



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Cowlitz County

For the period January 1, 2023 through December 31, 2023

Published May 28, 2024

Report No. 1034942



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

May 28, 2024

Board of Commissioners
Public Utility District No. 1 of Cowlitz County
Longview, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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

Public Utility District No. 1 of Cowlitz County January 1, 2023 through December 31, 2023

Board of Commissioners
Public Utility District No. 1 of Cowlitz County
Longview, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of each major fund of Public Utility District No. 1 of Cowlitz County, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 21, 2024.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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

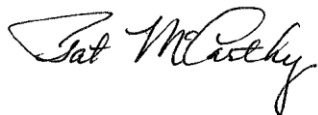
REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

Pat McCarthy, State Auditor

Olympia, WA

May 21, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Public Utility District No. 1 of Cowlitz County January 1, 2023 through December 31, 2023

Board of Commissioners
Public Utility District No. 1 of Cowlitz County
Longview, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of each major fund of Public Utility District No. 1 of Cowlitz County, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Public Utility District No. 1 of Cowlitz County, as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Other Matters

Prior-Year Comparative Information

The financial statements include partial year prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting

principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2022, from which such partial information was derived. We have previously audited the District's 2022 financial statements and we expressed unmodified opinions on the respective financial statements of each major fund in our report dated June 6, 2023. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks.

Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;

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

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an

opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

May 21, 2024

FINANCIAL SECTION

Public Utility District No. 1 of Cowlitz County January 1, 2023 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis – 2023

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2023

Statement of Revenues, Expenses and Changes in Net Position – 2023

Statement of Cash Flows – 2023

Notes to Combined Financial Statements – 2023

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios – 2023

Schedule of Proportionate Share of the Net Pension Liability (Asset) and Contributions –
PERS 1, PERS 2/3 – 2023

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2023

This discussion and analysis is designed to provide an overview of the financial activities of Public Utility District No. 1 of Cowlitz County, Washington (the District) for the year ended December 31, 2023 with comparable information for 2022 and 2021. This supplementary information is to be read in conjunction with the District's financial statements.

The District is a municipal corporation incorporated in 1936 to serve the citizens of Cowlitz County, Washington. The District is governed by a three-member board of locally elected commissioners, independent of county government. The District manages and operates two systems: Electric and Production (Swift No. 2 Hydroelectric).

Financial Policies and Controls

The District's financial management system consists of financial policies, financial planning and its internal control structure. This system set standards for rate sufficiency, rate stability, reserve funds, capital investment and debt management that guide the development of budgets, rates and debt issuance.

The District's Board has the exclusive right to determine rates and charges for services provided. Planning is guided by forecasts of operating and capital needs to meet District objectives.

ELECTRIC SYSTEM

The Electric System provides electric service throughout Cowlitz County, which encompasses 1,144 square miles and approximately 53,000 customers. The District is among the largest PUDs in the state of Washington with total 2023, 2022 and 2021 retail power sales of 4,104,044 MWHs, 4,438,882 MWHs and , 4,509,075 MWHs MWHs, respectively. Approximately 65% of the District's power and 45% of revenues are sold to four industrial customers. Extreme weather and economic conditions are the primary influences on electricity sales.

The Electric System power supply is provided through contracts with Bonneville Power Administration (BPA) and Grant County PUD, as well as the purchase of the output from the District's Swift No. 2 Hydroelectric Production System on the Lewis River and the power associated with a 2 MW share of Energy Northwest's Nine Canyon Wind Project. The District also receives and sells energy from interests in two wind projects; 46% of the 204.7 MW White Creek Wind Project (contractual interest) and 30% of the 98.9 MW Harvest Wind Project (tenant in common). Both projects are located in Klickitat County, WA. Approximately 80% of the District's power supply is purchased from BPA.

Since the majority of the District's power supply comes from hydroelectric generation, financial performance of the Electric System is largely influenced by the availability of water for generation and by prices obtainable for excess generation in the wholesale markets. Wholesale sales activity can complement sales to retail customers and provides a stabilizing portfolio effect in years when wholesale sales are at or higher than budget. Conversely, when wholesale sales are below budget, this activity will not provide the expected support for retail rates and may cause upward rate pressures. The District also uses forward physical power contracts and financial instruments that set a "floor" to protect the District from commodity price risk.

Overall, the Electric System's net position increased approximately \$29.4 million or 12.4% for 2023 and increased approximately \$35.6 million or 17.7% and \$17.7 million or 9.7% for 2022 and 2021, respectively. The Electric System continued investing in plant infrastructure.

Selected Financial Data – Electric System

	2023	2022	2021
Current Assets	\$ 121,245,845	\$ 166,590,527	\$ 119,689,307
Net Utility Plant	197,373,193	181,172,204	176,967,658
Other Assets and Deferred Outflows	161,233,023	183,990,005	146,615,870
Total Assets and Deferred Outflows	479,852,061	531,752,736	443,272,835
Current Liabilities	48,844,570	73,590,167	48,109,419
Long-Term Liabilities	57,431,250	71,196,742	84,438,674
Other Liabilities and Deferred Inflows	107,154,421	149,908,935	109,263,773
Total Liabilities and Deferred Inflows	213,430,241	294,695,844	241,811,866
Net investment in capital assets	142,441,311	114,389,434	97,725,181
Restricted	9,684,213	7,632,607	4,809,309
Unrestricted	114,296,296	115,034,851	98,926,479
Total Net Position	266,421,820	237,056,892	201,460,969
Operating Revenues	247,296,968	247,678,406	276,583,567
Operating Expenses	224,738,198	215,410,153	259,477,227
Net Operating Revenues	22,558,770	32,268,253	17,106,340
Other Income (Expense)	6,806,158	3,327,670	638,883
Change in Net Position	29,364,928	35,595,923	17,745,223

Results of operations are primarily impacted by changes in rates, retail load, net power supply costs, particularly generation levels and wholesale prices, conservation activities and rate stabilization decisions. Retail rates were unchanged in 2023, 2022 and 2021.

Capital Asset and Long-Term Debt Activity

As of year-end, the Electric System had \$373 million invested in plant in service an increase of 5% from prior year. Additions are primarily related to a planned construction program with a focus on safety and reliability. Capital construction is funded by a combination of rates, aid-to-construction paid by customers and long-term revenue bonds.

Total Electric System plant in service consisted of the following:

	2023	2022	2021
Intangible	\$ 239,963	\$ 239,963	\$ 239,963
Land and Land Rights	3,644,390	3,644,390	3,644,390
Transmission & Distribution	314,881,357	300,186,176	287,882,874
General Plant	50,562,921	48,378,203	47,533,313
Intangible Right-To-Use Leases	3,814,515	3,814,515	3,672,926
Total Plant In Service	\$ 373,143,146	\$ 356,263,247	\$ 342,973,466

At December 31, 2023, the Electric System had outstanding revenue bonds totaling \$62 million compared to \$73 million and \$84 million at December 31, 2021 and 2020, respectively. No new debt was issued in 2023, 2022 or 2021.

PRODUCTION SYSTEM

The Production System operates the 66.8 MW Swift No. 2 Hydroelectric Project on the Lewis River. All of the output is sold to the District's Electric System at cost. The 50-year FERC license expires in June 2058. Overall, the Production System's net position decreased approximately \$1.6 million or 1.8% for 2023 and decreased approximately \$1.2 million or 1.3% and \$1.2 million or 1.3% for 2022 and 2021, respectively.

Selected Financial Data – Production System

	2023	2022	2021
Current Assets	\$ 19,537,745	\$ 18,407,951	\$ 23,520,951
Net Utility Plant	93,930,525	96,281,064	98,451,957
Other Assets and Deferred Outflows	17,830,678	21,931,588	20,247,168
Total Assets and Deferred Outflows	131,298,948	136,620,603	142,220,076
Current Liabilities	5,107,121	4,706,141	4,774,759
Long-Term Debt	38,117,251	39,983,395	41,785,781
Other Liabilities and Deferred Inflows	687,068	2,961,791	5,511,932
Total Liabilities and Deferred Inflows	43,911,440	47,651,327	52,072,472
Net investment in capital assets	56,515,267	55,013,164	52,891,324
Restricted	-	-	-
Unrestricted	30,872,241	33,956,112	37,256,280
Total Net Position	87,387,508	88,969,276	90,147,604
Operating Revenues	7,709,160	7,059,420	6,535,020
Operating Expenses	8,645,698	7,419,776	6,545,057
Net Operating Revenues (Expenses)	(936,538)	(360,356)	(10,037)
Other Income (Expense)	(645,230)	(817,972)	(1,218,357)
Change in Net Position	(1,581,768)	(1,178,328)	(1,228,394)

Operating revenues are set to cover operating and capital costs, debt service and to fund reserves over time. Fluctuations in operations from year to year are largely impacted by non-recurring or infrequent projects.

Capital Asset and Long-Term Debt Activity

No substantial capital activity in 2023, 2022 or 2021 and no new debt.

Total Production System plant in service consisted of the following:

	2023	2022	2021
Intangible	\$ 3,113,155	\$ 3,113,155	\$ 3,113,155
Land and Land Rights	1,224,229	1,224,229	1,224,229
Production Plant	145,190,525	144,837,523	144,187,735
Transmission Plant	6,802,943	6,802,943	6,802,943
Total Plant In Service	\$ 156,330,852	\$ 155,977,850	\$ 155,328,062

At December 31, 2023, the Production System had outstanding revenue bonds totaling \$38 million compared to \$39 million and \$41 million at December 31, 2022 and 2021, respectively.

