to work performed on the Bettas Substation and continued use of a contracted line crew for all operations, maintenance, and construction work.

Noncurrent liabilities fluctuate for principal payments on bond indebtedness annually based on repayment schedules. In 2022, the District borrowed $2.5 million against a revolving line of credit, driving a 12% increase in noncurrent liabilities.

Net other postemployment benefit obligation is primarily related to the District's participation in PEBB medical and dental benefit plans provided by the Washington State Health Care Authority. Deferred inflows of resources are primarily related to the District recording its proportionate share of the change in deferred inflows for the PERS plans provided by the Department of Retirement Systems.

The current ratio was 1.63 and 1.47 for 2022 and 2021, respectively.

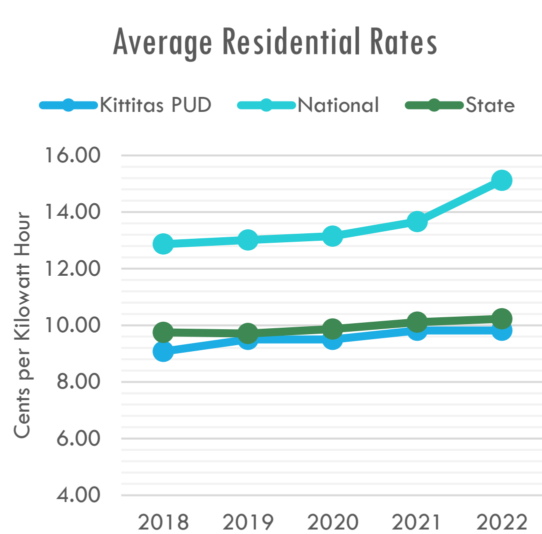
Net Position

Net investment in capital assets and restricted net position fluctuate with bond issuances, bond payments, and capital projects capitalized. Net investment in capital assets, net of related debt, increased by $3.0 million compared to 2021.

Net position increased in 2022 and 2021. Unrestricted net position can be used to finance the day-to-day operations of the District and is increased and decreased by earnings. The Board has designated funds for vehicle replacement. These funds are not subject to external restrictions like bond covenants or third-party contractual agreements, and as such are not included in restricted net position.

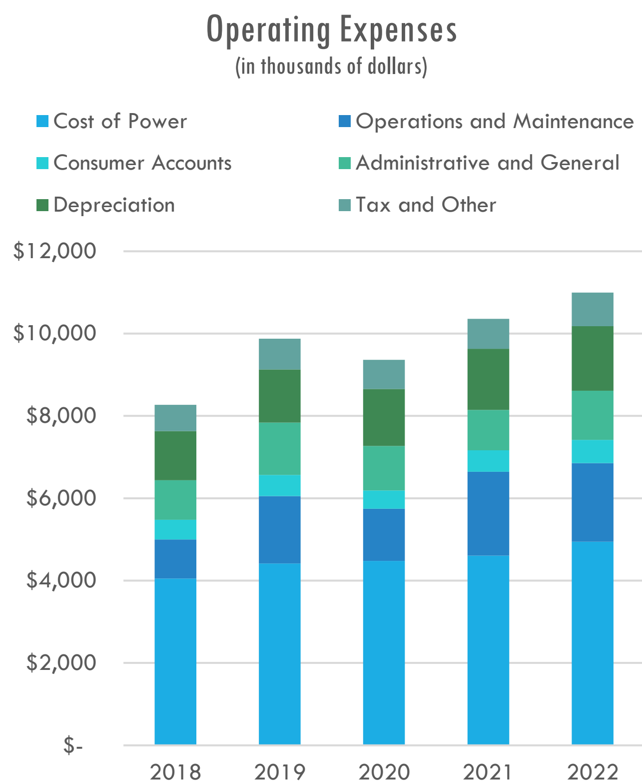
Revenues and Expenses

Total sales of electricity increased by 12% in 2022, as revenues within all rate classes rose. This can be explained in part by a rate increase implemented in



October 2021, and partly by a 7% increase in the amount of electricity sold over the course of 2022 when compared to 2021.

Other operating revenues decreased by 34% in 2022 after increasing in 2021 due to conservation revenues received from Bonneville Power Administration (BPA) for several re-conductor projects completed during the year.



In 2022, total operating expenses increased by 6%, driven largely by an increase of $338 thousand in cost of power. The District, as a distribution system only, purchases more than 90% of its power from BPA and demonstrates a willingness and ability to adjust rates in response to the BPA rate changes.

The District has continued to use contracted line crews to complete day-to-day operations, maintenance, and construction work since late 2019. Staffing levels, PTO cash-outs, wage increases, and changes in positions can create fluctuations in labor cost by department and category. A small staff that often works in cross-functional roles can result in volatility and variances between expense accounts from year to year.

Other income and expense includes interest income, interest expense, and miscellaneous other items. Interest expense constitutes much of the expense.

Changes in net position following capital contributions increased due to increased operating revenues and capital contributions.

Contacting the District's Financial Management

This report is designed to provide the District's customers, bondholders, creditors, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning the information provided in this report should be directed to the District's Finance Department at 1400 Vantage Highway, Ellensburg, WA 98926.

Financial Statements

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Statement of Net Position
December 31, 2022

ASSETS		
Current Assets - Unrestricted:		
Cash and cash equivalents (Note 3)		$ 1,271,266
Accounts receivable, net (Note 4)		2,050,148
Materials and supplies inventory		1,117,530
Prepayments and other current assets		38,045
Investments (Note 7)		633,757
	Total current assets - unrestricted	5,110,746
Current Assets - Restricted:		
Investments (Notes 5, 7 and 10)		3,050,555
	Total current assets - restricted	3,050,555
Net Utility Plant (Note 6):		
Utility plant in service		55,041,984
Construction in progress		4,997,647
Accumulated depreciation		(17,817,612)
	Total net utility plant	42,222,019
Other Noncurrent Assets:		
Regulatory assets (Note 8)		2,854,919
Investments (Note 7)		1,935,295
Net pension asset (Note 11)		421,021
	Total other noncurrent assets	5,211,235
	Total assets	55,594,555
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to the net pension liability (Note 11)		441,516
	Total deferred outflows of resources	441,516
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses		1,938,012
Compensated absences		230,010
Amounts payable from restricted assets (Note 5)		1,584,399
Long-term debt, due within one year (Note 10)		1,264,907
	Total current liabilities	5,017,328
Noncurrent Liabilities:		
Line of credit, due after one year (Note 9)		2,500,000
Long-term debt, due after one year (Note 10)		8,939,568
Net pension liability (Note 11)		242,936
Total other postemployment benefit obligation (Note 11)		640,384
	Total noncurrent liabilities	12,322,888
	Total liabilities	17,340,216
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to the net pension liability (Note 11)		513,289
	Total deferred inflows of resources	513,289
Commitments and contingencies (Note 12)		
NET POSITION		
Net investment in capital assets		29,517,544
Restricted net position (Note 5)		1,466,156
Unrestricted		7,198,866
	Total net position	$ 38,182,566

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

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2022

Operating revenues:		
Sales of electricity		$ 13,073,817
Other operating revenues		279,606
	Total operating revenues	13,353,423
Operating expenses:		
Cost of power		4,943,818
Distribution expense - operations		686,231
Distribution expense - maintenance		1,222,888
Consumer accounts expense		563,535
Administrative and general expense		1,193,684
Depreciation expense		1,568,218
Tax expense		752,122
Other deductions		64,340
	Total operating expenses	10,994,836
	Operating income	2,358,587
Other income and expense:		
Investment income, net		39,091
Gain on disposal of assets		179,735
Other nonoperating income		102,423
Interest expense (Notes 8 and 10)		(278,992)
	Total other income and expense, net	42,257
	Income before capital contributions	2,400,844
Capital contributions		2,150,719
	Changes in net position	4,551,563
Net position, beginning of year		33,631,003
	Net position, end of year	$ 38,182,566