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2023 AND 2022

			2023	2022
	Electric	Production	Total	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 73,825,020	\$ 14,740,735	\$ 88,565,755	\$ 84,903,808
Investments	6,372,055	2,972,580	9,344,635	24,826,485
Accounts receivable and unbilled revenues	20,107,074	-	20,107,074	23,932,901
Lease and other accounts receivable	8,415,905	-	8,415,905	41,128,319
Allowance for uncollectible accounts	(1,844,554)	-	(1,844,554)	(1,651,905)
Accounts receivable from assoc. companies	651,335	-	651,335	280,516
Current portion of advances to others	-	985,474	985,474	942,183
Materials and supplies	11,577,036	-	11,577,036	8,226,392
Prepayments	1,606,146	802,530	2,408,676	1,850,726
Interest receivable	535,828	36,426	572,254	559,053
Total current assets	121,245,845	19,537,745	140,783,590	184,998,478
RESTRICTED ASSETS				
Cash and cash equivalents	3,006,601	2,383,051	5,389,652	3,003,870
Investments	9,017,994	2,234,803	11,252,797	13,183,001
Total restricted assets	12,024,595	4,617,854	16,642,449	16,186,871
UTILITY PLANT				
Plant in service	369,328,631	156,330,852	525,659,483	508,426,582
Right-to-use lease assets	3,814,515	-	3,814,515	3,814,515
Construction in progress	8,792,744	616,414	9,409,158	6,125,785
Total utility plant	381,935,890	156,947,266	538,883,156	518,366,882
Less accumulated depreciation and amortization	184,562,697	63,016,741	247,579,438	240,913,614
Net utility plant	197,373,193	93,930,525	291,303,718	277,453,268
OTHER PROPERTY AND INVESTMENTS				
Investments	61,787,969	8,566,654	70,354,623	48,051,924
Long-term lease receivable	874,705	-	874,705	1,145,508
White creek energy purchase agreement	16,128,830	-	16,128,830	20,446,555
Investment in associated organizations	24,572,181	-	24,572,181	26,409,957
Advances to other funds	-	3,236,471	3,236,471	4,221,945
Other charges	7,810,891	355,239	8,166,130	18,266,425
Net pension asset	5,496,210	-	5,496,210	5,285,939
Total other property and investments	116,670,786	12,158,364	128,829,150	123,828,253
DEFERRED OUTFLOWS OF RESOURCES	32,537,642	1,054,460	33,592,102	65,906,469
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 479,852,061	\$ 131,298,948	\$ 611,151,009	\$ 668,373,339

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2023 AND 2022

			2023	2022
	Electric	Production	Total	Total
CURRENT LIABILITIES				
Current portion of long-term liabilities	\$ 13,110,359	\$ 1,570,000	\$ 14,680,359	\$ 14,105,125
Current portion of Lewis River Cost-Share Agreement	-	2,252,546	2,252,546	2,252,546
Accounts payable	22,812,991	-	22,812,991	48,708,883
Accounts payable to assoc. companies	-	651,335	651,335	280,516
Accrued wages and benefits	3,955,909	-	3,955,909	3,632,934
Customer deposits	1,510,784	-	1,510,784	1,586,599
Taxes payable	6,341,801	44,311	6,386,112	5,831,340
Interest payable	1,112,726	588,929	1,701,655	1,898,365
Total current liabilities	48,844,570	5,107,121	53,951,691	78,296,308
LONG-TERM LIABILITIES				
Bonds payable	50,525,000	36,335,000	86,860,000	99,980,000
Premium on bonds payable	1,629,298	1,782,251	3,411,549	4,362,826
Long-term lease liability	1,832,384	-	1,832,384	2,357,278
Advances from other funds	3,236,471	-	3,236,471	4,221,945
Loan payable	208,097	-	208,097	258,088
Total long-term liabilities	57,431,250	38,117,251	95,548,501	111,180,137
OTHER LIABILITIES AND CREDITS				
Net pension liability	2,373,882	-	2,373,882	3,040,613
Lewis River Cost-Share Agreement	-	450,509	450,509	2,703,055
Compensation reserve	1,741	-	1,741	16,484
Other credits	24,930,722	-	24,930,722	54,321,387
Post-retirement benefit obligation	5,300,239	-	5,300,239	4,971,394
Total other liabilities and credits	32,606,584	450,509	33,057,093	65,052,933
TOTAL LIABILITIES	138,882,404	43,674,881	182,557,285	254,529,378
COMMITMENTS AND CONTINGENCIES				
DEFERRED INFLOWS OF RESOURCES	74,547,837	236,559	74,784,396	87,817,793
NET POSITION				
Net investment in capital assets	142,441,311	56,515,267	198,956,578	169,402,598
Restricted	9,684,213	-	9,684,213	7,632,607
Unrestricted	114,296,296	30,872,241	145,168,537	148,990,963
TOTAL NET POSITION	266,421,820	87,387,508	353,809,328	326,026,168
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 479,852,061	\$ 131,298,948	\$ 611,151,009	\$ 668,373,339

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023		2022	
	Electric	Production	Total	Total
OPERATING REVENUES				
Retail sales	\$ 230,829,348	\$ 7,709,160	\$ 238,538,508	\$ 235,095,740
Wholesale sales	13,805,381	-	13,805,381	17,777,403
Other operating revenues	2,662,239	-	2,662,239	1,864,683
Total operating revenues	247,296,968	7,709,160	255,006,128	254,737,826
OPERATING EXPENSES				
Net power costs	163,496,431	-	163,496,431	158,192,337
Operations expense	25,025,944	3,731,130	28,757,074	23,902,931
Maintenance expense	9,771,549	1,867,690	11,639,239	11,474,454
Depreciation and amortization	14,127,101	3,002,330	17,129,431	16,358,703
Taxes	12,317,173	44,548	12,361,721	12,901,504
Total operating expenses	224,738,198	8,645,698	233,383,896	222,829,929
OPERATING INCOME (LOSS)	22,558,770	(936,538)	21,622,232	31,907,897
OTHER INCOME (EXPENSE)				
Interest and dividend income	4,486,833	1,051,828	5,538,661	2,951,383
Interest on long-term debt and leases	(3,591,065)	(1,533,678)	(5,124,743)	(5,611,905)
Amortization of regulatory asset	(43,890)	(27,862)	(71,752)	(71,752)
Income from Harvest Wind Project	556,396	-	556,396	659,127
Miscellaneous nonoperating income (expense)	(290,425)	(135,518)	(425,943)	(214,512)
Total other income (expense)	1,117,849	(645,230)	472,619	(2,287,659)
CHANGE IN NET POSITION BEFORE CONTRIBUTIONS AND SUBSIDY	23,676,619	(1,581,768)	22,094,851	29,620,238
Contributions in aid of construction	5,105,937	-	5,105,937	4,042,166
BAB subsidy	582,372	-	582,372	755,191
CHANGE IN NET POSITION	29,364,928	(1,581,768)	27,783,160	34,417,595
TOTAL NET POSITION, beginning of year	237,056,892	88,969,276	326,026,168	291,608,573
TOTAL NET POSITION, end of year	\$ 266,421,820	\$ 87,387,508	\$ 353,809,328	\$ 326,026,168

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

			2023	2022
	Electric	Production	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 251,239,629	\$ 7,709,160	\$ 258,948,789	\$ 254,565,649
Cash payments to suppliers	(172,096,787)	(5,418,930)	(177,515,717)	(182,645,504)
Cash payments to employees	(18,001,718)	-	(18,001,718)	(16,440,392)
Cash payments for taxes	(11,757,524)	(49,425)	(11,806,949)	(14,262,415)
Net cash from operating activities	49,383,600	2,240,805	51,624,405	41,217,338
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Inter-System Advances	(942,183)	942,183	-	-
Net cash from non-capital financing activities	(942,183)	942,183	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction and acquisition of utility plant, net	(30,328,090)	(651,791)	(30,979,881)	(18,250,767)
Principal paid on long-term debt	(11,164,206)	(3,742,546)	(14,906,752)	(14,430,976)
Principal payments on long-term leases	(508,736)	-	(508,736)	(480,940)
Interest paid on long-term leases	(94,779)	-	(94,779)	(110,042)
Interest paid on long-term debt and notes	(4,069,821)	(1,841,285)	(5,911,106)	(6,498,232)
Harvest Wind Project, net	2,452,577	-	2,452,577	2,647,577
Contributions in aid of construction	5,105,937	-	5,105,937	4,042,166
BAB subsidy	582,372	-	582,372	755,191
Materials and supplies	(3,350,644)	-	(3,350,644)	(2,599,173)
Other charges, net	(11)	-	(11)	(5,358)
Miscellaneous nonoperating	(290,425)	(135,518)	(425,943)	(214,512)
Net cash from capital and related financing activities	(41,665,826)	(6,371,140)	(48,036,966)	(35,145,066)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net investment activity	(9,841,911)	6,835,146	(3,006,765)	(6,636,058)
Interest and dividends on investments	4,447,566	1,077,894	5,525,460	2,978,012
Investment in associated organizations	(58,405)	-	(58,405)	-
Net cash from investing activities	(5,452,750)	7,913,040	2,460,290	(3,658,046)
NET CHANGE IN CASH	1,322,841	4,724,888	6,047,729	2,414,226
CASH AND CASH EQUIVALENTS, beginning	75,508,780	12,398,898	87,907,678	85,493,452
CASH AND CASH EQUIVALENTS, end of year	\$ 76,831,621	\$ 17,123,786	\$ 93,955,407	\$ 87,907,678

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Reconciliation of operating income to net cash from operating activities:			2023		2022	
	Electric	Production	Total	Total	Total	Total
Operating income (loss)	\$ 22,558,770	\$ (936,538)	\$ 21,622,232	\$ 31,907,897		
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	14,127,101	3,002,330	17,129,431	16,358,703		
Amortization of energy purchase agreement	4,317,725	-	4,317,725	4,317,725		
Changes in assets and liabilities:						
Customer accounts receivable and unbilled	4,018,476	-	4,018,476	16,706		
Lease and other accounts receivable	32,712,414	-	32,712,414	(33,128,656)		
Accounts receivable from assoc. companies	(370,819)	-	(370,819)	133,575		
Prepayments	(387,150)	(170,800)	(557,950)	(847,558)		
Carbon allowances	(873,000)	-	(873,000)	-		
Accounts payable	(25,875,763)	(20,129)	(25,895,892)	26,321,795		
Accounts payable to assoc. companies	-	370,819	370,819	(133,575)		
Accrued wages and benefits	322,975	-	322,975	411,187		
Net pension and related	(2,450,930)	-	(2,450,930)	(2,232,454)		
Customer deposits	(75,815)	-	(75,815)	(188,883)		
Taxes payable	559,649	(4,877)	554,772	(1,360,911)		
Energy efficiency reserve	561,165	-	561,165	904,548		
Compensation reserve	(14,743)	-	(14,743)	(9,124)		
Other credits	(74,759)	-	(74,759)	(48,817)		
Deferred lease revenues	(271,344)	-	(271,344)	(271,345)		
Long-term lease receivable	270,803	-	270,803	264,732		
Post-retirement benefit obligation	328,845	-	328,845	(1,198,207)		
	\$ 49,383,600	\$ 2,240,805	\$ 51,624,405	\$ 41,217,338		

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

PUBLIC UTILITY DISTRICT NO. 1 OF COWLITZ COUNTY, WASHINGTON
NOTES TO THE COMBINED FINANCIAL STATEMENTS
For the Years Ended December 31, 2023 and 2022

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Public Utility District No. 1 of Cowlitz County, Washington (the District) was founded on November 3, 1936 and is a municipal corporation of the State of Washington. The District is governed by an elected three-member board of commissioners that have the responsibility to set rates and charges for services provided.

The District's reporting entity is comprised of the combined Electric System and Production System (66.8 MW Lewis River Swift Plant No. 2 Hydroelectric System). Inter-company balances and transactions have not been eliminated from the combined amounts reported. The District has no component units.

The District's wholesale activity is generated from the sale of the output from interests in two wind projects; 46% of the 204.7 MW White Creek Wind Project (contractual interest) and 30% of the 98.9 MW Harvest Wind Project (tenant in common). Both projects are located in Klickitat County, WA.

B. Basis of Accounting and Presentation

The District's accounting policies are in accordance with accounting principles generally accepted in the United States of America. The District applies accounting and reporting standards of the Governmental Accounting Standards Board (GASB), exclusively. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

C. New Accounting Standards

GASB has issued the following Statements for which the District is evaluating the impact on its combined financial statements:

- Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, effective for financial statements for fiscal years beginning after June 15, 2023.
- Statement No. 101, *Compensated Absences*, effective for financial statements for fiscal years beginning after December 15, 2023.
- Statement No. 102, *Certain Risk Disclosures*, effective for financial statements for fiscal years beginning after June 15, 2024.

GASB has issued the following Statements which were fully implemented during the current year:

- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for financial statements for fiscal years beginning after June 15, 2022. This Statement was implemented within the current period with no effect.
- Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for financial statements for fiscal years beginning after June 15, 2022. This Statement was implemented within Note 1.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash Equivalents

The District considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents. Balances in the Local Government Investment Pool (LGIP) are considered cash equivalents as they can be converted to cash within one day.

F. Investments

The District records investments at fair value, with changes in unrealized gains and losses reported as a regulatory liability or asset (See Notes 2 and 6). The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs. The District's fair market measurements are classified as Level 2.

G. Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable are recorded when invoices are issued and are written-off when they are determined to be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available information, of customers that may be unable to meet their financial obligations, and a reserve based on historical experience. Actual losses between twelve and fifteen months old are then charged against the provision for uncollectible accounts quarterly.

H. Other Accounts Receivable

Other accounts receivable consists of certain wholesale transactions, conservation reimbursements, aid to construction billings and other miscellaneous customer and non-customer items that may require invoicing that would not normally be entered into the customer service billing system.

I. Interfund Balances and Transactions

The District's Electric System makes payments for goods, services and taxes on behalf of the Production System. This is reflected in the statement of net position as "accounts receivable from associated companies." Alternatively, the amounts due by the Production System to the Electric System are reflected in the statement of net position as "accounts payable to associated companies." These accounts include only short-term obligations, which are paid monthly and are not interfund loans. A description of loans and long-term advances between funds is contained in Note 7.

J. Materials and Supplies

Materials and supplies consist of items for plant maintenance and construction and are stated at average cost.

K. Restricted Assets

In accordance with bond resolutions and certain related agreements, separate restricted funds are required to be established. Cash and investments held in these funds are restricted for specific uses, including debt service and other special reserve requirements.

L. Utility Plant and Depreciation

Utility plant is stated at original cost or, if donated, fair value (See Note 3). Cost includes labor, materials and related indirect costs. Constructed additions, renewals and betterments with a minimum cost of \$1,000 per item are capitalized. Equipment and tools with an individual cost of \$5,000 or less are charged to operating expense. Repairs and minor replacements are charged to operating expenses. When an asset is removed from service and retired, unless it is a major retirement or a general plant asset, the cost of property plus removal cost less salvage is charged to accumulated depreciation. No material utility plant impairments were noted for the years ended December 31, 2023 and 2022.

Contributions by developers and customers are recorded at contract price or cost as contributions in aid-of-construction and recorded in the statement of revenues, expenses and changes in net position.

Depreciation is computed on the straight-line method over estimated useful lives as follows: Distribution Plant - 20 to 33 years; Transmission Plant - 33 to 40 years; General Plant - 4 to 50 years; Production Plant - 10 to 50 years; FERC License - 50 years.

M. Asset Retirement Obligations (ARO)

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

- Removal of certain transmission and distribution assets on leased or licensed property
- Decommissioning of the Swift No. 2 Hydroelectric generation facility
- Decommissioning of the Harvest Wind Project

As the District has no plans to retire or remove the transmission and distribution assets or Swift No. 2 Hydroelectric generation facility, the timing and extent of any liabilities associated with operations is not determinable at this time. An ARO will be recorded if future events warrant a change.

An ARO has been determined for the Harvest Wind Project (See Note 4).

N. White Creek Wind Project Energy Purchase Agreement

In November 2007, the White Creek Wind Project began energy production and the District paid \$85,572,237 under the Amended and Restated White Creek Wind Project Energy Purchase Agreement to receive a 46% share of the energy for 20 years. With certain exceptions, the Agreement stipulates a minimum Annual Energy Quantity (225,917 MWh). The payment was made with unrestricted funds (\$70,354,497) and a loan from the Production System to the Electric System (\$15,217,740 – See Note 7). The prepayment is being amortized on a straight-line basis over the life of the contract. In addition, the District is responsible for its share of annual operating costs.

O. Regulatory Assets

The District has deferred costs to be charged to future periods matching the time periods when the expenses are included in rates.

P. Unamortized Bond Premiums

Bond premiums are amortized to interest expense using the effective interest method over the term of the bonds.

Q. Debt Refundings

For current and advance refundings, the difference between the reacquisition price and the net carrying amount of the old debt (gain or loss) is deferred and amortized as a component of interest expense over the remaining life of the old debt or the new debt, whichever is shorter. These amounts are reported as deferred inflows or outflows of resources on the statement of net position.

R. Fair Value of Financial Instruments

The carrying amounts of current assets, including restricted cash and investments, and current liabilities approximate fair value due to the short-term maturity of those instruments. The fair value of the District's investments and debt are estimated based on quoted market prices for the same or similar issues.

S. Derivative Instruments

The District enters into derivative energy transactions to hedge its known or expected positions within its approved Risk Management policy. Decisions are made to enter into forward transactions to protect its financial position, specifically to deal with expected long and short positions as determined by projected load and resource balance positions, with the objective of providing stable rates and meeting budget.

Subject to certain exceptions, GASB requires that every derivative instrument be recorded on the statement of net position as an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective. Effective hedges qualify for hedge accounting and such changes in fair values are deferred. These are recorded on the statement of net position as deferred inflows/outflows of resources as accumulated increase/decrease in fair value of hedging derivatives.

It is the District's policy to document and apply as appropriate the normal purchase and normal sales exception under GASB. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales." These transactions are excluded under GASB and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options and financial swaps for electricity are considered to be derivatives under GASB, but do not generally meet the "normal purchases and normal sales" criteria.

As of December 31, 2023 and 2022, the District had the following derivative instruments outstanding. Options are amortized to power costs over the exercise period of the option. Fair value of derivative assets are recorded under other charges and fair value of derivative liabilities are recorded under other credits on the statement of net position.

Options and Swaps Hedging Derivatives

	2023	2022
Notional value	\$ 55,485,366	\$ 69,515,128
Volumes (MWH)	1,119,010	2,692,555
Fair value - asset	\$ 6,630,746	\$ 17,532,300
Fair value - liability	\$ 24,679,783	\$ 53,995,689
Reference rates	Mid-C index	Mid-C index
Dates entered into	3/20 - 12/23	3/19 - 12/22
Dates of maturity	1/24 - 12/28	1/23 - 12/28
Cash paid	\$ -	\$ -

The fair values used for the mark-to-market amounts are based on the futures price curve for the Mid-Columbia Intercontinental Exchange. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value. Level 1 inputs are quoted prices in active markets for identical instruments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's fair market measurements are classified as Level 2.

The District has developed a credit policy that establishes guidelines for setting credit limits and monitoring credit exposure on a continuous basis. The policy addresses frequency of counterparty credit evaluations, credit limits per specific counterparty and counterparty credit concentration limits.

Commodity transactions, both physical and financial, are entered into only with counterparties approved by the District's Risk Management Advisory Committee for creditworthiness. The District has entered into master enabling agreements with various counterparties, such as International Swaps and Derivatives Association Agreements (ISDA) for financial transactions. All of the enabling agreements have provisions addressing credit exposure and provide for various remedies to assure financial performance, including the ability to call on additional collateral as conditions warrant, generally as determined by the exposed party. The District also uses netting provisions in the agreements to diffuse a portion of the risk.

The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. There are no derivative transactions outstanding that carry basis risk as of December 31, 2023. As of December 31, 2023, no termination events have occurred, and there are no outstanding transactions with material termination risk. There is no rollover, interest rate or market access risk for these derivative products at December 31, 2023.

T. Compensated Absences

The District accrues personal leave benefits as the obligation is incurred. For the years ended December 31, 2023 and 2022, amounts reported in accrued wages and benefits on the statement of net position are \$3,002,223 and \$2,653,916, respectively.

U. Rate Stabilization Fund

The District's Board of Commissioners deferred amounts as allowed for under regulatory accounting and bond covenants. Such amounts will be amortized to income consistent with ratemaking decisions. For the years ended December 31, 2023 and 2022, the District did not defer or amortize any amounts.

V. Energy Efficiency Reserve

The District is required to achieve an established amount of cost-effective conservation. Conservation funding comes in the form of energy efficiency incentives from the Bonneville Power Administration based upon verified savings achieved by project, along with performance payments. Starting in 2021, the District began reserving available incentives and payments to offset the cost of future energy efficiency projects and programs. This treatment is consistent with the District's budget and rate-setting practices.

W. Compensation Reserve

Personal leave accruals may be transferred, according to the District's Banked Personal Leave Plan, into the Banked Personal Leave Fund. Employee amounts in the Banked Personal Leave Fund are no longer tied to the employee's wage rate, but accrue interest according to the earnings of the Banked Personal Leave Fund investments.

X. Net Position

Net position consists of:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, less outstanding balances of any bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – Net position component on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

The District reported the following restricted constraints on net position:

<u>Electric System</u>	<u>2023</u>	<u>2022</u>
Pension	\$ 6,911,969	\$ 5,315,941
Escrow Funds	772,244	816,666
Self-insured health coverage reserve	2,000,000	1,500,000
Totals	<u>\$ 9,684,213</u>	<u>\$ 7,632,607</u>

- Unrestricted – Net position component that do not meet the definition of “restricted” or “net investment in capital assets,” including the White Creek Wind Project Energy Purchase Agreement and joint venture in the Harvest Wind Project (net of inter-system advances).

Y. Operating Revenues and Expenses

Operating revenues and expenses result from providing services in connection with the District's principal ongoing operations. Operating revenues are recognized when billed and expenses are recognized when incurred. In addition, the District recognizes unbilled revenue, revenues from services provided, but not yet billed. The principal operating revenues of the District are charges to customers for electric service. Operating expenses for the District include the cost of power, operations, maintenance, administrative expenses, depreciation on capital assets and taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Approximately 50% of Electric System retail sales were from four industrial customers.