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Statement of Cash Flows
Year Ended December 31, 2022

Cash flows from operating activities:		
Receipts from customers	$	13,397,541
Payments to suppliers		(7,901,911)
Payments to and on behalf of employees		(2,293,473)
Net cash provided by operating activities		3,202,157
Cash flows from capital and related financing activities:		
Additions to utility plant, net		(6,033,026)
Proceeds from sales of general plant		239,731
Borrowings (repayments) on line of credit, net		2,500,000
Principal payments on long-term debt		(1,237,162)
Interest payments on long-term debt		(320,368)
Contributions in aid of construction		2,080,510
Cash from nonoperating sources		102,423
Net cash used by capital and related financing activities		(2,667,892)
Cash flows from investing activities:		
Purchases of investments		(2,514,737)
Proceeds from sales of investments		1,536,768
Interest and dividends received		73,372
Net cash used by investing activities		(904,597)
Net decrease in cash and cash equivalents		(370,332)
Cash and cash equivalents, beginning of year		1,641,598
Cash and cash equivalents, end of year	$	1,271,266
Reconciliation of cash and cash equivalents to the Statements of Financial Position:		
Cash and cash equivalents	$	1,271,266
Restricted cash and cash equivalents		-
Cash and cash equivalents, end of year	$	1,271,266
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	2,358,587
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		1,568,218
Allocated depreciation		127,750
Changes in:		
Accounts receivable, net		(334,764)
Materials and supplies inventory		(357,135)
Prepayments and other current assets		82,582
Regulatory assets		(385,367)
Accounts payable and accrued expenses		13,849
Compensated absences		12,621
Amounts payable from restricted assets		378,882
Net pension asset (liability) and related deferred outflows (inflows)		(169,699)
Net other postemployent benefit obligation		(93,367)
Net cash provided by operating activities	$	3,202,157
Supplemental disclosure of non-cash activities:		
Amortization of premium on bond issuance	$	(6,836)
Amortization of regulatory assets		49,405
Net gain on disposition of utility plant		(179,735)
Unrealized loss on investments		129,470
Non-cash patronage income recognized		(3,781)

1. Organization

Public Utility District No. 1 of Kittitas County, Washington ("the District") is a municipal corporation of the State of Washington established in 1936 to function as a public utility for the purpose of engaging in the generation, transmission, distribution and sale of electric energy. The District serves Kittitas and Yakima counties, including approximately 5,000 residents and businesses, with 740 miles of line. The District's administrative office is located in the City of Ellensburg.

The District is governed by an elected three-member Board of Commissioners (Commissioners), which is responsible for the legislative and fiscal control of the District. The Commissioners' responsibilities are to appoint the General Manager; approve the District's budgets; adopt regulations; and set policies and guiding financial and operating principles for the operations included in these financial statements. The District has no component units.

2. Summary of Significant Accounting Policies

Basis of Accounting

The District follows the Federal Energy Regulatory Commission's (FERC) *Uniform System of Accounts* prescribed for Class A and Class B Electric Utilities. The accompanying financial statements of the District conform to accounting principles generally accepted in the United States of America (GAAP), including accounting guidance provided by the Governmental Accounting Standards Board (GASB), applicable to proprietary funds of governmental entities. In the absence of established GASB pronouncements, other accounting literature is followed including guidance provided in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has adopted and applied all applicable GASB pronouncements, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

In addition, the District applies the accounting policies established in the GASB codification Section Re10, *Regulated Operations*. As a result, the District's application of accounting principles generally accepted in the United States of America differs in certain respects from such application by non-regulated entities. The differences relate primarily to the time at which various items enter into the determination of operating income in order to follow the principle of matching costs and revenues.

Recent Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving governments' accounting and financial reporting for leases. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

2. Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements, Continued

Under Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Statement No. 87 was effective for the District beginning in the fiscal year ended December 31, 2022. The District does not currently have any significant lease arrangements, and management does not anticipate entering into any in the foreseeable future. As such, there was no financial statement impact of adopting this statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Statement No. 89 was effective for the District beginning in the fiscal year ended December 31, 2022. The District does not currently capitalize any interest costs, and management does not anticipate capitalizing any in the foreseeable future. As such, there was no financial statement impact of adopting this statement.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This Statement addresses practice issues that have been identified during implementation of certain other GASB pronouncements and provides additional requirements for specific issues. Elements of this Statement were effective for the fiscal year ended December 31, 2022. There was no significant financial statement impact of adopting this statement.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for Subscription-Based Information Technology Arrangements (SBITAs); (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance and consistency of information about SBITAs. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. Statement No. 96 is effective for the District beginning in the fiscal year ending December 31, 2023. The District is currently evaluating the financial statement impact of adopting this statement.

2. Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements, Continued

In April 2022, the GASB issued Statement No. 99, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing 1) practice issues that have been identified during implementation and application of certain GASB Statements and 2) accounting and financial reporting for financial guarantees. Statement No. 99 addresses a variety of topics and includes specific provisions about the following:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset
- Terminology used in Statement 53 to refer to resource flows statements
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to the leases, PPPs and SBITAs are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023. The District is currently evaluating the financial statement impact of adopting this statement.

2. Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements, Continued

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement requires that a liability for certain types of compensated absences not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. Statement No. 101 is effective for fiscal years beginning after December 15, 2023. The District is currently evaluating the financial statement impact of adopting this statement.

Cash and Cash Equivalents

With the exception of amounts invested in the State of Washington Local Government Investment Pool (LGIP), the District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Amounts invested in the LGIP are reported as investments.

Accounts Receivable

Accounts receivable primarily consist of amounts due from providing electricity to the District's customers and are stated at the amount that management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through an allowance for doubtful accounts. Additions to the allowance for doubtful accounts are based on management's judgment, considering historical write-offs, reviews of specific past-due accounts, collections and current credit conditions. Generally, the District considers accounts receivable past due after 30 days. Balances which remain outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to the applicable accounts receivable. Payments received on accounts receivable subsequent to being written off are recorded as a bad debt recovery. Changes in the allowance for doubtful accounts have not been material to the financial statements.

Materials and Supplies Inventory

Materials and supplies inventory, which consists primarily of items for construction and maintenance of electric plant, is recorded at the lower of weighted average cost or net realizable value. Useable materials from plant retirements are returned to inventory at current weighted average cost.

2. Summary of Significant Accounting Policies, Continued

Restricted and Board Designated Assets

Restricted assets consist of assets that are restricted by bond covenants or third-party contractual agreements. Assets that are allocated by resolution of the Commissioners are considered to be Board designated. Board designated amounts are a component of unrestricted assets, as their use may be redirected at any time by approval of the Commissioners. At December 31, 2022, the Board has designated $475,810 for vehicle replacements, which is also excluded from restricted assets.

Net Utility Plant

Utility plant is recorded at cost, which includes contracted work, direct labor and materials, and allocable overhead. Major additions and betterments to general plant with a cost of $5,000 or more are capitalized. Costs of routine repairs and maintenance that do not improve or extend the useful lives of the related assets, and the replacement and renewal of items determined to be less than units of plant, are charged to maintenance as incurred.

Overhead costs, including indirect labor, payroll burden, transportation charges and stores expense, are charged to construction and retirements monthly on a prorated basis.

At the time of retirement or sale of distribution plant, the original cost is removed from utility plant and the cost plus the cost of removal, less net salvage or insurance recovery, is removed from accumulated depreciation.

When general plant assets are retired, sold or otherwise disposed of in the ordinary course of business, their net book value is removed from utility plant and the resulting gain or loss, if any, is recognized.

Depreciation of utility plant is calculated using the straight-line method over the estimated useful lives of those assets, as follows:

Category	Years
Transmission and distribution plant	10 – 38
Buildings	33
Vehicles	8 – 9
Office equipment	3 – 14
Other equipment	6 – 16

Deferred Charges and Deferred Credits

The Commissioners have the authority to establish the level of rates charged for all District services. As a regulated entity, the District's financial statements are prepared in accordance with ASC Topic 980, *Regulated Operations*, which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in the Statement of Revenues, Expenses and Changes in Net Position, are recognized when included in rates and recovered from, or refunded to, customers. The District records various regulatory assets and credits to reflect rate-making actions of the Commissioners.