The credit practices of the District require an evaluation of each customer's credit worthiness on a case-by-case basis. Based on policy, a deposit or other credit assurance may be obtained from the customer. Except for the three largest industrial customers, for which the District has contractual credit assurance provisions in place, concentrations of credit risk with respect to receivables for retail customers are limited due to the number of customers comprising the District's customer base. Credit losses have been within management's expectations. Similar to its evaluation of residential, commercial and industrial customers' credit reviews, the District evaluates its wholesale power customers by reviewing credit ratings and financial credit worthiness of existing and new customers.

Z. Leases (Lessee and Lessor) and Subscription-Based Information Technology Arrangements (SBITA)

The District reports leases and SBITAs as defined by GASB 87 and GASB 96, respectively. Leases are long-term contracts that convey control of the right-to-use another entity's nonfinancial asset as specified in a contract for a period of time in exchange or exchange-like transactions. SBITA is defined as a contract that conveys control of the right to use another party's information technology (IT) software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction.

The lease or subscription term includes the noncancellable periods of the lease or SBITA, plus any additional periods covered by either the District or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the District and the lessor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease or subscription term.

Generally, the District enters into lease and SBITA contracts that have a noncancellable period of 12 months or less. For lease and SBITA arrangements with a maximum possible term of 12 months or less at commencement, the District recognizes expense or revenue based on the provisions of the contract. For lease and SBITA contracts that have a noncancellable term greater than 12 months, the District reports the contract if at commencement the calculated present value of future payments total more than \$75,000. The District discloses variable long term contracts if the noncancellable term is greater than 12 months and current plus future variable payments or receivables could exceed \$100,000. Variable contracts are contracts that are based upon future performance such as number of licenses or number of meters.

The District had no SBITA that meet the above thresholds. For leases that meet the above threshold, the District reports a lease liability and a right-to-use asset when a lessee and reports a lease receivable and a deferred inflow when a lessor. (See note 12)

AA. Pensions

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

The District includes net pension asset and the related deferred outflows and deferred inflows in the calculation of restricted net position

BB. Significant Risks and Uncertainties

The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster related disruptions; employee matters; collective bargaining labor disputes (contract expires March 31, 2027); fish and other Endangered Species Act issues; Environmental Protection Agency regulations; federal and state government regulations or orders; deregulation of the electric industry; and market risks inherent in buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

The District maintains insurance coverage for property, casualty and liability claims and is self-insured for employee health benefits up to certain stop-loss limits (\$100,000 per individual in both 2022 and 2023 and \$4.0 million in aggregate in both 2022 and 2023). Health benefit claims paid for the years ended December 31, 2023 and 2022 totaled approximately \$4.0 million and \$3.0 million, respectively. The District participates in a State of Washington plan for workers compensation and is self-insured for unemployment benefits.

2. DEPOSITS AND INVESTMENTS

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

Deposits and investments as of December 31, 2023 and 2022 consisted of the following:

	2023 Electric System	2023 Production System	2023 Total	2022 Total
Cash in banks	\$ 17,005,576	\$ 3,500,447	\$ 20,506,023	\$ 21,056,118
Investment in Local Government Investment Pool	55,707,654	11,296,745	67,004,399	47,935,290
Securities	81,296,409	16,100,631	97,397,040	104,977,680
Total deposits and investments	<u>\$ 154,009,639</u>	<u>\$ 30,897,823</u>	<u>\$ 184,907,462</u>	<u>\$ 173,969,088</u>
Unrestricted:				
Cash and cash equivalents	\$ 73,825,020	\$ 14,740,735	\$ 88,565,755	\$ 84,903,808
Investments	68,160,024	11,539,234	79,699,258	72,878,409
Total unrestricted, includes ES rate stabilization fund of \$60 million	<u>\$ 141,985,044</u>	<u>\$ 26,279,969</u>	<u>\$ 168,265,013</u>	<u>\$ 157,782,217</u>
Restricted:				
Cash and cash equivalents:				
Debt service and reserve accounts	\$ 234,357	\$ 2,383,051	\$ 2,617,408	\$ 687,204
Escrow funds	772,244	-	772,244	816,666
Self-insured health coverage reserve	2,000,000	-	2,000,000	1,500,000
Total cash and cash equivalents	<u>3,006,601</u>	<u>2,383,051</u>	<u>5,389,652</u>	<u>3,003,870</u>
Investments:				
Debt service and reserve accounts	<u>9,017,994</u>	<u>2,234,803</u>	<u>11,252,797</u>	<u>13,183,001</u>
Total investments	<u>9,017,994</u>	<u>2,234,803</u>	<u>11,252,797</u>	<u>13,183,001</u>
Total restricted	<u>\$ 12,024,595</u>	<u>\$ 4,617,854</u>	<u>\$ 16,642,449</u>	<u>\$ 16,186,871</u>
Total deposits and investments	<u>\$ 154,009,639</u>	<u>\$ 30,897,823</u>	<u>\$ 184,907,462</u>	<u>\$ 173,969,088</u>

Investments as of December 31, 2023 consisted of the following:

Investment Type - Electric System	Fair Value	Investment Maturities	
		Less Than 1 Year	1 to 5 Years
US Treasury Notes	\$ 81,296,409	\$ 18,272,166	\$ 63,024,243
Totals	\$ 81,296,409	\$ 18,272,166	\$ 63,024,243

Investment Type - Production System	Fair Value	Investment Maturities	
		Less Than 1 Year	1 to 5 Years
US Treasury Notes	\$ 16,100,631	\$ 5,299,174	\$ 10,801,457
Totals	\$ 16,100,631	\$ 5,299,174	\$ 10,801,457

Investments as of December 31, 2022 consisted of the following:

Investment Type - Electric System	Fair Value	Investment Maturities	
		Less Than 1 Year	1 to 5 Years
US Treasury Notes	\$ 81,494,128	\$ 35,837,249	\$ 45,656,879
Totals	\$ 81,494,128	\$ 35,837,249	\$ 45,656,879

Investment Type - Production System	Fair Value	Investment Maturities	
		Less Than 1 Year	1 to 5 Years
US Treasury Notes	\$ 23,483,552	\$ 7,905,506	\$ 15,578,046
Totals	\$ 23,483,552	\$ 7,905,506	\$ 15,578,046

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All the aforementioned investments are held in the District's name by a third-party custodian. As required by state law and District policy, all District investments are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions. The District has an investment policy that addresses diversification of investments by security type and institution and limits its exposure to fair value losses resulting from rising interest rates.

Investments in Local Government Investment Pool (LGIP)

The District is a participant in the Local Government Investment Pool. The LGIP was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost, which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at

amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

3. UTILITY PLANT AND DEPRECIATION

A schedule of changes in utility plant and depreciation for the year ended December 31, 2023:

Electric System Utility Plant	Balance Jan. 1, 2023	Increases	Decreases	Balance Dec. 31, 2023
Intangible (1)	\$ 239,963	\$ -	\$ -	\$ 239,963
Land and Land Rights (1)	3,644,390	-	-	3,644,390
Transmission	43,706,937	4,027,842	1,283,091	46,451,688
Distribution	256,479,239	19,614,821	7,664,391	268,429,669
General Plant	48,378,203	3,935,223	1,750,505	50,562,921
Intangible Right-To-Use Lease	3,814,515	-	-	3,814,515
Plant in Service	356,263,247	27,577,886	10,697,987	373,143,146
Construction in Progress	5,536,283	31,704,812	28,448,351	8,792,744
Total Utility Plant	361,799,530	59,282,698	39,146,338	381,935,890
Less Accumulated Depreciation	179,745,115	13,672,539	10,191,730	183,225,924
Less Accumulated Amortization, Intangible Right-To-Use Lease	882,211	454,562	-	1,336,773
Net Electric System Utility Plant	\$ 181,172,204	\$ 45,155,597	\$ 28,954,608	\$ 197,373,193

Production System Utility Plant	Balance Jan. 1, 2023	Increases	Decreases	Balance Dec. 31, 2023
Intangible	\$ 3,113,155	\$ -	\$ -	\$ 3,113,155
Land and Land Rights (1)	1,224,229	-	-	1,224,229
Production	144,837,523	760,498	407,496	145,190,525
Transmission	6,802,943	-	-	6,802,943
Plant in Service	155,977,850	760,498	407,496	156,330,852
Construction in Progress	589,502	787,410	760,498	616,414
Total Utility Plant	156,567,352	1,547,908	1,167,994	156,947,266
Less Accumulated Depreciation and Amortization	60,286,288	3,002,330	271,877	63,016,741
Net Production System Utility Plant	\$ 96,281,064	\$ (1,454,422)	\$ 896,117	\$ 93,930,525

(1) Plant not being depreciated.

A schedule of changes in utility plant and depreciation for the year ended December 31, 2022:

Electric System Utility Plant	Balance Jan. 1, 2022	Increases	Decreases	Balance Dec. 31, 2022
Intangible (1)	\$ 239,963	\$ -	\$ -	\$ 239,963
Land and Land Rights (1)	3,644,390	-	-	3,644,390
Transmission	40,160,233	4,028,319	481,615	43,706,937
Distribution	247,722,641	12,539,031	3,782,433	256,479,239
General Plant	47,533,313	2,869,160	2,024,270	48,378,203
Intangible Right-To-Use Lease	3,672,926	141,589	-	3,814,515
Plant in Service	342,973,466	19,578,099	6,288,318	356,263,247
Construction in Progress	7,004,436	18,608,926	20,077,079	5,536,283
Total Utility Plant	349,977,902	38,187,025	26,365,397	361,799,530
Less Accumulated Depreciation	172,569,723	12,909,132	5,733,740	179,745,115
Less Accumulated Amortization, Intangible Right-To-Use Lease	440,521	441,690	-	882,211
Net Electric System Utility Plant	\$ 176,967,658	\$ 24,836,203	\$ 20,631,657	\$ 181,172,204

Production System Utility Plant	Balance Jan. 1, 2022	Increases	Decreases	Balance Dec. 31, 2022
Intangible	\$ 3,113,155	\$ -	\$ -	\$ 3,113,155
Land and Land Rights (1)	1,224,229	-	-	1,224,229
Production	144,187,735	847,823	198,035	144,837,523
Transmission	6,802,943	-	-	6,802,943
Plant in Service	155,328,062	847,823	198,035	155,977,850
Construction in Progress	574,594	862,731	847,823	589,502
Total Utility Plant	155,902,656	1,710,554	1,045,858	156,567,352
Less Accumulated Depreciation and Amortization	57,450,699	3,007,881	172,292	60,286,288
Net Production System Utility Plant	\$ 98,451,957	\$ (1,297,327)	\$ 873,566	\$ 96,281,064

(1) Plant not being depreciated.