2. Summary of Significant Accounting Policies, Continued

Investments

Investments in associated organizations are recorded at the face value of capital credits allocated and not retired. Investments in the State of Washington Local Government Investment Pool are carried at amortized cost. Marketable securities are carried at fair market value.

Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, established a fair value hierarchy for those assets and liabilities measured at fair value, that distinguishes between assumptions based on market data (observable inputs) and the organization's own assumptions (unobservable inputs). The hierarchy consists of: Level 1 – quoted market prices in active markets for identical instruments; Level 2 – inputs other than Level 1 inputs that are observable; and Level 3 – unobservable inputs developed using estimates and assumptions determined by the organization. At December 31, 2022, the assets or liabilities of the District that were measured at fair value on a recurring basis are summarized as follows:

	Level 1	Level 2	Level 3	Total
Federal Farm Credit Bank	$ --	$ 910,067	$ --	$ 910,067
Federal Nat'l Mortgage Assn	--	928,504	--	928,504
	$ --	$ 1,838,571	$ --	$ 1,838,571

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The District had no assets measured at fair value on a nonrecurring basis during 2022.

Valuation of Long-Lived Assets

Management of the District periodically reviews the net carrying value of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. These reviews consider the net realizable value of each asset to determine whether an impairment in value has occurred, and whether there is a need for any asset impairment write-down. Impaired assets are reported at the lower of cost or net realizable value. At December 31, 2022, no assets were considered to be impaired.

Compensated Absences

The District provides its employees with personal time off (PTO) in lieu of vacation and sick leave. PTO is recorded as an expense and a liability as the benefits accrue. PTO may be deferred and taken in subsequent years, however PTO time accrued may not exceed 488 hours. Union and non-union employees must schedule and use at least 5 and 10 days, respectively, of PTO in each calendar year during their first five years of employment. After five years of employment, union and non-union employees must schedule and use at least 10 and 15 days, respectively, of PTO annually thereafter. The District's PTO policy includes an annual buy-out provision. All accumulated PTO is payable upon resignation, termination, retirement or death.

2. Summary of Significant Accounting Policies, Continued

Asset Retirement Obligations

An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. The District has identified AROs for certain assets that are expected to operate in perpetuity. As the District cannot estimate a settlement date or extent of the obligation, a reasonable estimate of the obligation cannot be made. As such, ARO liabilities are not recorded for retirement activities associated with certain distribution projects. The District has not recorded any AROs as of December 31, 2022.

Deferred Financing Costs

Costs associated with the issuance of bonds are expensed in the year incurred. Original issue and reacquired bond premiums and discounts related to bonds are amortized over the terms of the respective bonds.

Revenue and Cost Recognition

The District records revenue billed to its customers when the meters are read each month. Substantially all of the District's customers' meters were read as of December 31, 2022. Accordingly, management believes that any unbilled revenue would not be material to the financial statements, and therefore has not provided an accrual for unbilled accounts receivable.

Expenses are recorded when the liabilities for goods or services received are incurred.

Taxes

As a political subdivision of the State of Washington, the District is exempt from Federal income taxes. The State of Washington assesses Excise and Privilege taxes on the District. Payments in lieu of taxes are made to local governments.

Clearing Accounts

Overhead costs, including indirect labor, payroll burden, insurance, depreciation, transportation charges and stores expense, are charged to clearing accounts each month. Amounts charged to the clearing accounts are allocated to construction in progress and expense accounts based on equipment usage, labor charges or material issuances, depending on the nature of the charge, in accordance with rates established by the Commissioners. Remaining transportation and equipment expense, along with all other amounts charged to the clearing accounts, are allocated based on equipment usage, labor charges or material issuances, depending on the nature of the charge.

Credit Risk

Financial instruments which potentially subject the District to concentration of credit risk consist principally of cash and cash equivalents and accounts receivable.

The District maintains its cash in bank deposit accounts at high quality financial institutions. At times, deposit account balances may exceed federally insured limits. The District has not experienced any losses from such accounts and the District's management believes it is not exposed to any significant credit risk on cash and cash equivalents.

2. Summary of Significant Accounting Policies, Continued

Credit Risk, Continued

Credit is extended to customers, generally without collateral requirements, although deposits are required from certain customers and formal shut-off policies and procedures are in place. Concentration of credit risk with respect to consumer receivables is limited due to the District's large number of customers. However, approximately 15% of the District's electric sales were made to six commercial customers during 2022. At December 31, 2022, these commercial customers owed the District $164,501 for electric service, which has been fully paid subsequent to year-end.

Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the District to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates and affect the amounts reported in the financial statements. The District has used significant estimates in the determination of the allowance for uncollectible accounts receivable, depreciable lives of utility plant, payroll-related liabilities and regulatory assets and liabilities, if any.

Subsequent Events

The District has evaluated subsequent events through June 27, 2023, the date as of which these financial statements were available to be issued. No material subsequent events have occurred since December 31, 2022 that required recognition or disclosure in these financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and deposits held in checking accounts at local banks. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at each bank at December 31, 2022.

The carrying amount of cash and cash equivalents, including restricted cash and cash equivalents, on the District's books at December 31, 2022 was $1,271,266. Bank balances totaled $1,661,289 at that date. The differences between the carrying amount of cash and cash equivalents on the District's books and the combined balances per the banks consisted of outstanding checks and deposits not processed by the banks as of December 31, 2022.

At times, deposits may exceed federally insured limits. The District has not experienced any losses on bank balances and management believes cash and cash equivalents are not exposed to significant credit risk.

A summary of the uninsured bank balances at December 31, 2022 is as follows:

Bank balances at December 31, 2022	$ 1,661,289
Portion insured by the FDIC	(258,425)
Uninsured balances	$ 1,402,864

4. Accounts Receivable

Accounts receivable consist of the following at December 31, 2022:

Electric service	$ 1,748,809
Other receivables (Note 8)	347,759
	2,096,568
Less: allowance for doubtful accounts	(46,420)
	$ 2,050,148

5. Restricted Assets

At December 31, 2022, the District has certain amounts that are classified and reported as restricted investments. These amounts are restricted in accordance with bond covenants or by requirements to segregate funds for the payment of certain current liabilities. Bond sinking funds and unspent construction funds, if any, from bond proceeds are restricted by bond covenants and are reported as restricted net position. The other amounts have been reported as amounts payable from restricted assets.

Restricted Net Position	
Bond sinking funds	$ 1,466,156
	1,466,156
Amounts Payable from Restricted Assets	
Consumer deposits	240,038
Transformer deposits	248,496
Contractor retainage	316,202
Customer contributions in aid to construction	696,889
Customer energy prepayments	64,716
Restricted for future asset replacement (Note 6)	17,083
Helping Hands payable	975
	1,584,399
Restricted investments	$ 3,050,555

6. Net Utility Plant

Net utility plant activity for the year ended December 31, 2022 is as follows:

	Balance December 31, 2021	Additions	Transfers	Disposals	Balance December 31, 2022
Transmission plant	$ 97,409	$ --	$ --	$ --	$ 97,409
Distribution plant	49,695,407	1,030,028	1,612,913	(219,273)	52,119,075
General plant	3,106,231	40,304	87,531	(731,454)	2,502,612
Accumulated depreciation	(17,221,931)	(1,695,968)	--	1,100,287	(17,817,612)
	35,677,116	(625,636)	1,700,444	149,560	36,901,484
Land	317,639	--	--	--	317,639
Intangibles	5,249	--	--	--	5,249
Construction in progress	1,944,953	4,753,138	(1,700,444)	--	4,997,647
	$ 37,944,957	$ 4,127,502	$ --	$ 149,560	$ 42,222,019

6. Net Utility Plant, Continued

Total depreciation for 2022 was $1,695,968. Depreciation on transportation and work equipment is allocated to clearing accounts, and subsequently charged to construction work orders or maintenance expense. Depreciation on transportation and work equipment that was allocated to clearing accounts, and subsequently charged to construction work orders or maintenance expense totaled $127,750 in 2022.