4. INVESTMENT IN ASSOCIATED ORGANIZATIONS

Investment in associated organizations at December 31, 2023 and 2022 consisted of the following:

Electric System	2023	2022
Harvest Wind Project	\$ 23,968,337	\$ 25,864,518
White Creek Project, LLC	603,844	545,439
Totals	\$ 24,572,181	\$ 26,409,957

Harvest Wind Project

The District is party to a Joint Ownership Agreement whereby the District made an equity investment in the Harvest Wind Project, a 98.9 MW wind generating facility located in Klickitat County, WA. The District's share of the Project is 30%. During 2009, the joint owners of Harvest Wind elected to classify the Project as a taxable corporation. At the time of the election all project assets were treated as contributed to the corporation and the joint owners received shares in proportion to their ownership. Owners share in power output, income and expenses according to their ownership shares. Commercial operations began on December 15, 2009.

The District is committed, through an energy purchase agreement, to purchase its share of the output from the Project and pay its share of Project expenses through the year 2029. Additionally, the District is committed, through a transmission service agreement and a transmission payment agreement, to subsidize the initial construction of transmission lines, deposit funds to ensure contract performance and purchase transmission from the owner of the transmission lines through the year 2029.

The investment in Harvest Wind consists of the District's share of the costs to develop the Project, 30% of the Project's net income and losses and any distributions. Summarized financial information of the joint venture for December 31, 2023 and 2022, is as follows:

	2023	30% Share	2022	30% Share
Current Assets	\$ 3,947,000	\$ 1,184,100	\$ 4,353,000	\$ 1,305,900
Long Term Assets	85,014,000	25,504,200	89,879,000	26,963,700
Total Assets	<u>\$ 88,961,000</u>	<u>\$ 26,688,300</u>	<u>\$ 94,232,000</u>	<u>\$ 28,269,600</u>
Current Liabilities	\$ 2,213,000	\$ 663,900	\$ 2,364,000	\$ 709,200
Asset Retirement Obligation	4,342,000	1,302,600	4,038,000	1,211,400
Other Long Term Liabilities	6,463,000	1,938,900	6,206,000	1,861,800
Participant Equity December 31	75,943,000	22,782,900	81,624,000	24,487,200
Total	<u>\$ 88,961,000</u>	<u>\$ 26,688,300</u>	<u>\$ 94,232,000</u>	<u>\$ 28,269,600</u>

During 2023 and 2022, the District received \$2,260,500 and \$2,455,500 in distributions, respectively. Also included is \$1,184,474 and \$1,376,551, respectively, in prepaid transmission system and related costs, which are being amortized on a straight-line basis over 20 years.

White Creek Project, LLC

The District has a 46% contractual interest in the 204.7 MW White Creek Wind Project located in Klickitat County, WA. The investment in White Creek Project, LLC (WCP, LLC) is being carried as an equity investment. Assets of WCP, LLC consist of cash and other assets related to the White Creek Wind Project Phases I and II. Commercial operations began in November 2007 (See Note 1).

5. OTHER CHARGES AND CREDITS

Other charges consist of the following:

Electric System	2023	2022
Regulatory asset	\$ 322,398	\$ 366,288
Carbon allowances	873,000	-
Derivatives at fair value	6,630,746	17,532,300
Miscellaneous charges	<u>(15,253)</u>	<u>(15,264)</u>
Total Other Charges	<u>\$ 7,810,891</u>	<u>\$ 17,883,324</u>

<u>Production System</u>	<u>2023</u>	<u>2022</u>
Regulatory asset	\$ 355,239	\$ 383,101
Total Other Charges	<u>\$ 355,239</u>	<u>\$ 383,101</u>
<u>Electric System</u>	<u>2023</u>	<u>2022</u>
Derivatives at fair value	\$ 24,679,783	\$ 53,995,689
Other credits	250,939	325,698
Total Other Credits	<u>\$ 24,930,722</u>	<u>\$ 54,321,387</u>

6. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred outflows of resources consist of the following:

<u>Electric System</u>	<u>2023</u>	<u>2022</u>
Unamortized loss on reacquired debt	\$ 1,507,140	\$ 1,760,615
Investment fair market value adjustment	2,005,410	3,459,936
Pension - See Note 10	4,345,309	5,170,868
Accum. decrease in fair value of hedging derivatives	24,679,783	53,995,689
Total Deferred Outflows of Resources	<u>\$ 32,537,642</u>	<u>\$ 64,387,108</u>

Deferred outflows of resources consist of the following:

<u>Production System</u>	<u>2023</u>	<u>2022</u>
Investment fair market value adjustment	\$ 604,199	\$ 1,033,553
Unamortized loss on reacquired debt	450,261	485,808
Total Deferred Outflows of Resources	<u>\$ 1,054,460</u>	<u>\$ 1,519,361</u>

Deferred inflows of resources consist of the following:

<u>Electric System</u>	<u>2023</u>	<u>2022</u>
Rate stabilization fund	\$ 60,000,000	\$ 60,000,000
Accum. increase in fair value of hedging derivatives	6,630,746	17,532,300
Long-term lease revenues - See Note 12	1,107,991	1,379,335
Energy efficiency reserve	3,905,657	3,344,492
Pension - See Note 10	2,903,443	5,302,930
Total Deferred Inflows of Resources	<u>\$ 74,547,837</u>	<u>\$ 87,559,057</u>

Deferred inflows of resources consist of the following:

<u>Production System</u>	<u>2023</u>	<u>2022</u>
Unamortized gain on reacquired debt	\$ 236,559	\$ 258,736
Total Deferred Inflows of Resources	<u>\$ 236,559</u>	<u>\$ 258,736</u>

7. LONG TERM LIABILITIES

Electric System

Revenue Bonds

In August 2006 the District issued \$61.465 million in Electric System Revenue and Refunding Bonds to fund capital improvements, repay \$8 million on a line of credit, pay for bond issuance costs (including bond insurance), fund the bond reserve account and to refund \$11.635 million of outstanding 2001 Electric Distribution System Revenue Bonds (Series 2001 Bonds). In May 2015 these bonds were partially refunded with the issuance of the 2015 Electric System Revenue and Refunding Bonds for \$41.5 million. Additionally the proceeds of the 2015 Bonds were used to establish a \$6 million construction fund for capital improvements and pay costs of issuing the bonds. The bonds mature beginning in 2016 through 2036 and have interest rates varying from 2.00% to 5.00%.

In October 2007 the District issued \$64.755 million in Electric System Revenue Bonds to fund capital improvements, pay for bond issuance costs (including bond insurance) and fund bond debt service and reserve accounts. In November 2015 these bonds were partially refunded with the issuance of the 2015B Electric System Revenue Refunding Bonds for \$38.305 million. Additionally the proceeds of the 2015B Bonds were used to pay costs of issuing the bonds (including bond insurance). The bonds mature beginning in 2018 through 2027 and have an interest rate of 5.00%.

In February 2010 the District issued Electric System Revenue Bonds consisting of \$17.805 million in tax-exempt bonds (2010A) and \$46.18 million in taxable "Build America Bonds" (2010B) to fund capital improvements, pay for bond issuance costs and fund bond debt service and reserve accounts. Principal payments on these bonds began in September 2013, maturing annually in varying amounts through September 2032. The 2010A bonds are not subject to redemption prior to maturity and carry a coupon rate of 5.00%. The 2010B bonds are subject to redemption by the District prior to their stated maturities and carry coupon rates of 2.52% – 6.884% before a thirty-five percent subsidy payment from the United States Treasury, subject to certain conditions. The all-in true interest cost for the 2010A and 2010B bonds is 4.26%. The District redeemed \$7.4 million prior to maturity in December 2020, resulting in \$2.1 million of interest savings.

The District has pledged future gross revenues of the Electric System, exclusive of earnings on money in any arbitrage rebate account or any bond account, which may be retained in such funds and or transferred to other funds as required by bond resolutions, and net of maintenance and operations costs including costs of Resource Obligations as collateral to repay outstanding revenue bonds.

Scheduled principal maturities and interest requirements on the Revenue Bonds are as follows:

	Principal	Interest	Total
2024	\$ 11,550,000	\$ 3,325,790	\$ 14,875,790
2025	12,015,000	2,791,529	14,806,529
2026	8,905,000	2,224,252	11,129,252
2027	5,010,000	1,845,077	6,855,077
2028	4,225,000	1,597,427	5,822,427
2029-2033	19,215,000	3,509,480	22,724,480
2034-2036	1,155,000	93,600	1,248,600
Total	\$ 62,075,000	\$ 15,387,155	\$ 77,462,155

Loan Payable

In 2007 the District entered into a contract for a general obligation loan in the amount of \$800,000 from the State of Washington Community Economic Revitalization Board. The loan is to be repaid at the rate of 1.60% per annum over a twenty-year term. Scheduled principal maturities and interest requirements on the loan are as follows:

	Principal	Interest	Total
2024	\$ 49,991	\$ 4,129	\$ 54,120
2025	50,792	3,330	54,122
2026	51,605	2,517	54,122
2027	52,431	1,691	54,122
2028	53,269	852	54,121
Total	\$ 258,088	\$ 12,519	\$ 270,607

Production System

In May 2014 the District issued \$33.56 million in Production System Revenue Refunding Bonds to refund the 2004 Production System Revenue Bonds (used for Swift No. 2 Hydroelectric Project reconstruction), fund the reserve account requirement and pay costs of issuing the bonds. The bonds mature serially over a 20-year period beginning in 2015 and have interest rates varying from 2.00% to 5.00%.

In August 2006 the District issued \$27.54 million in Production System Revenue Bonds for continuing expenditures for Swift No. 2 Hydroelectric Project reconstruction and to provide for capital expenditures associated with FERC licensing. In May 2015 these bonds were partially refunded with the issuance of the 2015 Production System Revenue Refunding Bonds for \$15.645 million. Additionally the proceeds of the 2015 Bonds were used to fund the reserve account requirement and pay costs of issuing the bonds. The bonds mature beginning in 2025 through 2036 and have interest rates varying from 3.25% to 5.00%.

The District has pledged future net revenues (revenues less operation and maintenance costs) of the Production System, exclusive of any money credited to a fund or account for the purpose of paying arbitrage rebate to the federal government and the money and investments, if any, credited to the Revenue Fund, the Bond Account, and income therefrom.

Scheduled principal maturities and interest requirements on the Revenue Bonds are as follows:

	Principal	Interest	Total
2024	\$ 1,570,000	\$ 1,766,788	\$ 3,336,788
2025	1,735,000	1,688,288	3,423,288
2026	2,595,000	1,603,113	4,198,113
2027	3,720,000	1,486,338	5,206,338
2028	3,885,000	1,319,438	5,204,438
2029-2033	19,155,000	3,791,063	22,946,063
2034-2036	5,245,000	345,700	5,590,700
Total	\$ 37,905,000	\$ 12,000,725	\$ 49,905,725

Interfund Advances

In 2007 the District's Board of Commissioners approved a loan from the Production System to the Electric System for up to \$16 million. Proceeds from this loan were used to partially fund the White Creek Wind Project Energy Purchase Agreement (See Note 1). The interest rate is 4.50% and the obligation is to be repaid over a period not to exceed twenty years. Net revenues associated with the White Creek Wind Project within the Electric System are pledged as collateral to repay the loan. Scheduled principal maturities and interest requirements on this loan follow:

	Principal	Interest	Total
2024	\$ 985,474	\$ 169,826	\$ 1,155,300
2025	1,030,746	124,554	1,155,300
2026	1,078,099	77,201	1,155,300
2027	1,127,626	27,674	1,155,300
Total	\$ 4,221,945	\$ 399,255	\$ 4,621,200

Long-term Liability activity for the year ended December 31, 2023 follows:

Electric System	Date of Original Issue	Date of Maturity	Outstanding as of Jan. 1, 2023	Increases	Decreases	Outstanding Debt as of Dec. 31, 2023	Due Within One Year
Revenue Bonds:							
Electric Revenue Bonds, 2.52% to 6.884%	Feb-10	Sep-32	\$ 31,480,000	\$ -	\$ 3,200,000	\$ 28,280,000	\$ 3,330,000
Electric Revenue & Refunding Bonds, 2.00% to 5.00%	May-15	Sep-36	20,230,000	-	4,025,000	16,205,000	4,140,000
Electric Revenue Refunding Bonds, 5.00%	Nov-15	Sep-27	21,480,000	-	3,890,000	17,590,000	4,080,000
Direct Borrowing and Placements:							
Loan Payable - State of Washington, 1.60%	Jun-07	Jun-28	307,294	-	49,206	258,088	49,991
Interfund Advances:							
Loan Payable - Production System, 4.50%	Dec-07	Dec-27	5,164,128	-	942,183	4,221,945	985,474
<i>Subtotal</i>			78,661,422	-	12,106,389	66,555,033	12,585,465
Unamortized Premium			2,284,431	-	655,133	1,629,298	-
Total Long-Term Debt			80,945,853	-	12,761,522	68,184,331	12,585,465
Other Long-Term Liabilities:							
Net Pension Liability			3,040,613	-	666,731	2,373,882	-
Post-Retirement Benefit Obligation			4,971,394	328,845	-	5,300,239	-
Lease Liabilities			2,866,014	-	508,736	2,357,278	524,894
Total Long-Term Liabilities			\$ 91,823,874	\$ 328,845	\$ 13,936,989	\$ 78,215,730	\$ 13,110,359

Production System	Date of Original Issue	Date of Maturity	Outstanding Debt as of Jan. 1, 2023	Amount Issued	Amount Redeemed	Outstanding Debt as of Dec. 31, 2023	Due Within One Year
Revenue Bonds:							
Production System Revenue							
Refunding Bonds, 2.00% to 5.00%	May-14	Sep-34	\$ 23,750,000	\$ -	\$ 1,490,000	\$ 22,260,000	\$ 1,570,000
Production System Revenue							
Refunding Bonds, 3.25% to 5.00%	Jun-15	Sep-36	15,645,000	-	-	15,645,000	-
<i>Subtotal</i>			39,395,000	-	1,490,000	37,905,000	1,570,000
Unamortized Premium			2,078,395	-	296,144	1,782,251	-
Total Long-Term Debt			41,473,395	-	1,786,144	39,687,251	1,570,000
Other Long-Term Liabilities:							
Lewis River Cost-Share Agreement			4,955,601	-	2,252,546	2,703,055	2,252,546
Total Long-Term Liabilities			\$ 46,428,996	\$ -	\$ 4,038,690	\$ 42,390,306	\$ 3,822,546

Long-term debt activity for the year ended December 31, 2022 follows:

Electric System	Date of Original Issue	Date of Maturity	Outstanding as of Jan. 1, 2022	Increases	Decreases	Outstanding Debt as of Dec. 31, 2022	Due Within One Year
Revenue Bonds:							
Electric Revenue Bonds, 2.52% to 6.884%	Feb-10	Sep-32	\$ 34,560,000	\$ -	\$ 3,080,000	\$ 31,480,000	\$ 3,200,000
Electric Revenue & Refunding Bonds, 2.00% to 5.00%	May-15	Sep-36	24,155,000	-	3,925,000	20,230,000	4,025,000
Electric Revenue Refunding Bonds, 5.00%	Nov-15	Sep-27	25,180,000	-	3,700,000	21,480,000	3,890,000
Direct Borrowing and Placements:							
Loan Payable - State of Washington, 1.60%	Jun-07	Jun-28	355,724	-	48,430	307,294	49,207
Interfund Advances:							
Loan Payable - Production System, 4.50%	Dec-07	Dec-27	6,064,934	-	900,806	5,164,128	942,183
<i>Subtotal</i>			90,315,658	-	11,654,236	78,661,422	12,106,390
Unamortized Premium			3,052,828	-	768,397	2,284,431	-
Total Long-Term Debt			93,368,486	-	12,422,633	80,945,853	12,106,389
Other Long-Term Liabilities:							
Net Pension Liability			1,373,254	1,667,359	-	3,040,613	-
Post-Retirement Benefit Obligation			6,169,601	-	1,198,207	4,971,394	-
Lease Liabilities			3,205,366	141,588	480,940	2,866,014	508,736
Total Long-Term Liabilities			\$ 104,116,707	\$ 1,808,947	\$ 14,101,780	\$ 91,823,874	\$ 12,615,125

Production System	Date of Original Issue	Date of Maturity	Outstanding Debt as of Jan. 1, 2022	Amount Issued	Amount Redeemed	Outstanding Debt as of Dec. 31, 2022	Due Within One Year
Revenue Bonds:							
Production System Revenue							
Refunding Bonds, 2.00% to 5.00%	May-14	Sep-34	\$ 25,175,000	\$ -	\$ 1,425,000	\$ 23,750,000	1,490,000
Production System Revenue							
Refunding Bonds, 3.25% to 5.00%	Jun-15	Sep-36	15,645,000	-	-	15,645,000	-
<i>Subtotal</i>			40,820,000	-	1,425,000	39,395,000	1,490,000
Unamortized Premium			2,390,781	-	312,386	2,078,395	-
Total Long-Term Debt			43,210,781	-	1,737,386	41,473,395	1,490,000
Other Long-Term Liabilities:							
Lewis River Cost-Share Agreement			7,208,147	-	2,252,546	4,955,601	2,252,546
Total Long-Term Liabilities			\$ 50,418,928	\$ -	\$ 3,989,932	\$ 46,428,996	\$ 3,742,546

8. LEWIS RIVER COST-SHARE AGREEMENT

The District reached a cost-sharing agreement with PacifiCorp, assigning the operational and capital expenditure payments to be made by the District for fish passage and other aquatic measures, which are required under the Lewis River Settlement Agreement and under the FERC License for Swift No. 2. Operational payments are made annually for each year of the 50-year license and range from \$197,000 to \$291,000 (2003 dollars) indexed for inflation. During 2023 and 2022, the District paid \$361,749 and \$338,509 on this obligation, respectively. The Agreement requires capital payments to be made according to the following schedule, which has been indexed for inflation using 2003 dollars. Actual payments using a 3% escalator are estimated to be \$4 million.

Production System

2024	\$ 2,252,546
2037	450,509
Total	<u>\$ 2,703,055</u>

9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) OBLIGATION

Plan Description

In addition to pension benefits, the District provides (subject to eligibility requirements) as a single-employer post-employment health care benefits to its retirees until the earlier of age 65 or eligible for Medicare. The District covers the medical insurance premium for those eligible retirees. The District does not pay for a Medicare supplement for any retiree eligible for Medicare. The Plan is established and may be amended by action of the Board of Commissioners.

Eligibility

To be eligible, the employee must (this benefit is a one-time election):

- Voluntarily retire, be age 55 or older at the time of retirement, have been employed with the District full-time for at least ten consecutive years and not be eligible to receive medical insurance coverage through another employer (even if coverage is declined).
- Voluntarily retire drawing Washington PERS benefit and be age 55 or older at the time of retirement.

<u>Number of Covered Employees at Valuation Date</u>	
Active	145
Inactive Employees Receiving OPEB Benefits	9
	<u>154</u>

Funding Policy

The District pays, on a pay-as-you-go basis, medical insurance for retirees and there are no assets accumulated in a qualifying trust. Such payments are limited to premiums for coverage not in excess of coverage made available for active employees and limited to payments for a number of months not to exceed the number of months the retiree actually worked for the District; provided, however, such retiree may pay their own premiums for the balance of time up to age 65 or when they become eligible for Medicare, whichever occurs first. As long as the retired employee is afforded coverage, medical will be made available to the spouse paid by the employee.

Methods and Assumptions

The District's Total OPEB Liability was determined by an actuarial valuation using a measurement and valuation date of December 31, 2022. The actuary used update procedures to roll forward the Total OPEB Liability to December 31, 2023. There have been no significant changes between the valuation date and December 31, 2023.

The District's Total OPEB Liability is calculated using The Entry Age Normal Level Percent of Pay Cost Method. Under this method, the actuarial present value of the projected benefits of each active employee included in the valuation is allocated on a level percent of pay basis over the service of the active employee between assumed entry age (date of hire) and assumed exit age(s). The portion of this actuarial present value allocated to the valuation year is called the service cost for that active employee. The sum of these individual service costs is the Plan's Service Cost for the valuation year. The present value of benefits for current retirees plus the accumulated value of all prior Service Costs is the Total OPEB Liability. Under this method, the actuarial gains (losses), as they occur, reduce (increase) the Total OPEB Liability.

Rates of retirement and mortality are the rates applicable for general public employees used in the June 30, 2021 actuarial valuation published by the Office of the State Actuary in Olympia, Washington. The discount rate assumption is the December 31, 2022 rate in the 20-Year General Obligation Municipal Bond Index published by Bond Buyer. Future premiums are projected from the 2023 premiums by assuming an annual increase due to health care inflation. Medical premiums are assumed to increase by 5% annually. This health care trend includes the assumed general inflation rate of 2.75%.

<u>Assumptions</u>	
Discount Rate	3.72%
Inflation Rate	2.75%
Salary Scale	3.50%
Health Care Trend Rate	5.00%

In the prior valuation, the discount rate was 2.12%. Other assumptions were the same in the prior valuation.

Total OPEB Liability

The following table shows the components of the District's Total OPEB Liability, fiduciary net position, percent of covered payroll and expense for the years ended December 31, 2023 and 2022.