During 2020, one of the District's customers donated equipment and infrastructure valued at $107,308 to the District in return for the District's commitment to maintain the equipment and supply electric service over the lines in exchange for an agreed-upon rate. In addition, the customer has agreed to pay a monthly amount that is restricted for future equipment replacement (see Note 5).

7. Investments

Investments consist of the following at December 31, 2022:

Investments in associated organizations	$ 96,724
State of Washington Local Government Investment Pool (substantially restricted)	3,684,312
Marketable securities	1,838,571
	$ 5,619,607

Investments in associated organizations primarily consist of patronage capital credits from Federated Rural Electric Insurance Exchange Cooperative (Federated) in the amount of $96,622 at December 31, 2022.

The State of Washington Local Government Investment Pool (LGIP) is an unrated external investment pool that invests in a manner consistent with the U.S. Securities and Exchange Commission's rule 2a-7 of the Investment Company Act of 1940. The District reports these investments at amortized cost and transactions with LGIP are done at a stable net asset value per share of $1.00. Participants may contribute and withdraw funds on a daily basis, but must inform the LGIP of any contribution or withdrawal over $1 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for $1 million or less can be requested at any time prior to 10 a.m. on the day of the transaction. The LGIP does not impose liquidity fees or redemption rates on participant withdrawals. Balances invested in the LGIP are covered by collateral held in a multiple financial institution pool administered by the Washington Public Deposit Protection Commission (PDPC). The amounts invested in the LGIP include $3,050,555 that are recorded as restricted investments at December 31, 2022 (see Note 5).

Marketable securities consist of the following at December 31, 2022:

Federal Farm Credit Bank, bearing interest at a fixed rate of .650%, maturing in June 2025, rated A by S&P	$ 910,067
Federal National Mortgage Association, bearing interest at a fixed rate of .400%, maturing in September 2024, rated A by S&P	928,504
	$ 1,838,571

7. Investments, Continued

Marketable securities have the following maturities at December 31, 2022:

	Maturities (in Years)				
	Less than 1	1 - 2	3 - 4	5+	Total
Federal Farm Credit Bank	$ --	$ --	$ 910,067	$ --	$ 910,067
Federal Nat'l Mortgage Assn	--	928,504	--	--	928,504
Total	$ --	$ 928,504	$ 910,067	$ --	$ 1,838,571

8. Regulatory Assets

Regulatory assets consist of the following at December 31, 2022:

Payment pursuant to transfer agreement with Public Utility District No. 2 of Grant County, Washington	$ 756,676
Utility easement	422,004
Payment to Bonneville Power Administration towards substation construction	1,620,245
Deferred transmission costs payable pursuant to Transmission Service Agreement with U.S. Bureau of Reclamation	37,704
Transportation clearing balances	18,290
	$ 2,854,919

During 2020, the District paid Public Utility District No. 2 of Grant County, Washington (Grant) $824,886 towards the cost of constructing infrastructure upgrades and improvements to Grant's system pursuant to a transfer agreement with Grant that will facilitate the wheeling of power by Grant to the District. Under the terms of the transfer agreement, Grant will wheel power and energy supplied by BPA to the District in exchange for agreed-upon rates for a period of up to 30 years. The District is amortizing the costs of the payment to Grant over 30 years at the rate of approximately $2,291 per month. The amortization of the payment has been included in cost of power in the Statement of Revenues, Expenses and Changes in Net Position. At December 31, 2022, the remaining unamortized cost is $756,676.

During 2014, the Beverly Bridge, which served as one of the District's points of delivery and to which the District's power lines were attached, burned. The Department of Natural Resources, which has responsibility for bridge construction, repair and maintenance, declared the bridge to be unusable. Through 2021, the bridge remained unusable, which served as an incentive for the District to enter into the agreement with Grant described in the preceding paragraph. During 2022, the Washington State Parks and Recreation Commission facilitated the cooperation of seven different parties to fund the repair of the Beverly Bridge, one of which was the District. In exchange for a payment of $431,350, the District was granted a 50-year easement, which allows the District to attach its lines to the bridge. The District's payment is being amortized over the 50-year easement period at the rate of approximately $719 per month. During 2022, the District recorded amortization of $9,346, resulting in an unamortized cost of $422,004 at December 31, 2022.

8. Regulatory Assets, Continued

During 2021, the District paid $1,620,245 to the Bonneville Power Administration (BPA) pursuant to a Network Integration Transmission Service Agreement, resulting from a new BPA business practice for funding network upgrades. In accordance with the new BPA business practice, the District was required to pay a portion of the estimated cost of construction of a new substation on Bettas Road within the District's territory. The amount paid to BPA has been recorded as a regulatory asset and will be recovered through transmission credits applied toward the District's monthly bill from BPA for up to 20 years from the date the new substation is energized.

If the actual cost of the network upgrades exceeds the funds already advanced by the District, BPA will invoice the District for the remaining amount following the final cost adjustment and the additional amount paid will be added to the regulatory asset balance on the District's books. The additional amount paid, if any, will also be subject to recovery in the form of transmission credits from BPA for up to 20 years from the date the new substation is energized. The District's engineering staff have reviewed BPA's estimate of the transmission credits and believes the amount credited will be sufficient to fully recover the amount paid by the District to BPA within the 20-year period.

During the year ended December 31, 2022, the District earned $91,408 of interest from BPA on the prepayment for the substation construction costs. This amount was recorded in other receivables (see Note 4) at December 31, 2022.

During early 2022, the District was notified by the U.S. Bureau of Reclamation (USBR) that the District owed $89,980 for transmission costs associated with the Transmission Service Agreement between the USBR and the District for the period from 2013 through 2021, which had not been previously billed by the USBR. The District has been advised by its legal counsel that they believe the Federal government can only seek payment for the most recent six years. During 2022, the District calculated the amount that it believes is owed for the transmission costs, totaling $50,272. This amount, which was paid in early 2023, is being amortized over four years, the period over which the District plans to recoup the costs through customer rates. During 2022, the District recorded amortization of $12,568, resulting in an unamortized balance of $37,704 at December 31, 2022. If the USBR claim is ultimately settled for a higher amount, the additional amount will be added to the regulatory asset and amortized over the remaining amortization period.

9. Line of Credit

Effective April 30, 2019, the District established a $6 million non-revolving line of credit with a local bank for the purpose of providing financing for the District's capital program. During February 2020, the terms of the line of credit were amended to convert the line to a revolving line of credit, thus allowing repaid amounts on the line to be re-borrowed. Also, on February 25, 2020, the balance on the line, which was $3,719,738 including accrued interest at that date, was paid in full out of the proceeds of the newly-issued Series 2020 Electric Revenue and Refunding Bonds (see Note 10).

The line bears interest at a fixed rate of 2.60% on outstanding advances, if any. The balance on the line, which matures on December 1, 2023, was $2,500,000 and $0 at December 31, 2022 and 2021, respectively.

10. Long-Term Debt

During 2013, the District issued $4,220,000 of Series 2013 Electric Revenue and Refunding Bonds. The bonds were issued at a premium of $140,132, and bear interest at rates which vary from 2.00% to 4.00%. A portion of the proceeds from the Series 2013 Electric Revenue and Refunding Bonds was used to retire the outstanding principal balance of previously-issued Series 2002 Electric Revenue Bonds. The premium received on the bonds is being amortized over the life of the new bonds (240 months). During 2022, amortization of the premium on the bonds totaled $6,836. This amount has been recorded as a reduction of interest expense in the Statement of Revenues, Expenses and Changes in Net Position.

During 2015, the District issued a $6,350,419 Series 2015 Electric Revenue and Refunding Bond. The bond was issued at par and bears interest at 2.31%. The proceeds from the Series 2015 Electric Revenue and Refunding Bond were primarily used to retire the outstanding principal balance of previously-issued Series 2005 Electric Revenue Bonds.

During 2020, the District issued a $6,654,144 Series 2020 Electric Revenue and Refunding Bond to finance capital improvements to the District's utility plant. The bond, which bears interest at the rate of 2.02%, requires semi-annual payments of principal and interest of varying amounts and matures in June 2034. The proceeds of the bond were used to pay off the outstanding balance of the line of credit described in Note 9, establish a project fund and reserve account and pay costs of issuance of the bond.

At December 31, 2022, the District held $1,466,156 of investments restricted for bond repayment as required by the bond covenants (see Note 5). The District is in compliance with all significant limitations and restrictions associated with the bonds, including the debt service coverage of 1.25. Debt service coverage was 2.95 at December 31, 2022.

A summary of changes in long-term obligations of the District for the year ended December 31, 2022 is as follows:

	Long-Term Obligations December 31, 2021	Long-Term Obligations Incurred	Long-Term Obligations Paid/Amortized	Long-Term Obligations December 31, 2022	Due Within One Year
Series 2013 Electric Revenue and Refunding Bonds	$ 1,840,000	$ --	$ (325,000)	$ 1,515,000	$ 115,000
Premium on issuance of 2013 Electric Revenue and Refunding Bonds	81,288	--	(6,836)	74,452	--
Series 2015 Electric Revenue and Refunding Bond	3,821,485	--	(439,162)	3,382,323	450,607
Series 2020 Electric Revenue and Refunding Bond	5,705,700	--	(473,000)	5,232,700	699,300
	$ 11,448,473	$ --	$ (1,243,998)	$ 10,204,475	$ 1,264,907

10. Long-Term Debt, Continued

Future debt service requirements as of December 31, 2022 are summarized as follows:

	Principal	Interest	Total
Series 2013 Electric Revenue and Refunding Bonds:			
2023	$ 115,000	58,300	173,300
2024	115,000	53,700	168,700
2025	120,000	49,000	169,000
2026	125,000	44,100	169,100
2027	130,000	39,000	169,000
2028 - 2032	745,000	109,900	854,900
2033	165,000	3,300	168,300
	1,515,000	357,300	1,872,300
Series 2015 Electric Revenue and Refunding Bond:			
2023	450,607	78,132	528,739
2024	461,436	67,723	529,159
2025	471,635	57,063	528,698
2026	481,190	46,169	527,359
2027	494,076	35,053	529,129
2028 - 2029	1,023,379	35,589	1,058,968
	3,382,323	319,729	3,702,052
Series 2020 Electric Revenue and Refunding Bond:			
2023	699,300	98,638	797,938
2024	237,100	89,180	326,280
2025	242,100	84,340	326,440
2026	248,300	79,387	327,687
2027	251,600	74,338	325,938
2028 - 2032	2,198,100	266,936	2,465,036
2033 - 2034	1,356,200	29,233	1,385,433
	5,232,700	722,052	5,954,752
Combined Totals:			
2023	1,264,907	235,070	1,499,977
2024	813,536	210,603	1,024,139
2025	833,735	190,403	1,024,138
2026	854,490	169,656	1,024,146
2027	875,676	148,391	1,024,067
2028 - 2032	3,966,479	412,425	4,378,904
2033 - 2034	1,521,200	32,533	1,553,733
	$ 10,130,023	$ 1,399,081	$ 11,529,104

11. Employee Benefit Plans

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Overview

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2022:

Aggregate Pension Amounts – All Plans

Net pension (asset)	$	(421,021)
Net pension liability		242,936
Deferred outflows of resources		441,516
Deferred inflows of resources		513,289
Pension expense (expense offset)		(19,242)

All of the District's 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 retirement plans. Public Employees' Retirement System (PERS) retirement benefit provisions are established in Chapters 41.34 RCW and 41.40 RCW and may be amended only by the State Legislature.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes elected officials; state employees; employees of the Supreme, Appeals and Superior courts; employees of the legislature; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

Although employees can be a member of only Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered a single plan for accounting purposes.

11. Employee Benefit Plans, Continued

Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued

Plan Description, Continued

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2% 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.

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

- With a benefit that is reduced by 3% 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 5% 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 3% 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 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% 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.

11. Employee Benefit Plans, Continued

Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued

Funding Policy

The PERS Plan 1 member contribution rate is established by State statute at 6%. 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%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The required contribution rates expressed as a percentage of current-year covered payroll were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
January 1 thru August 2022:			
Employer*	10.25%	10.25%**	10.25%***
Employee	6.00%	6.36%	****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rates include a component to fund the UAAL currently set at 3.71%.
*** Plan 3 defined benefit portion only.
**** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

	PERS Plan 1	PERS Plan 2	PERS Plan 3
September 2022 thru December 2022:			
Employer*	10.39%	10.39%**	10.39%***
Employee	6.00%	6.36%	****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rates include a component to fund the UAAL currently set at 3.85%.
*** Plan 3 defined benefit portion only.
**** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the District and the employees made the required contributions. The District's actual contributions, less administrative expense fees, for the years ended December 31, 2022, 2021 and 2020 were as follows:

Year Ended December 31,	PERS 1	PERS 2/3	Total
2022	$ 55,866	$ 94,591	$ 150,457
2021	55,944	93,194	149,138
2020	59,146	97,662	156,808

11. Employee Benefit Plans, Continued

Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued

Actuarial Methods and Assumptions

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

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

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

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

There were no changes in methods between the two most recent actuarial valuations. However, OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 Actuarial Valuation Report (AVR). There were also the following assumption changes:

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

Discount Rate

The discount rate used to measure the total pension liability for all PERS plans was 7.00%. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Based on the assumptions described in OSA's certification letter within the DRS CAFR, 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 7.00% was used to determine the total liability.

11. Employee Benefit Plans, Continued

Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued

Long-Term Expected Rate of Return

OSA selected a 7.00% 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 provided by the Washington State Investment Board (WSIB). The CMAs contain three pieces of information for each class of assets WSIB currently invests in, including expected annual return; standard deviation of the annual return; and 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, 2022, are summarized in the table below. The inflation component used to create the table is 2.20% and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	20.00%	1.50%
Tangible assets	7.00%	4.70%
Real estate	18.00%	5.40%
Global equity	32.00%	5.90%
Private equity	23.00%	8.90%
Total	100.00%	

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

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

PERS 1	$ 242,936
PERS 2/3	(421,021)
Total	$ (178,085)

The District's proportionate shares of the collective net pension liability (asset) for the measurement dates of June 30, 2022 and 2021 were as follows:

	Proportionate Share June 30, 2022	Proportionate Share June 30, 2021	Change in Proportionate Share
PERS 1	0.0087250%	0.0079560%	0.0007690%
PERS 2/3	0.0113520%	0.0102290%	0.0011230%

11. Employee Benefit Plans, Continued

Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued

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

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

The collective net pension liability (asset) was measured as of June 30, 2022, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2021, with update procedures used to roll forward the total pension liability to the measurement date.

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

PERS 1	$ 131,061
PERS 2/3	(150,303)
Total	$ (19,242)

Pension expense (expense offset) allocated to clearing accounts totaled $8,915 in 2022.

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	$ 28,174	$ --
Net difference between projected and actual investment earnings on pension plan investments	--	40,262
PERS 2/3		
Contributions made subsequent to the measurement date	$ 47,119	$ --
Net change in proportionate share	27,243	90,789
Differences between expected and actual experience	104,319	9,531
Changes in assumptions or other inputs	234,661	61,443
Net difference between projected and actual investment earnings on pension plan investments	--	311,264
Total	$ 441,516	$ 513,289

The amounts reported at December 31, 2022 as deferred outflows of resources related to pensions resulting from employer contributions made subsequent to the measurement date, totaling $75,293, will be recognized as a reduction of the net pension liability in the year ending December 31, 2023.