Electric System	2023	2022
Beginning Total OPEB Liability	\$ 4,971,394	\$ 6,169,601
Benefit Payments - Explicit Medical	(107,386)	(109,392)
Benefit Payments - Implicit Medical	(99,430)	(129,606)
Service Cost	354,572	342,582
Interest on Total OPEB Liability	181,089	128,262
Change of Benefit Terms	-	-
Change in Assumptions	-	(767,197)
Experience (Gain)/Loss	-	(662,856)
Ending Total OPEB Liability	<u>\$ 5,300,239</u>	<u>\$ 4,971,394</u>
Fiduciary Net Position - Funded Status	<u>0%</u>	<u>0%</u>
Covered Payroll	\$ 19,345,943	\$ 18,152,231
Total OPEB Liability as a Percent of Covered Payroll	27%	27%
OPEB Expense	<u>\$ 328,845</u>	<u>\$ (1,198,207)</u>

Changes in assumptions, experience, interest and service costs resulted in an increase to the liability. The effects of the deferred outflows and inflows of resources from the change in assumptions and experience are not material and have been recognized in income and not amortized.

Sensitivity

The tables below present the District's Total OPEB Liability calculated using a discount rate and health care trend rate 1-percentage point lower and 1-percentage point higher than the current rate:

Discount Rate Sensitivity Analysis	1% Decrease	Current	1% Increase
Total OPEB Liability on December 31, 2023	\$ 5,767,452	\$ 5,300,239	\$ 4,862,783
Total OPEB Liability on December 31, 2022	\$ 5,403,906	\$ 4,971,394	\$ 4,565,226
Health Care Trend Sensitivity Analysis	1% Decrease	Current	1% Increase
Total OPEB Liability on December 31, 2023	\$ 4,629,089	\$ 5,300,239	\$ 6,095,847
Total OPEB Liability on December 31, 2022	\$ 4,385,083	\$ 4,971,394	\$ 5,661,439

10. RETIREMENT PLANS

Public Employees Retirement System – Plans 1, 2 and 3

<u>Aggregate Pension Amounts - Electric System</u>	<u>2023</u>	<u>2022</u>
Net Pension Liability (Asset)		
PERS 1	\$ 2,373,882	\$ 3,040,613
PERS 2 & 3	(5,496,210)	(5,285,939)
	<u>\$ (3,122,328)</u>	<u>\$ (2,245,326)</u>
Deferred Outflows of Resources		
PERS 2 & 3	\$ 3,427,071	\$ 4,255,914
PERS Contributions (PERS 1, 2 & 3)	918,238	914,954
	<u>\$ 4,345,309</u>	<u>\$ 5,170,868</u>
Deferred Inflows of Resources		
PERS 1	\$ 267,784	\$ 503,919
PERS 2 & 3	2,635,659	4,799,011
	<u>\$ 2,903,443</u>	<u>\$ 5,302,930</u>
Pension Expense - PERS 1, 2 & 3	<u>\$ (559,762)</u>	<u>\$ (396,975)</u>

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees, employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. 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.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service,

or at age 60 with at least 5 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.

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, adopted by the Pension Funding Council and is subject to change by the legislature.

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. 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 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

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 rates are adopted by the Pension Funding Council, and are subject to change by the Legislature. The employer rate includes a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

The required contribution rates expressed as a percentage of covered payroll as of December 31, 2023 were:

2023	Plan 1	Plan 2	Plan 3
Employer 1/23 - 6/23	10.39%	10.39%	10.39%
Employer 7/23 - 8/23	9.39%	9.39%	9.39%
Employer 9/23 - 12/23	9.53%	9.53%	9.53%
Employee 1/23 - 12/23	6.00%	6.36%	Varies

The required contribution rates expressed as a percentage of covered payroll as of December 31, 2022 were:

2022	Plan 1	Plan 2	Plan 3
Employer 1/22 - 8/22	10.25%	10.25%	10.25%
Employer 9/22 - 12/22	10.39%	10.39%	10.39%
Employee 1/22 - 12/22	6.00%	6.36%	Varies

Both the District and the employees made the required contributions. The District's required contributions for the years ended December 31, 2023, 2022 and 2021 were as follows:

	Plan 1	Plan 2	Plan 3
2023	\$ 660,764	\$ 1,115,862	\$ 114,542
2022	\$ 680,995	\$ 1,045,619	\$ 108,865
2021	\$ 760,970	\$ 1,150,787	\$ 113,511

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. 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 2022 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities were rolled forward from June 30, 2022, to June 30, 2023, 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 service-based salary increase.
- Investment rate of return: 7.0%

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

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR). OSA did make an assumption change to adjust TRS Plan 1 assets, LEOFF Plan 1/2 assets, and LEOFF participant data to reflect certain material changes occurring after the June 30, 2022 measurement date.

Discount Rate

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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, 2023 and 2022 are summarized in the tables below. The inflation component used to create the tables is 2.2 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

2023		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Arithmetic Return
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	<u>100%</u>	
2022		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Arithmetic Return
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	<u>100%</u>	

Sensitivity of NPL (NPA)

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

2023		1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
PERS 1	\$	3,316,492	\$ 2,373,882	\$ 1,551,204
PERS 2 & 3	\$	5,977,788	\$ (5,496,210)	\$ (14,922,826)
2022		1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
PERS 1	\$	4,062,216	\$ 3,040,613	\$ 2,148,992
PERS 2 & 3	\$	6,224,886	\$ (5,285,939)	\$ (14,742,812)

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.

District's Proportionate Allocation

At June 30, 2023 the District's district's) proportionate share of the collective net pension liabilities was as follows:

<u>Proportionate Allocation of Collective Pension Amounts</u>	<u>2023</u>	<u>2022</u>	<u>Change</u>
Net Pension Liability			
PERS 1	0.103993%	0.109203%	-0.005210%
PERS 2 & 3	0.134097%	0.142525%	-0.008428%

Employer contribution transmittals received and processed by DRS for the fiscal year ended June 30, 2023 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 Non-employer Allocations* for all plans.

Deferred Outflows of Resources and Deferred Inflows of Resources

The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Deferred Outflows/Inflows - Electric System</u>	<u>2023</u>	<u>2022</u>
Deferred Outflows of Resources		
PERS 2 & 3		
Differences between expected and actual experience	\$ 1,119,571	\$ 1,309,732
Change of assumptions	2,307,500	2,946,182
PERS 1, 2 & 3 Contributions - July - December	918,238	914,954
	<u>\$ 4,345,309</u>	<u>\$ 5,170,868</u>
Deferred Inflows of Resources		
PERS 1		
Net difference between projected and actual investment earnings	\$ 267,784	\$ 503,919
PERS 2 & 3		
Differences between expected and actual experience	61,411	119,660
Net difference between projected and actual investment earnings	2,071,304	3,907,935
Change of assumptions	502,944	771,416
	<u>\$ 2,903,443</u>	<u>\$ 5,302,930</u>

Deferred outflows of resources related to the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. The effect of change in the District's proportionate allocation percentage and differences between actual and proportionate share of contributions are not material and have been expensed. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31

	PERS 1
2024	\$ (182,189)
2025	(229,124)
2026	141,274
2027	2,255
2028	-
Thereafter	-
	<u>\$ (267,784)</u>

Year Ending December 31

	PERS 2 & 3
2024	\$ (979,773)
2025	(1,196,118)
2026	1,713,315
2027	619,958
2028	609,416
Thereafter	24,614
	<u>\$ 791,412</u>

Deferred Compensation – 401(k) and 457 Plans

The District offers its employees a 401(k) Deferred Compensation Plan created in accordance with Internal Revenue Code Section 401(k) which permits employees to defer a portion of their salary. Assets of the plan are deposited, as specified by each participating employee, with Fidelity Investments as trustee. The District matches employee contributions to the plan up to four percent of eligible employee compensation. During 2023 and 2022, the District made matching contributions of \$649,202 and \$618,361 respectively.

The District also offers its employees the State of Washington Department of Retirement System's Deferred Compensation Program. This Deferred Compensation Plan is in accordance with Internal Revenue Code Section 457, which permits employees to defer a portion of their salary. Distributions from the plan can be made after separation from service or upon the death of the participant. Participants can elect to receive an in-service distribution once every two years for an amount not to exceed \$5,000.

11. COMMITMENTS AND CONTINGENCIES

Bonneville Power Administration (BPA)

During 2008 the District entered into purchase power agreements with BPA for Block and Slice running from October 1, 2011 through September 30, 2028. The Block Product provides a set amount of energy delivered in a flat block over all hours of the month, with the blocks of energy varying from month-to-month to correspond to seasonal variations in the District's loads. The Slice Product represents a specified percentage (or "slice") of the output of the Federal System, so that the District receives increased or decreased energy supply depending on the output of the Federal System. The District is required to pay a corresponding percentage of the costs of the portion of the Federal System allocated to the Slice Product. The amounts payable by the District under the 2011 Power Sales Agreement are subject to adjustment from time to time by BPA to recover the costs of the Federal System.

Swift Plant No. 2 Power Contract

The Swift No. 2 Hydroelectric Production System is located on the Lewis River and consists of a 3.2-mile long power canal with an adjacent power house and transmission switchyard. It operates in conjunction with the Swift No. 1 Project, which is owned by PacifiCorp. Swift No. 1 consists of an earthen dam and power house, which discharges into the Swift No. 2 power canal.

Swift No. 2 is operated under contract by PacifiCorp. The operating agreement provides that the District is entitled to 26% of the combined output of Swift No. 1 and Swift No. 2. The District's share of the output is

purchased by the Electric System at the cost of production of the energy, whether or not it is producing energy.

Grant County PUD

The District acquires power from Grant County PUD pursuant to the “New Power Sales Contracts”, which became effective on November 1, 2005. The New Power Sales Contracts, which apply to both the Priest Rapids Development (as of November 1, 2005) and the Wanapum Development (as of November 1, 2009), consist of three separate contracts with terms that extend until expiration of the new long-term license for the Priest Rapids Project (April 1, 2052). The power available to the District is about 1 aMW on a firm basis.

Energy Northwest’s Nine Canyon Wind Project

The District entered into a contract with Energy Northwest in December 2003 for the purchase of the output associated with 2 megawatts of the Nine Canyon Wind Project. The District utilizes the power to serve its customers by use of a BPA wind integration product. The “green tags” or “renewable energy credits” associated with the District’s share of output are used for District load.

White Creek Wind Project Transmission Service Agreement

In 2006 the District entered into a Transmission Service Agreement with Klickitat PUD (KPUD) for power transmission from the White Creek Project Substation to the Rock Creek Substation where the transmission line and the facilities of BPA are connected. The District is billed and pays for services under this Agreement monthly. In accordance with the Agreement, the District was to provide KPUD an irrevocable standby Letter of Credit and for the contract year commencing August 1, 2010 and for the contract years thereafter, the District petitioned and KPUD has waived the requirement for a Letter of Credit or an alternate Letter of Credit.