11. Employee Benefit Plans, Continued

Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued

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

At December 31, 2022, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (expense offset) as follows:

Year Ending December 31,	PERS 1	PERS 2/3	Total
2023	$ (17,038)	$ (107,162)	$ (124,200)
2024	(15,475)	(94,532)	(110,007)
2025	(19,413)	(117,151)	(136,564)
2026	11,664	124,105	135,769
2027	--	40,754	40,754
Thereafter	--	47,182	47,182
	$ (40,262)	$ (106,804)	$ (147,066)

The average of the expected remaining service lives (in years) of all employees that are provided with pensions through the Plans (active and inactive employees) determined at July 1, 2021, the beginning of the measurement period ended June 30, 2022, is zero and 7.0 years for PERS 1 and PERS 2/3, respectively.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following table presents the District's proportionate share of the net pension liability (asset) at December 31, 2022 calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.00%)	Current Rate (7.00%)	1% Increase (8.00%)
District's proportionate share of:			
PERS 1 net pension liability (asset)	$ 324,559	$ 242,936	$ 171,698
PERS 2/3 net pension liability (asset)	495,807	(421,021)	(1,174,253)
	$ 820,366	$ (178,085)	$ (1,002,555)

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.

11. Employee Benefit Plans, Continued

Other Postemployment Benefits

GASB Statement No. 75 (GASB No. 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The District has one OPEB plan that is accounted for in accordance with GASB No. 75, as described below.

The following table represents the aggregate amounts related to the District's OPEB plan that is subject to the provisions of GASB No. 75.

Aggregate OPEB Amounts

OPEB liability	$	640,384
OPEB expense (expense offset)		(77,288)

Plan Description

In addition to the pension benefits described above, the District participates in a defined benefit plan administered by the Health Care Authority (HCA), which provides medical, prescription drug, dental, vision, disability and long-term care coverage. Per RCW 41.05.065, the Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees and offers retirees access to all benefits administered by HCA. However, PEBB employers primarily provide monetary assistance, or subsidies, only for medical, prescription drug and vision insurance.

The relationship between the PEBB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice regarding the sharing of benefit costs.

GASB No. 75 establishes the standards for measurement, recognition and reporting of non-pension postemployment benefits, including medical, dental and vision insurance benefits offered to retirees. The ability for retirees to obtain coverage at rates similar to active employees constitutes a significant economic benefit to retirees. GASB No. 75 requires that the District recognize the implicit cost of its retiree postemployment benefit plan during the period of the employee's active employment while the benefits are being earned.

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Post-Employment Benefits Actuarial Valuation Report. The Other Post-Employment Benefits Actuarial Valuation Report may be obtained by writing to: Office of the State Actuary, P.O. Box 40914, Olympia, Washington 98504-0914, or it may be downloaded from the Office of the State Actuary website at http://leg.wa.gov/OSA.

11. Employee Benefit Plans, Continued

<u>Other Postemployment Benefits, Continued</u>

Plan Description, Continued

Subsidies

The HCA administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidy permitted under RCW 41.05.085 is a fixed dollar amount for a specific group of retirees. The explicit subsidy lowers the monthly premium paid by retired members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The explicit subsidy was $183 and $183 per member per month for 2022 and 2021, respectively.

The implicit subsidy established under RCW 41.05.022 is more complex because it is not a direct payment from the employer on behalf of the retiree. Because retirees covered by the implicit subsidy pay premiums based on claims experience for employees and non-Medicare eligible retirees who are typically younger and healthier, their premiums are lower than they would be if they were insured separately. The subsidy is the difference between the age-based claims costs and the premium paid by the retirees.

Administrative costs, as well as explicit and implicit subsidies, are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits. Contributions are set each biennium as part of the State's budget process. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The District covers OPEB costs when they come due, on a pay-as-you-go basis.

Because the District has fewer than 100 employees (active and inactive) that are provided with OPEB through the plan, the District qualifies to use the alternative measurement method for calculating the OPEB liability.

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefit payments	2
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	17
	19

The active employees have an average age of 49.4 as of December 31, 2022, and an average of 5.8 years of service.

11. Employee Benefit Plans, Continued

Other Postemployment Benefits, Continued

OPEB Liabilities, OPEB Expense (Expense Offset), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of December 31, 2022, the District reported a total OPEB liability of $640,384 related to this plan. The total OPEB liability was measured as of June 30, 2022 and was determined by using the alternative measurement method.

For the year ended December 31, 2022, the District recognized OPEB expense (expense offset) of $(77,288) related to this plan. Since the District records costs as they come due, there are no deferred outflows of resources for contributions to the OPEB plan. In accordance with the alternative measurement method, no deferred outflows of resources and deferred inflows of resources related to OPEB from any other sources are reported.

Actuarial Assumptions

The total OPEB liability as of December 31, 2022 was determined using the following assumptions and other inputs, applied to all periods included in the measurement:

Discount rate*:	
Beginning of measurement year	2.16%
End of measurement year	3.54%
Projected salary changes	3.50% + service-based increases
Healthcare cost trend rate**:	Initial rate ranges from 2-11%, reaching an ultimate rate of approximately 4.3% in 2075
Mortality rates:	
Base mortality table	PubG.H-2010 (General)
Age setback	0 years
Mortality improvements	MP-2017 Long-term rates
Projection period	Generational
Inflation rate	2.75%
Post-retirement participation percentage	65%
Percentage with spouse coverage	45%

* Source: Bond Buyer General Obligation 20-Bond Municipal Index.
** Trend rate assumptions vary by medical plan. For additional detail on the healthcare trend rates, see Office of the State Actuary's PEBB OPEB Healthcare Trend Assumptions webpage.

11. Employee Benefit Plans, Continued

Other Postemployment Benefits, Continued

Changes in the Total OPEB Liability

The following table shows the changes in the total OPEB liability for the fiscal year ended December 31, 2022:

Total OPEB liability, beginning of year	$ 733,751
Service cost	41,843
Interest	16,580
Changes in experience data and assumptions	(135,711)
Benefit payments	(16,079)
Decrease in total OPEB liability	(93,367)
Total OPEB liability, end of year	$ 640,384

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and the Healthcare Cost Trend Rate

The following presents the total OPEB liability reported by the District calculated using the discount rate of 3.54%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or higher than the current rate:

	1% Decrease (2.54%)	Current Rate (3.54%)	1% Increase (4.54%)
Employer's proportionate share of the total OPEB liability (asset)	$ 760,845	$ 640,384	$ 544,474

The following presents the total OPEB liability reported by the District calculated using the current healthcare cost trend rate, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or higher than the current rate:

	1% Decrease	Current Rate	1% Increase
Employer's proportionate share of the total OPEB liability (asset)	$ 533,802	$ 640,384	$ 777,994

Deferred Compensation Plans

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan permits eligible employees to defer a portion of their salary until future years. Deferred compensation is available to employees following separation of employment, retirement, death, or unforeseeable emergency without penalty. The plan assets are held in trust for the exclusive benefit of Plan participants and beneficiaries and as such are not included in the District's financial statements.

11. Employee Benefit Plans, Continued

Deferred Compensation Plans, Continued

The District also sponsors a 401(k) Plan that is funded by contributions from the District and participating employees. The benefits available upon retirement depend on the amounts contributed by the employees and the performance of the investments chosen by the plan participants. The assets of the plan are the sole property of the Plan participants and are not subject to the claims of the District's general creditors. Plan participants may obtain loans from their plan account which must be paid back during the period of their employment. Employees hired after July 1, 2020, vest in the employer's matching contribution at the rate of 20% per year. Other plan benefits are not available to plan participants until termination, retirement, or death. Withdrawals may only be made following attainment of the retirement age of 59-½, disability, death, or severance from employment. Distributions made before the age of 59-½ are subject to penalties.

Contributions to the 401(k) Plan for the years ended December 31, 2022, 2021 and 2020, respectively, were as follows:

Year Ended December 31,	Employer	Employee
2022	$ 21,019	$ 62,611
2021	18,395	55,108
2020	52,575	60,350

12. Commitments and Contingencies

Clerf Road Fire

In late June 2021, a fire ignited within the District's territory near Kittitas, Washington, causing significant damage to the District's infrastructure and resulting in power outages to a portion of the District's customers. The Kittitas County Fire Marshal performed an investigation of the fire and concluded that the origin and cause of the fire were undetermined. Based on information obtained and available to date, the District is unaware of any information suggesting that the District or its property were responsible for the fire.

The District has received nine claims for reimbursement of property damage resulting from the fire. Three of the claims have been settled with the homeowners and the other claims are in various stages of negotiations. To date, no lawsuits have been filed against the District. In the event that a lawsuit is filed, management would intend to vigorously defend against the lawsuit. The outcome, or an amount or range of potential loss resulting from a lawsuit, cannot be predicted. However, management believes any outcome would fall within the District's insurance policy limits.

Risks and Uncertainties

The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include prices on the wholesale market for short-term power; interest rates; water conditions; weather and natural disaster-related disruptions; fish and other Endangered Species Act issues; Environmental Protection Agency regulations; Federal government regulations or orders concerning operations, maintenance and licensing of facilities; other governmental regulations; and the deregulation of the electric utility industry.

12. Commitments and Contingencies, Continued

Risk Management

The District maintains insurance coverage against normal hazards through Federated. Insurance coverage purchased through Federated includes:

All-risk Blanket:	
Physical damage to property	$ 14,109,282
Public liability	2,000,000
Crime coverage	4,000,000
Commercial Umbrella:	
Occurrence limit	20,000,000
Directors, Officer, Managers:	
Limit of liability	7,000,000
Cyber security	500,000

Power Purchase Contracts

Bonneville Power Administration (BPA) – During 2008, the District executed a new Power Sales Agreement with Bonneville Power Administration (BPA). Under the wholesale power purchase contract, the District is committed to purchase its BPA Tier 1 electric power and energy requirements from BPA through September 2028. BPA Tier 1 charges for the Load Following Product will be passed through to the District using BPA billing determinants and including any credits or discounts such as low-density discounts and irrigation rate mitigation program credits.

Grant County PUD – The District has an agreement with Grant County PUD to receive .14% of the output from each of the Priest Rapids and Wanapum projects. The District has assigned the Priest Rapids and Wanapum shares to BPA for the period from October 1, 2011 through September 30, 2024. BPA will manage actual scheduled output from the District's shares and provide credits and charges for generation amounts that differ from the planned amounts. Under the terms of the contract with Grant County PUD, the District's payments are subject to annual "true up" adjustments at the end of each operating year. The 2022 "true up" adjustment resulted in an increase of the cost of power related to the agreement with Grant County PUD in the amount of $15,857. This amount has been accrued in accounts payable in the December 31, 2022 Statement of Net Position.

Clallam County PUD – Effective October 1, 2011, the District entered into a contract with Clallam County PUD to sell its .25% customer purchase allocation through 2028. Clallam County PUD is responsible for the annual costs associated with the allocation.

Other Contracts and Agreements

The District is a party to various other contracts and agreements in connection with its operations, including the following:

- Puget Sound Energy (PSE) – interconnection services;
- PSE and the City of Ellensburg – mutual assistance agreements;
- Grant County PUD No. 2 – power distribution;
- U.S. Department of the Interior, Bureau of Reclamation – power transmission service;
- I-Net – usage and annual operational costs.

Required Supplementary Information

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Schedule of Employer's Share of the Net Pension Liability - PERS Plan 1
Last 10 Plan Years *

Plan Year	Employer's Portion of NPL	Employer's Proportionate Share of NPL (a)	Employer's Covered Employee Payroll (b)	Employer's NPL as a Percentage of Covered Payroll (a/b)	Plan Net Position as a Percentage of Total Pension Liability
2014	0.0096178%	$ 484,500	$ 1,120,341	43.25%	59.10%
2015	0.0110382%	577,402	1,238,799	46.61%	61.19%
2016	0.0111806%	600,449	1,327,431	45.23%	57.03%
2017	0.0105380%	500,036	1,330,867	37.57%	61.24%
2018	0.0112660%	503,143	1,503,511	33.46%	63.22%
2019	0.0118250%	454,713	1,661,043	27.38%	67.12%
2020	0.0096690%	341,368	1,460,436	23.37%	68.64%
2021	0.0079560%	97,161	1,223,456	7.94%	88.74%
2022	0.0087250%	242,936	1,407,419	17.26%	76.56%

* GASB Statement No. 68 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of June 30 for each respective year.

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Schedule of Employer's Share of the Net Pension Liability (Asset) - PERS Plan 2/3
Last 10 Plan Years *

Plan Year	Employer's Portion of NPL(A)	Employer's Proportionate Share of NPL(A) (a)	Employer's Covered Employee Payroll (b)	Employer's NPL(A) as a Percentage of Covered Payroll (a/b)	Plan Net Position as a Percentage of Total Pension Liability
2014	0.0118211%	$ 238,947	$ 1,096,645	21.79%	93.29%
2015	0.0136484%	487,664	1,215,319	40.13%	89.20%
2016	0.0137733%	693,475	1,305,478	53.12%	85.82%
2017	0.0132477%	460,294	1,211,605	37.99%	90.97%
2018	0.0143870%	245,645	1,503,511	16.34%	95.77%
2019	0.0152780%	148,401	1,661,043	8.93%	97.77%
2020	0.0124900%	159,740	1,460,436	10.94%	97.22%
2021	0.0102290%	(1,018,973)	1,223,456	-83.29%	120.29%
2022	0.0113520%	(421,021)	1,407,419	-29.91%	106.73%

* GASB Statement No. 68 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of June 30 for each respective year.

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Schedule of Contributions - PERS Plan 1
Last 10 Fiscal Years

Fiscal Year	Statutorily Required Contributions (a)	Actual Contributions (b)	Contributions Deficiency (Excess) (a-b)	Employer's Covered Employee Payroll (c)	Contributions as a Percentage of Covered Employee Payroll (b/c)
	*	**			
2013	$ 34,024	$ 34,024	$ -	$ 1,010,785	3.37%
2014	49,796	49,796	-	1,203,972	4.14%
2015	57,084	57,084	-	1,268,950	4.50%
2016	63,210	63,210	-	1,296,506	4.88%
2017	70,982	70,982	-	1,447,558	4.90%
2018	78,850	78,850	-	1,557,570	5.06%
2019	82,367	82,367	-	1,661,548	4.96%
2020	59,146	59,146	-	1,233,102	4.80%
2021	55,944	55,944	-	1,310,213	4.27%
2022	55,866	55,866	-	1,487,272	3.76%

* The calculation for statutorily required contributions has been reduced by the 0.18% that applies to the employer administrative expense fee.

** A portion of the employer contribution for PERS Plan 2/3 is allocated to PERS Plan 1 to fund the unfunded actuarially accrued liability as required by RCW 41.45.060.

Data reported is measured as of December 31 for each respective year.

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Schedule of Contributions - PERS Plan 2/3
Last 10 Fiscal Years

Fiscal Year	Statutorily Required Contributions (a) *	Actual Contributions (b) **	Contributions Deficiency (Excess) (a-b)	Employer's Covered Employee Payroll (c)	Contributions as a Percentage of Covered Employee Payroll (b/c)
2013	$ 48,008	$ 48,008	$ -	$ 990,459	4.85%
2014	58,922	58,922	-	1,179,211	5.00%
2015	70,461	70,461	-	1,246,585	5.65%
2016	79,405	79,405	-	1,274,568	6.23%
2017	99,552	99,552	-	1,447,558	6.88%
2018	116,813	116,813	-	1,557,570	7.50%
2019	128,051	128,051	-	1,661,548	7.71%
2020	97,662	97,662	-	1,233,102	7.92%
2021	93,194	93,194	-	1,310,213	7.11%
2022	94,591	94,591	-	1,487,272	6.36%

* The calculation for statutorily required contributions has been reduced by the 0.18% that applies to the employer administrative expense fee.