The Energy Authority Services Agreement

The District entered into an agreement with The Energy Authority (TEA) to provide power energy trading, risk management and hedging services and power management services for the District’s power supply.

Claims and Litigation

The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material impact on its financial position, results of operations or cash flows.

12. LEASES

Lessee

The District is a lessee for long-term noncancellable leases. For leases that meet the capitalization threshold of \$75,000 at lease commencement, the District recognizes a lease liability and an intangible right-to-use lease asset. The lease liability is initially measured at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion or lease payments made. The lease asset is initially measured as the amount of the lease liability, less lease payments made at or before the commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

The District leases three receipting kiosk machines. The contract began in 2022 with an initial term of 3 years. The contract renews annually unless a notice is given by either party. The District expects to renew for a ten-year term. The District used an estimated discount rate of 2.27%.

The District leases a safe. The contract began in 2020 with an initial term of 5 years. The contract renews for additional five-year periods unless a notice is given by either party. The District expects to renew for three five-year terms. The District used an estimated discount rate of 3.19%.

The District is a lessee for point-to-point transmission services. The lessor provides point-to-point transmission services between the points of receipt and delivery pursuant to the terms of the agreements up to the reserved capacity. The terms of the contracts are 20 years. The agreements term in 2028 and 2031 and have options for renewal under new negotiated terms. The District used a 5% discount rate.

The amount of lease assets by major classes for the year ended December 31, 2023:

	Balance			Balance	
Electric System Utility Plant	Jan. 1, 2023	Increases	Decreases	Dec. 31, 2023	
Transmission	\$ 3,442,147	\$ -	\$ -	\$ 3,442,147	
Equipment	372,368	-	-	372,368	
	3,814,515	-	-	3,814,515	
Less Accumulated Amortization, Transmission	849,392	424,696	-	1,274,088	
Less Accumulated Amortization, Equipment	32,819	29,866	-	62,685	
Total	\$ 2,932,304	\$ (454,562)	\$ -	\$ 2,477,742	

The amount of lease assets by major classes for the year ended December 31, 2022:

	Balance			Balance	
Electric System Utility Plant	Jan. 1, 2022	Increases	Decreases	Dec. 31, 2022	
Transmission	\$ 3,442,147	\$ -	\$ -	\$ 3,442,147	
Equipment	230,779	141,589	-	372,368	
	3,672,926	141,589	-	3,814,515	
Less Accumulated Amortization, Transmission	424,696	424,696	-	849,392	
Less Accumulated Amortization, Equipment	15,825	16,994	-	32,819	
Total	\$ 3,232,405	\$ (300,101)	\$ -	\$ 2,932,304	

As of December 31, 2023, the principal and interest requirements to maturity are as follows:

Year	Principal	Interest	Total
2024	\$ 524,894	\$ 98,728	\$ 623,623
2025	541,934	72,610	614,544
2026	559,904	45,656	605,560
2027	371,758	19,481	391,239
2028	65,339	11,492	76,831
2029-2033	243,552	25,690	269,242
2034-2035	49,897	1,361	51,259
	<u>\$ 2,357,278</u>	<u>\$ 275,018</u>	<u>\$ 2,632,297</u>

The District is a lessee for an additional transmission service agreement for point-to-point transmission services. The term is 20 years beginning in 2014. The District receives a reserved capacity. The District is not reporting the contract because the charge is based on a variable tariff. The future tariff rates are unknown until established. During 2023 and 2022, the District reported \$126,388 and \$161,973 in expenses related to this contract, respectively. The District has an agreement to sell its reserved point-to-point capacity. See lessor information below.

Lessor

The District is a lessor for long-term noncancellable leases. For leases that meet the capitalization threshold of \$75,000 at lease commencement, the District recognizes a lease receivable and a deferred inflow of resources. The lease receivable is initially measured at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. The deferred inflow of resources is initially measured as the amount of the lease receivable, plus lease payments made at or before the lease commencement date, less any lease incentives paid to, or on behalf of, the lessee at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as lease revenue on a straight-line basis over the lease term.

The District has a transmission agreement for point-to-point transmission services up to reserved capacity. The term of the contract is 10 years beginning in 2018. The District used a discount rate of 2.27%. During 2023 and 2022, the District reported \$29,269 and \$35,206 in interest revenues and \$264,731 and \$258,794 in principal revenues, respectively.

As of December 31, 2023, the principal and interest requirements to maturity are as follows:

Year	Principal	Interest	Total
2024	\$ 270,803	\$ 23,197	\$ 294,000
2025	277,014	16,986	294,000
2026	283,369	10,631	294,000
2027	289,868	4,132	294,000
2028	24,454	46	24,500
	<u>\$ 1,145,508</u>	<u>\$ 54,992</u>	<u>\$ 1,200,500</u>

The District does not report lessor lease receivables for joint use pole agreements as receivables are based upon future performance and are unknown at year end. The District has joint use agreements (license) with telecom companies. The licensees are required to pay the District an annual fee based upon the number of pole contacts. The agreements continue year-to-year unless notice to terminate is provided by the licensees prior to annual renewal. The number of contacts varies each year. The annual fee is calculated in accordance with RCW 54.04.045 and is approved by the District's Board. The future annual fee per contact is unknown until calculated and established by the Board. During 2023 and 2022, the District reported \$983,218 and \$974,613 in revenues related to these contracts, respectively.

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Electric System	2023	2022	2021	2020	2019	2018
Beginning Total OPEB Liability	\$ 4,971,394	\$ 6,169,601	\$ 5,913,680	\$ 5,458,780	\$ 5,304,831	\$ 5,884,915
					-	-
Benefit Payments - Explicit Medical	(107,386)	(109,392)	(132,891)	(139,345)	(198,173)	(193,743)
Benefit Payments - Implicit Medical	(99,430)	(129,606)	(167,504)	(169,770)	(131,361)	(106,134)
Service Cost	354,572	342,582	434,130	419,449	272,740	263,517
Interest on Total OPEB Liability	181,089	128,262	122,186	112,450	210,743	235,134
Change of Benefit Terms	-	-	-	-	-	-
Change in Assumptions	-	(767,197)	-	328,381	-	(304,224)
Experience (Gain)/Loss	-	(662,856)	-	(96,265)	-	(474,634)
					-	-
Ending Total OPEB Liability	<u>\$ 5,300,239</u>	<u>\$ 4,971,394</u>	<u>\$ 6,169,601</u>	<u>\$ 5,913,680</u>	<u>\$ 5,458,780</u>	<u>\$ 5,304,831</u>
Fiduciary Net Position - Funded Status	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
Covered Payroll	\$ 19,345,943	\$ 18,152,231	\$ 17,576,771	\$ 16,402,774	\$ 15,914,598	\$ 15,031,073
Total OPEB Liability as a Percent of Covered Payroll	27%	27%	35%	36%	34%	35%
OPEB Expense	<u>\$ 328,845</u>	<u>\$ (1,198,207)</u>	<u>\$ 255,921</u>	<u>\$ 454,900</u>	<u>\$ 153,949</u>	<u>\$ (580,084)</u>

Notes:

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

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

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AND CONTRIBUTIONS
AS OF JUNE 30, 2023**

PERS 1

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the Net Pension Liability/Asset	0.103993%	0.109203%	0.112448%	0.103983%	0.116147%	0.112188%	0.118119%	0.122105%	0.126423%	0.124742%
Proportionate share of the Net Pension Liability (Asset)	\$ 2,373,882	\$ 3,040,613	\$ 1,373,254	\$ 3,671,162	\$ 4,466,265	\$ 5,010,355	\$ 5,604,839	\$ 6,557,614	\$ 6,613,099	\$ 6,283,937
Covered Payroll - July to June (measurement period)	\$ 18,540,148	\$ 17,869,203	\$ 17,272,783	\$ 15,809,528	\$ 15,818,889	\$ 14,620,499	\$ 14,556,088	\$ 14,306,440	\$ 14,253,911	\$ 13,477,320
Net Pension Liability as a percent of covered payroll	12.80%	17.02%	7.95%	23.22%	28.23%	34.27%	38.51%	45.84%	46.39%	46.63%
Covered Payroll - Calendar Year	\$ 19,345,943	\$ 18,152,231	\$ 17,576,771	\$ 16,402,774	\$ 15,914,598	\$ 15,031,073	\$ 14,571,887	\$ 14,423,122	\$ 14,510,348	\$ 13,665,452
Required Contributions - All Funded	\$ 660,764	\$ 680,995	\$ 760,970	\$ 786,463	\$ 804,470	\$ 777,571	\$ 726,864	\$ 707,113	\$ 682,908	\$ 651,965
Contributions as a percent of covered payroll	3.42%	3.75%	4.33%	4.79%	5.05%	5.17%	4.99%	4.90%	4.71%	4.77%
Plan fiduciary net position as a percent of the total pension liability	80.16%	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

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Proportion of the Net Pension Liability/Asset	0.134097%	0.142525%	0.144415%	0.135791%	0.142561%	0.139485%	0.145650%	0.152243%	0.158658%	0.154939%
Proportionate share of the Net Pension Liability (Asset)	\$ (5,496,210)	\$ (5,285,939)	\$ (14,386,057)	\$ 1,736,690	\$ 1,384,753	\$ 2,381,583	\$ 5,060,641	\$ 7,665,315	\$ 5,668,941	\$ 3,131,877
Covered Payroll - July to June (measurement period)	\$ 18,540,148	\$ 17,869,203	\$ 17,272,783	\$ 15,809,528	\$ 15,495,199	\$ 14,410,535	\$ 14,288,086	\$ 14,129,560	\$ 14,074,925	\$ 13,259,767
Net Pension Liability as a percent of covered payroll	-29.64%	-29.58%	-83.29%	10.99%	8.94%	16.53%	35.42%	54.25%	40.28%	23.62%
Covered Payroll - Calendar Year	\$ 19,345,943	\$ 18,152,231	\$ 17,576,771	\$ 16,402,774	\$ 15,702,550	\$ 14,812,467	\$ 14,366,002	\$ 14,124,690	\$ 14,420,062	\$ 13,423,770
Required Contributions - All Funded	\$ 1,230,404	\$ 1,154,484	\$ 1,264,298	\$ 1,328,625	\$ 1,210,989	\$ 1,137,511	\$ 1,006,979	\$ 905,393	\$ 783,343	\$ 604,913
Contributions as a percent of covered payroll	6.36%	6.36%	7.19%	8.10%	7.71%	7.68%	7.01%	6.41%	5.50%	4.51%
Plan fiduciary net position as a percent of the total pension liability	107.02%	106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

Notes:

Factors that significantly affect trends in the amounts reported include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate (See Note 10).

10-year trend information will be presented prospectively.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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