** A portion of the employer contribution for PERS Plan 2/3 is allocated to PERS Plan 1 to fund the unfunded actuarially accrued liability as required by RCW 41.45.060.

Data reported is measured as of December 31 for each respective year.

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Notes to PERS Plan Schedules
December 31, 2022

1. Changes in Benefit Terms

There were no changes in benefit terms during the Plan year ended June 30, 2022.

2. Changes in Composition of the Population

There were no changes in the composition of the populations during the Plan year ended June 30, 2022.

3. Changes in Assumptions

For the Plan's most recent actuarial valuation, there were no changes in assumptions.

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Schedule of Changes in the Total OPEB Liability and Related Ratios - PEBB
Last 10 Fiscal Years *

	2022	2021	2020	2019	2018
Total OPEB liability, beginning of year	$ 733,751	$ 706,634	$ 702,796	$ 476,959	$ 451,505
Service cost	41,843	37,665	35,957	28,586	40,238
Interest	16,580	16,340	25,721	19,403	17,545
Changes in benefit terms	-	-	-	-	-
Changes in exeperience data and assumptions	(135,711)	(16,929)	(50,019)	186,276	(28,953)
Benefit payments	(16,079)	(9,959)	(7,821)	(8,428)	(3,376)
Net change in total OPEB liability	(93,367)	27,117	3,838	225,837	25,454
Total OPEB liability, end of year	$ 640,384	$ 733,751	$ 706,634	$ 702,796	$ 476,959
Employer's covered employee payroll	$ 1,430,748	$ 1,188,092	$ 1,067,079	$ 1,729,987	$ 1,381,053
Total OPEB liability as a percentage of covered payroll	44.76%	61.76%	66.22%	40.62%	34.54%

* GASB Statement No. 75 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Data reported is measured as of December 31 for each respective year.

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Notes to OPEB PEBB Plan Schedule
December 31, 2022

1. Changes in Benefit Terms

There were no changes in benefit terms during the PEBB Plan year ended June 30, 2022.

2. Changes in Assumptions

During the PEBB Plan year ended June 30, 2022, the assumed discount rate was increased from 2.16% at June 30, 2021 to 3.54% at June 30, 2022, based on the 20-year municipal bond indices per GASB No. 75 requirements.

Compliance Report

DECORIA, BLAIR & TEAGUE, PS

Certified Public Accountants
Business Consultants
Micheal A. DeCoria, CPA
Brandon J. Blair, CPA
David W. Teague, CPA

Independent Auditor's 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*

Board of Commissioners
Public Utility District No. 1 of Kittitas County, Washington
Ellensburg, 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 Kittitas County, Washington ("the District"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 27, 2023.

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) to determine the 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 in the first paragraph of this section 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 did identify two deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as Findings 2022-001 and 2022-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to the Finding

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

The sole purpose of this report is 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.

DeCoria, Blair & Teague, PS

DeCoria, Blair & Teague, P.S.
Spokane, Washington

June 27, 2023

Public Utility District No. 1 of Kittitas County, Washington
Schedule of Findings and Responses
Year Ended December 31, 2022

Section I – Summary of Auditor's Results:

Financial Statements

The independent auditor's report expressed an unmodified opinion on the District's basic financial statements.

The audit of the District's financial statements disclosed two significant deficiencies in internal control over financial reporting.

The audit of the District's financial statements disclosed no material weaknesses in internal control over financial reporting.

The audit disclosed no compliance findings material to the District's financial statements.

Section II – Financial Statement Findings:

This section identifies the significant deficiencies, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

<u>Finding 2022-001</u>

Condition	The size of the District's staff is not large enough to permit a complete segregation of duties for a comprehensive system of internal control over financial reporting. Management continues to implement various procedures to improve segregation of duties related to most day-to-day operations. However, the District has a limited number of individuals with sufficient understanding of accounting principles necessary to provide adequate oversight and review of the various financial reporting requirements in accordance with accounting principles generally accepted in the United States of America.
Criteria	An effective system of internal control over financial reporting requires that closely related duties be segregated, including duties outside of the day-to-day operations. These additional functions specifically relate to the various reporting requirements in accordance with accounting principles generally accepted in the United States of America; general journal entries; and nonroutine or unusual transactions. In addition, an effective system of internal control over financial reporting requires adequate oversight and review procedures.
Effect	The concentration of closely related duties and responsibilities by a small staff makes it difficult to establish a complete system of automatic internal checks on the accuracy and reliability of the accounting records. In addition, transactions outside of the day-to-day operations generally contain a higher degree of complexity and, therefore, result in a greater risk that a material misstatement related to this transaction would not be detected and corrected on a timely basis.

Finding 2022-001, Continued

Cause	The District's staff is too small to allow a complete segregation of duties and adequate oversight and review of the various financial reporting requirements.
Recommendation	The District's staff is not large enough to permit a complete segregation of duties for an effective system of internal control over financial reporting, specifically related to duties outside the day-to-day operations. We recommend that officials be aware that the condition does exist and continue to evaluate potential opportunities for improvement as they present themselves.
Management's Response	Management and the District's Board of Commissioners are aware of this condition and have made a conscious decision to accept the resulting degree of risk because of cost or other considerations.

Finding 2022-002

Condition	The District's procedures for adequately monitoring, recording and accounting for inventory are not fully formalized and documented, and have not consistently been performed in a timely manner. In addition, there appears to be a lack of appropriate communication between those responsible for the custody and tracking of inventory assets and those responsible for the financial records.
Criteria	An effective system of internal control over financial reporting includes regularly monitoring, recording and reconciling the receipt and usage of inventory in a timely manner, and adjusting the recorded balances if necessary.
Effect	In connection with performing our audit testing of the work order system, specifically related to the inventory charge coding, there were several instances noted in which inventory items charged to work orders either did not agree or could not be agreed to supporting documentation. In some instances, there was no documentation that was provided that could directly support the specific inventory item, including quantities, charged to the work order. While there were no material misstatements identified in connection with performing this audit testing, it became apparent that documentation is not adequately maintained to support the inventory amounts charged to various work orders or maintenance expense on a consistent and timely basis. In addition, there was also no evidence that any oversight or monitoring procedures were performed to ensure proper reconciliation of amounts charged to work orders or maintenance expense.
Cause	The District does not have fully formalized, documented procedures for adequately tracking the inventory activity, including reconciling the supporting documentation of inventory activity to the amounts charged to the work orders or maintenance, in a timely manner. In addition, there are limited oversight procedures in place to ensure proper communication of inventory activity, including supporting documentation, has occurred between those responsible for the custody and tracking of inventory assets with those responsible for the financial records.

Finding 2022-002, Continued

Recommendation	We recommend that the District develop and implement improved policies and procedures to adequately monitor, record and reconcile inventory transactions and the corresponding recorded balances, as applicable. These procedures should include documentation that supports the inventory activity, including the documented communication between those responsible for the custody and tracking of inventory assets with those responsible for the financial records. In addition, we recommend that the District appoint an individual with the responsibility to monitor and oversee the performance of these procedures.
Management's Response	Management acknowledges our responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud or error. Management has requested Operations create and implement procedures to adequately monitor, record and reconcile inventory transactions. These procedures must improve the work order system and provide documentation of inventory activity. An independent individual will be appointed to monitor and oversee the performance of these procedures.

Public Utility District No. 1 of Kittitas County, Washington
Status of Prior Year Findings
Year Ended December 31, 2022

Finding 2021-001

Condition	The size of the District's staff is not large enough to permit a complete segregation of duties for a comprehensive system of internal control over financial reporting.
Status	This condition continues to exist at December 31, 2022, but has been updated to better reflect the current status. See Finding 2022-001.